ZhongDe Waste Technology AG

Prospectus for the Initial Public Offering and Listing at the Frankfurt Stock Exchange

ZDWT

Waste Management Solutions

LFRY-32 medical waste incinerator with a daily disposal capacity of 32 tons located in Nangong (Beijing)

LCH-100 municipal waste incinerator with a daily disposal capacity of 100 tons located in Zhuji

Offering of up to 4,185,264 ordinary bearer shares

(subject to an over-allotment option of up to 545,904 ordinary bearer shares)

This is an initial public offering of up to 3,000,000 new shares and up to 639,360 existing shares of ZhongDe Waste Technology AG (the **"Company"**). The existing shares are being offered by 9998 Holding Ltd., Delotte Group Ltd., Dragonup Enterprises Ltd., Synergy Investment Group Ltd. and Linch Investments Ltd. (collectively the **"Selling Shareholders"**). The Company will receive the net proceeds from the sale of the new shares but will not receive any proceeds from the sale of existing shares.

In addition, Sal. Oppenheim jr. & Cie. KGaA ("**Sal. Oppenheim**") may effect over-allotments as part of the offering of up to 545,904 additional shares. These shares have been granted to Sal. Oppenheim by Mr. Chen Zefeng, 9998 Holding Ltd., Delotte Group Ltd., Dragonup Enterprises Ltd., Synergy Investment Group Ltd. and Linch Investments Ltd. (the **"Existing Shareholders"**) by means of a securities loan for a potential over-allotment. To repay the securities loan, the Existing Shareholders have granted Sal. Oppenheim an option exercisable within 30 calendar days after the commencement of trading to purchase up to an additional 545,904 existing shares at the offer price.

The offering consists of public offerings in Germany and Luxembourg and private placements to institutional investors outside Germany, Luxembourg and the United States. The shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and are only being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of restrictions on offers, sales and transfers of the shares and the distribution of this prospectus in other jurisdictions, *see Selling and Transfer Restrictions*.

Prior to the offering, there has been no public market for the shares. ZhongDe Waste Technology AG intends to apply for admission of all of its shares, up to 13,000,000 shares (including up to 3,000,000 new shares) to trading on the regulated market (*Geregelter Markt*) of the Frankfurt Stock Exchange and the sub-sector of the official market with additional obligations arising from admission (*Prime Standard*) under the symbol ZEF.

See "Risk Factors" for factors that should be considered before purchasing shares.

The price range within which purchase orders may be submitted, and specific dates for the start and end of the offer period, will be published in the form of a supplement to this prospectus on the Company's website at (www.zhongdetech.com) and on an electronic information system, such as Reuters or Bloomberg, on 28 June 2007, at the earliest.

Delivery of the shares is expected to take place on 10 July 2007 through the book-entry facilities of Clearstream Banking AG, Frankfurt am Main, against payment for the shares in immediately available funds.

This document constitutes a prospectus for the purposes of the public offerings in Germany and Luxembourg and the listing of the shares on the regulated market (*Geregelter Markt*) of the Frankfurt Stock Exchange (the **"Prospectus"**). This Prospectus has been prepared in the English language with a German-language summary in accordance with Commission Regulation (EC) No 809/2004 of 29 April 2004 and conforms to the requirements of the German Securities Prospectus Act (*Wertpapierprospektgesetz*). This Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* — **"BaFin"**) after a review for completeness of the Prospectus, including a review for coherence and comprehensibility of the presented information, according to Section 13, paragraph 1 of the German Securities Prospectus Act, and notified to the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier* — **"CSSF"**) in accordance with Section 18, paragraph 1 of the German Securities Prospectus Act and the European passport mechanism set out in the Prospectus Directive (No 2003/71/EC).

Global Coordinator, Sole Bookrunner and Joint Lead Manager

Sal. Oppenheim jr. & Cie.
Kommanditgesellschaft auf Aktien

Joint Lead Manager

BOCI Asia Limited

Co-Lead Manager

CLSA Asia-Pacific Markets

Selling Agents

Bayerische Landesbank comdirect bank AG DAB bank AG

Prospectus dated 20 June 2007

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SUMMARY

The following summary is intended as an introduction to this Prospectus and should be read in conjunction with the more detailed information contained elsewhere in this Prospectus. Investors should base their decision on whether to invest in the shares on an examination of the entire Prospectus.

*ZhongDe Waste Technology AG (the **"Company"**, and collectively with its direct and indirect subsidiaries, **"ZhongDe Group"**) and Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, Cologne, (**"Sal. Oppenheim"** or the **"Global Coordinator"**), BOCI Asia Limited and CLSA Limited (collectively with the Global Coordinator, the **"Underwriters"**) assume responsibility for the contents of this summary pursuant to Section 5, para. 2, sentence 3, no. 4 of the German Securities Prospectus Act (Wertpapierprospektgesetz). However, they can be held liable for the content of the summary only in the event that the summary is misleading, false or contradictory when read in conjunction with other parts of the Prospectus.*

If a claim is brought by an investor before a court on the basis of information contained in this Prospectus, the investor appearing as plaintiff may, pursuant to the national legislation of the Member States of the European Economic Area, be required to bear the cost of having the Prospectus translated prior to the commencement of legal proceedings.

General Information on the Company and its Business

Overview

ZhongDe Group designs, manufactures and installs pyrolytic, grate and rotary kiln waste incinerators for the disposal of solid medical, municipal and industrial (including hazardous) waste in China. ZhongDe Group is currently focused on the construction of the incinerator but does not construct the plant building in which the incinerator will be installed. Since 1996 ZhongDe Group has sold more than 170 waste incinerators to clients in 13 provinces throughout China and in the last three financial years alone 112 waste incinerators. Its waste incinerators are principally constructed for operators of medical disposal centers in the hospital and healthcare industry as well as for small and mid-sized Chinese cities in developed areas of the People's Republic of China (**"PRC"** or **"China"**). The Company believes that ZhongDe Group is one of the leading suppliers of small and mid-sized solid waste incinerators in China.

In 2006, ZhongDe Group generated revenues of thousands of Euro (**"TEUR"**) 18,995, a gross profit of TEUR 13,384, an EBIT of TEUR 11,903 and a net profit of TEUR 8,022, equal to an increase of 66.7%, 69.6%, 75.5% and 84.3% compared to 2005, respectively. In the first quarter of 2007, ZhongDe Group generated revenues of TEUR 7,359, a gross profit of TEUR 4,796, an EBIT of TEUR 4,133 and a net profit of TEUR 4,112. Revenues from ZhongDe Group's medical waste incinerator business have increased significantly over the last three years representing 29.4% of total revenues in 2004, 90.8% in 2005 and 81.8% in 2006.

ZhongDe Group's business is divided into two separate business segments: the medical waste incinerator business and the municipal waste incinerator business (including industrial waste as well as hazardous waste).

ZhongDe Group's medical waste incinerator business generated TEUR 15,543 in revenues in financial year 2006 and TEUR 3,864 in revenues for the first quarter of 2007, accounting for 81.8% and 52.5% of total revenues for ZhongDe Group for these respective periods. ZhongDe Group's medical waste incinerator business produces pyrolytic gasification incinerators with a current waste disposal capacity of between 1 and 32 metric tons of waste per day (**"t/day"**). Based on internal estimates, ZhongDe Group is one of the leading manufacturers of waste incinerators for medical waste in China with a market share of approximately 35% as of the end of 2006. In 2004 ZhongDe Group sold a LFRY-32 medical waste incinerator for the Nangong (Beijing) Project, which ZhongDe Group believes is the largest incinerator for medical waste in China today. Revenues and units sold increased substantially in the medical waste incinerator business over the last 3 years as a result of the Chinese government requiring hospitals to collect medical waste at a central location and dispose of it properly in the wake of the SARS epidemic. ZhongDe Group expects further significant revenues in the medical waste incinerator business as a result

of steady demand for appropriate waste disposal solutions for medical waste as only approximately half of the government's target of 300 safe medical waste disposal centers had been established by the end of 2006 and as a result of the extensive amount of ongoing subsidies provided by the Chinese government for medical waste disposal systems. For example, in northwest of China, up to 70% of the financing for medical waste disposal systems is provided from public funding.

ZhongDe Group's municipal waste incinerator business generated TEUR 3,452 in revenues in financial year 2006 and TEUR 3,495 in revenues for the first quarter of 2007, accounting for 18.2% and 47.5% of total revenues for ZhongDe Group for these respective periods. ZhongDe Group's municipal waste incinerator business produces pyrolytic, grate and rotary kiln incinerators for the disposal of municipal waste with a current waste disposal capacity of between 10 t/day and 150 t/day. ZhongDe Group expects that revenues, in particular in the municipal waste incinerator business, will significantly grow as ZhongDe Group targets smaller-sized cities in China between 100,000 and 200,000 inhabitants as well as mid-sized cities with between more than 200,000 and up to 750,000 inhabitants which have a growing need for waste incinerators for municipal waste and as general acceptance in China for waste incineration grows. In addition, the urbanization of the Chinese population has increased and will further increase which will in combination with improved average incomes generate substantial growth in municipal solid waste and thus increase the need for safe municipal waste disposal solutions.

ZhongDe Group's business of designing, manufacturing and installing waste incinerators has traditionally focused on the supply of waste incinerators for one-time projects for Chinese state-owned and private companies. ZhongDe Group's customers consist of local municipalities, medical disposal centers as well as operators of waste incineration facilities. In the future, ZhongDe Group intends to expand its business into the construction of the entire waste incineration plant including the construction of the plant building and act as a turnkey provider (Turnkey Projects / BT Projects) which will enable clients to buy a complete solution from ZhongDe Group, enable ZhongDe Group to optimize the plant design and appearance, and most important, ensure that equipment can be installed in a timely manner, thus improving working capital management and optimizing delivery times. In addition, ZhongDe Group intends to expand into so-called BOT projects (known as Build, Operate/Own, and Transfer) to operate waste incineration plants for their clients over a defined concession period of usually 20 to 25 years. This would enable ZhongDe Group to earn recurring revenues. ZhongDe Group has entered into six non-binding letters of intent with Chinese municipalities or other government bodies for BOT projects pertaining to the construction and operation of waste incineration plants in several Chinese cities with estimated aggregate financing costs of about EUR 41 million.

The Company's registered office is located in Hamburg, Germany. Its primary production facilities are located in Fuzhou, Fujian Province, People's Republic of China at Cangshan Science and Technology Park, No. 6, Gaoshi Road, Cangshan District. As of 30 April 2007, ZhongDe Group had 189 employees. As of the date of this Prospectus, there has been no material change in the number of employees.

Strengths

ZhongDe Group believes the following core strengths contribute to its future growth:

- ***Experienced Operational Management Team with Proven Track Record and Highly Profitable Business.*** ZhongDe Group's management has a proven track record in managing operations under its control and in expanding its business. In the period between 2004 and 2006, ZhongDe Group constructed 112 waste incinerators and had a market share of 35% as of the end of 2006 in the market for medical waste incinerators based on its internal estimates. Over that same period, ZhongDe Group increased its total revenues from TEUR 6,162 in 2004 to TEUR 18,995 in 2006 and increased net profit from TEUR 1,865 in 2004 to TEUR 8,022 in 2006 realizing average annual growth rates over the last 3 years of 76% and 109%, respectively. The overall net profit to sales ratio (*Umsatzrendite*) over the last three years has consistently exceeded 29%. ZhongDe Group's chief executive officer, Mr. Chen Zefeng, has been with ZhongDe Group for over ten years and has accumulated significant experience in the changing dynamics of the Chinese waste disposal industry during that

time. Mr. Chen Zefeng is currently Deputy Director of the China National Association of Environmental Protection Industry (CAEPI) and a representative of the People's Congress of Fujian Province. ZhongDe Group's senior management team combines extensive industry, marketing and technology expertise.

- ***Well Developed and Proven Technology Adapted to the Chinese Waste Disposal Market Leading to Low Operating Costs.*** ZhongDe Group has developed technologically proven products well suited for the Chinese waste disposal market. It has also developed an excellent understanding of the characteristics of Chinese waste in different regions of China as well as from different sources. For example, ZhongDe Group's pyrolytic waste incinerators are tailored to incinerate unsorted and high humidity waste with low heat values typically found in the Chinese household by initially only adding small amounts of fuel or coal to start the incineration process while the ongoing incineration process almost requires no additional fuel or coal. This feature and the fact that any pre-treatment or pre-sorting of waste is not necessary will lead to significantly lower operating costs than competing technologies consuming fuel or coal. Each of ZhongDe Group's products complies with current Chinese thresholds for emissions. In 2004, according to an on-site examination by the Chinese Academy of Science's Institute of Hydrobiology, the emission of dioxins from ZhongDe Group's pyrolytic incinerators was calibrated at 0.011mgTEQ/m3, which is one-fiftieth of the current national standard, and one-tenth of the standards of the European Economic Area (**"EEA"**) according to Directive 2000/76/EC. In addition, as a result of only having to import limited supplies for its incinerators and a design and system control targeted for easy handling and robustness with long life cycles, maintenance costs through replacements or overhauls and ongoing operating costs are comparatively low. The LFRY-5 pyrolytic incinerator for medical waste was awarded third place in the Science and Technology Awards for Environmental Protection. This is the only waste incinerator in China which has received such an award. ZhongDe Group has a research and development team with 21 professionals (as of 30 April 2007) committed to continuously improving ZhongDe Group's technological edge in this industry and adapting the products to client needs.
- ***Strong Nationwide Sales Network and Brand Visibility.*** Since its formation in 1996, ZhongDe Group has developed a strong nationwide sales network with excellent connections to local and municipal governments. As a result, ZhongDe Group has delivered its products to clients in 13 provinces throughout China and sold single units also to export firms that have delivered such units to Taiwan, Indonesia and Singapore. ZhongDe Group's sales department (sales and aftersales) comprises 45 employees (as of 30 April 2007) in China and is ultimately headed by ZhongDe Group's chief executive officer, Mr. Chen Zefeng. As a member of several industrial and environmental associations, Mr. Chen Zefeng is well informed about current market trends which enables him to anticipate market opportunities at an early stage. In addition, ZhongDe Group benefits from its brand "Fengquan" which is well known in the industry and serves as an important marketing tool being named among the Top 10 Influential Brands in the Chinese Environmental Industry by the China Enterprise Cultural Promotion Committee. In December 2006, FengQuan was cited by the Fujian Committee of Environment Protection Industry as an outstanding member of the Committee. In January 2005, Mr. Chen Zefeng was awarded the Prize for Contributions to Chinese Environmental Protection.
- ***Experienced Own Production and Assembly Operations with Established Supplier Network.*** ZhongDe Group has an established production facility in Fuzhou with an annual capacity of approximately 40 incinerators employing 93 workers in parts production, assembly and installation. To increase production flexibility and optimize costs of goods sold, ZhongDe Group has established a broad network of qualified suppliers around its production base in Fuzhou. Main components sourced from third parties are bag filters, de-acidification systems, electronic equipment or generators as those can be more cost efficiently produced by third parties and can be bought in good qualities. Almost all of the parts and components are sourced locally from China, providing an additional cost advantage to ZhongDe Group compared to many national and international competitors.
- ***Diversified and Broad Customer Base.*** As ZhongDe Group's business currently focuses on designing, manufacturing and installing waste incinerators on a one-time tailor-made basis for Chinese state-owned entities and private companies, ZhongDe Group does not rely on

one customer for its business and targets customers in different industries, such as local municipalities, cities and dedicated waste operators for municipal solid waste, healthcare facilities and dedicated operators for medical waste disposal, airports and their operators for aviation waste and various manufacturing industries for hazardous waste. In 2006 alone, ZhongDe Group constructed 37 waste incinerators. With one exception in 2005, over the last three years, none of ZhongDe Group's customers has accounted for over 15% of its annual revenues on an individual basis.

Strategy

ZhongDe Group intends to concentrate on the small and mid-sized waste incinerator market and expand its position in the market and technology in this area. ZhongDe Group also intends to operate waste incineration plants for and with municipalities and as by-products to produce and market its own steam, hot water, bricks as well as electricity through the operation of such plants. ZhongDe Group's overall strategic objective is to maintain the strong and profitable growth path of the business in order to create superior shareholder value through the following strategic steps:

- ***Strengthen Position in Small and Mid-Sized Municipal Waste Incinerator Market in Small and Mid-Sized Cities.*** ZhongDe Group has built a strong market position in the small and mid-sized municipal waste incinerator market in small and mid-sized cities in China. ZhongDe Group intends to expand its focus on small and mid-sized incinerators for municipal waste with a disposal capacity of between 50 and 300 t/day for municipal waste. Target customers are small and mid-sized Chinese cities with a population of 100,000 to 750,000 inhabitants. More than 500 Chinese cities are small or mid-sized and most do not have appropriate waste disposal facilities. ZhongDe Group believes that the lack of an appropriate waste disposal infrastructure for municipal waste in the small and mid-sized Chinese cities, together with the growing urbanization trend and its strong product and technology offering, will present it with increasing business opportunities in the near future.
- ***Leverage its Leading Position in the Medical Waste Incinerator Business to Further Penetrate the Medical Waste Market.*** In the past two years, ZhongDe Group has become one of the leading Chinese companies in the market for medical waste incinerators, with a current estimated market share of 35% as of the end of 2006 based on its internal estimates. ZhongDe Group estimates that by year end 2006 roughly 150 medical disposal centers had been established from the government's target of 300, creating in combination with expected demand for further disposal centers beyond the government's target a significant future market potential. ZhongDe Group intends to penetrate this market based on its leading position in the near future by strengthening its sales activities and promoting its technological strengths and the advantages of its products in terms of investment, operation and maintenance costs.
- ***Extend the Current Business into the Operation of BOT Projects with Recurring Revenues.*** ZhongDe Group intends in the future to expand its business into the operation of BOT projects (known as Build, Operate (Own) and Transfer) which would provide ZhongDe Group with recurring revenues from operating fees and the sale of by-products produced during the incineration process. To that end, after detailed feasibility studies with external research institutes, ZhongDe Group has entered into six non-binding letters of intent with Chinese municipalities for these BOT projects to be offered by these municipalities with total financing needs of approximately EUR 41 million. ZhongDe Group believes that it will be able to capture a substantial market share in this new business area and expects that for those 6 projects contracts can be negotiated in due course and implementation of the respective projects can be completed within the next 1 to 3 years. Based on its market position as well as the available technology and its experience gathered from its core business, ZhongDe Group believes it has the ability to construct and profitably operate such mid-sized and larger waste incineration plants. In the future, additional BOT projects might be secured or existing BOT projects might be acquired by ZhongDe Group. In this latter respect ZhongDe Group plans an acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Ltd.

- ***Develop Innovative Products for New Industries such as Aviation Waste.*** ZhongDe Group is continuously exploring the development of new incineration products to meet the changing landscape of the waste disposal industry in China. For example, as international and national commercial air traffic between 1999 and 2005 increased by more than 10% per year, waste left by passengers in aircrafts as well as waste produced from the maintenance and overhauling of aircrafts has increased significantly. By the end of 2005, 142 airports in China had been certified for civil transportation (*Source: General Administration of Civil Aviation of China, Report on Development of China's Air Transport (2005/2006)*). Those airports are required to clean up the waste produced from aviation traffic. As a result, ZhongDe Group expects that there will be a growing demand for aviation waste incinerators. To meet that demand, ZhongDe Group will invest approximately EUR 1.5 million in research and development to adapt its pyrolytic incinerators for medical waste to the particular characteristics of aviation waste. In addition, ZhongDe Group is in an early stage of negotiations to construct one aviation waste incinerator for Beijing International Airport with a capacity of 35 t/day and anticipates receiving orders in this sector in the near future. Furthermore, ZhongDe Group plans to improve its technology for certain kinds of hazardous waste and plans to deliver special incinerators designed for hazardous waste from industrial applications.
- ***Expand Production Capacity and Establish a Second Production Facility in Northern China.*** To increase future capacities, diversify its regional footprint and prepare for further growth potential, ZhongDe Group plans to construct a new production plant in Beijing with planned investments of EUR 13 million. Construction is scheduled to begin in August 2007 with completion scheduled for the end of 2008. ZhongDe Group has already signed a letter of intent for the right to use land on which to build this plant. ZhongDe Group estimates that its total production capacity at both plants will amount in total to approximately 80 incinerators per year.
- ***Expand Internationally into Other Markets.*** As a mid to long-term strategy, ZhongDe Group plans to explore the possibility of expanding with its existing products into markets in South-East Asia such as Thailand, Indonesia and the Philippines and in a second step into new markets in Africa and Eastern Europe. ZhongDe Group's incinerators have already been exported by export firms to Taiwan, Singapore and Indonesia and ZhongDe Group had initial discussions with government bodies and municipalities in Thailand and the Philippines. However, as a result of the significant opportunities in the Chinese market, ZhongDe Group has not placed an emphasis on pursuing these international opportunities.
- ***Focus on Large Scale Incinerators in Partnership with Foreign Firms.*** ZhongDe Group is also considering entering the market for large scale incinerators. The construction of large waste incineration plants in China today is almost entirely undertaken by foreign firms who operate internationally. As a Chinese operating company, ZhongDe Group sees the opportunity to enter the large scale segment either based on its own technology or for plants with a capacity beyond 1,000 t/day through a partnership with an international competitor which does not have expertise in the particularities of the Chinese market and thus may have need for operational know-how in the Chinese market.

Further Material Information Concerning the Company

The Company is a German stock corporation being formed under the laws of Germany with its legal domicile in Hamburg, Germany and is registered with the commercial register of the local court (*Amtsgericht*) of Hamburg under the registration number HRB 101376. The Company's business objective is to operate as a holding company of Chung Hua Environmental Protection Assets (Holdings) Group Limited, Hong Kong (**"Chung Hua Holding"**) which has been incorporated under the laws of Hong Kong in 2004 and which is the sole shareholder of its exclusive operating subsidiary Fujian FengQuan Environmental Protection Equipment LTD., Fuzhou, People's Republic of China (**"FengQuan"**). The Company, Chung Hua Holding and FengQuan in this Prospectus are collectively referred to as the **"ZhongDe Group"**.

Management Board	Mr. Chen Zefeng and Mrs. Lin Na.
Supervisory Board	Mr. Hans-Joachim Zwarg, Mr. Joachim Ronge and Mr. Quan Hao.
Share Capital (Prior to the Implementation of the Offering)	Euro (**"EUR"**) 10,000,000 divided into 10,000,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*).
Current Auditor	BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Ferdinandstrasse 59, 20095 Hamburg, Germany.
Existing Shareholders	Immediately prior to the implementation of the offering, 68.03% of the share capital was held by Mr. Chen Zefeng, 15.50% was held by 9998 Holding Ltd., 3.00% was held by Delotte Group Ltd., 4.50% was held by Dragonup Enterprises Ltd., 4.97% was held by Linch Investments Ltd. and 4.00% was held by Synergy Investment Group Ltd. (collectively the **"Existing Shareholders"**).
Registered Office and Financial Year	The registered office of the Company is Hamburg, Germany. The financial year is the calendar year. The first financial year is a short financial year (*Rumpfgeschäftsjahr*).
Employees	As of 30 April 2007, ZhongDe Group had 189 employees. As of the date of this Prospectus, there has been no material change in the number of employees.

Summary of the Offering

Offering	The offering consists of a public offering in Germany and Luxembourg and private placements to institutional investors outside Germany, Luxembourg and the United States. The offering consists of up to 4,185,264 no par value ordinary bearer shares of ZhongDe Waste Technology AG, each having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire short fiscal year 2007. Of this amount, (i) up to 3,000,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) result from the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) expected on the same day (the **''New Shares''**), (ii) up to 639,360 no par value ordinary bearer shares originate from the holdings of 9998 Holding Ltd., Delotte Group Ltd., Dragonup Enterprises Ltd., Synergy Investment Group Ltd., Linch Investments Ltd. (together the ''**Selling Shareholders**'') (the **''Existing Offered Shares''**), from which up to 310,000 no par value ordinary bearer shares originate from 9998 Holding Ltd., up to 60,000 no par value ordinary bearer shares originate from the holdings of Delotte Group Ltd., up to 90,000 no par value ordinary bearer shares originate from the holdings of Dragonup Enterprises Ltd., up to 80,000 no par value ordinary bearer shares originate from the holdings of Synergy Investment Group Ltd., and up to 99,360 no par value ordinary bearer shares originate from the holdings of Linch Investments Ltd., and (iii) up to 545,904 no par value ordinary shares originate from the holdings of the Existing Shareholders in connection with a potential over-allotment (**''Greenshoe Shares''**, together with the New Shares and the Existing Offered Shares, the **''Offer Shares''**).
Offer Period	The offer period is expected to begin no earlier than 29 June 2007 and will end no later than 4 July 2007. It is expected that the offer period will last at least three banking days (*Bankarbeitstage*). The beginning and end of the offer period, during which investors have the possibility to submit offers to purchase shares, will be published together with the price range and other matters in a supplement (*Nachtrag*) to the Prospectus. Purchase orders may be withdrawn up until the end of the offer period. On the last day of the offering period, it will be possible for retail investors to submit offers to purchase shares until 12:00 noon (Central European Summer Time) and for institutional investors to submit offers to purchase shares until 4:00 p.m. (Central European Summer Time).
Price Range and Offer Price	The price range, within which purchase offers may be submitted, will be published together with the specific dates for the beginning and end of the offer period before its commencement in the form of an ad-hoc notice

	distributed via an electronic information system and, following approval by the German Federal Financial Supervisory Authority (**''BaFin''**), in the form of a supplement (*Nachtrag*) to the Prospectus on the Company's website (www.zhongdetech.com). The supplement will also be available free of charge in printed form during regular business hours at the offices of the Company, the Underwriters and the paying agent in Luxembourg. An announcement of the publication of the supplement will appear no earlier than one business day after the approval of the supplement in the *Frankfurter Allgemeine Zeitung*. The offer price per Offer Share will be collectively determined by the Company, the Selling Shareholders and the Global Coordinator using the order book prepared during the bookbuilding process. Afterwards, the offer price will be published in the form of an ad-hoc notice via an electronic information system and on the Company's website (www.zhongdetech.com) and, no earlier than on the following business day, in an announcement in the *Frankfurter Allgemeine Zeitung*. Particularly in the event that the placement volume proves insufficient to satisfy all of the purchase orders submitted at the offer price, the Global Coordinator reserves the right to refuse purchase orders, in whole or in part.
Amendments to the Terms of the Offer	Together with the Global Coordinator, the Company and the Selling Shareholders reserve the right to decrease the number of Offer Shares, to increase or decrease the upper and/or lower limits of the price range, and/or to extend or shorten the offer period. If any of the terms of the offer are modified, the change will be published by means of an announcement through an electronic information service such as Reuters or Bloomberg and on the Company's website (www.zhongdetech.com), and, to the extent required by the German Securities Trading Act (*Wertpapierhandelsgesetz*) or the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as an ad-hoc notice and/or as a supplement (*Nachtrag*) to the Prospectus. Investors who have submitted purchase offers will not be notified individually.
Delivery and Settlement of Offer Shares	It is expected that the Offer Shares will be delivered two banking days after commencement of trading of the shares, which is expected on 10 July 2007, against payment of the offer price.
Over-Allotment/Stabilisation	In connection with the placement of the Offer Shares, over-allotments may be made and stabilization measures aimed at supporting the stock exchange or market price of the Company's shares may be undertaken to the extent permitted by applicable law. Stabilization measures may be effected as of the date of the commencement of trading of the Company's shares and must be completed no later than the 30th calendar day after such date.
Greenshoe Option	With regard to a potential over-allotment, the Existing Shareholders have agreed to make temporarily available

	to Sal. Oppenheim up to 545,904 no par value ordinary bearer shares as part of a so-called securities loan, in order to enable a possible over-allotment. Of this amount, up to 200,000 ordinary bearer shares originate from the holdings of Mr. Chen Zefeng, up to 167,716 ordinary bearer shares originate from the holdings of 9998 Holding Ltd., up to 32,461 ordinary bearer shares originate from the holdings of Delotte Group Ltd., up to 48,691 ordinary bearer shares originate from the holdings of Dragonup Enterprises Ltd., up to 53,755 ordinary bearer shares originate from the holdings of Linch Investments Ltd. and up to 43,281 ordinary bearer shares originate from the holdings of Synergy Investment Group Ltd. To repay the securities loan, the Existing Shareholders have also granted Sal. Oppenheim the option to purchase these shares at the offer price less any agreed commissions (the **''Greenshoe Option''**). The option expires 30 calendar days after commencement of trading of the shares.
General Allotment Criteria	The Company, the Selling Shareholders and the Global Coordinator will comply with the ''Principles for the Allotment of Share Issues to Private Investors'' (*''Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger''*) that were issued on 7 June 2000 by the Exchange Expert Commission (*Börsensachverständigen-kommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*).
Selling Shareholders	9998 Holding Ltd., Delotte Group Ltd., Dragonup Enterprises Ltd., Synergy Investment Group Ltd., Linch Investments Ltd.
Global Coordinator	Sal. Oppenheim.
Underwriters	Sal. Oppenheim, BOCI Asia Limited and CLSA Limited.
Selling Agents	Bayerische Landesbank, comdirect bank AG, DAB bank AG.
Admission to Trading and Listing	An application for admission of all of the shares of the Company — including the New Shares — to trading on the regulated market (*Geregelter Markt*) (*Prime Standard*) of the Frankfurt Stock Exchange is expected to be filed on 26 June 2007 and admission is expected no later than on 5 July 2007. It is expected that the trading of the shares will commence on 6 July 2007.
Early Termination of the Offering	The underwriting agreement provides that the Global Coordinator may terminate the underwriting agreement under certain circumstances, even after the shares have been allocated and listed, up to delivery and settlement of the shares. If the underwriting agreement is terminated, the offering will not take place. In such case, allocations of shares to investors will be invalidated, and investors will have no claim for delivery. Claims relating to any subscription fees paid and costs incurred by any investor in connection with the subscription are governed solely by the legal relationship between the investor and the institution to which the investor submitted its purchase order.

Market Protection Agreement (Lock-up)	The Company has agreed with the Underwriters that, for the first six months after the Company's shares have been listed on the Frankfurt Stock Exchange, it will not (1) announce or implement any capital increases from authorized capital, (2) propose a resolution for any capital increases at the General Shareholders' Meeting, (3) neither (a) directly or indirectly issue, purchase, sell, offer, undertake to sell, promote, or otherwise issue or announce an offer in relation to shares or other securities of the Company which are convertible into or exchangeable for shares of the Company or grant an option to purchase shares of the Company, nor (b) enter into or execute transactions (including derivatives transactions) that are economically equivalent to the purchase or sale of the shares of the Company, nor (c) directly or indirectly to cause or approve transactions within the meaning of the foregoing provisions (a) and/or (b). Furthermore, the Company has agreed for a further period of six months not to undertake any of the aforementioned transactions without the prior written consent of the Global Coordinator. The Existing Shareholders have agreed with the Underwriters that, for the first six months after the listing of the shares of the Company on the Frankfurt Stock Exchange, they will not (1) offer, pledge, sell, contract to sell, sell an option to buy, buy an option to sell or otherwise, directly or indirectly, transfer or dispose of shares of the Company or other securities that are convertible into or exchangeable for shares of the Company, (2) enter into swap transactions or transactions that transfer the economic risk of holding the shares to a third party, in whole or in part, regardless of whether any such transaction is to be settled by delivery of shares, payment in cash or by other consideration, as well as (3) initiate, vote in favor of or in any other way support a capital increase of the Company or issuance of shares which are exchangeable into shares of the Company or an economically equivalent transaction. Furthermore, Mr Chen Zefeng has agreed for a further period of six months not to undertake any of the aforementioned transactions without the prior written consent of the Global Coordinator. These restrictions do not apply to the shares of the Company and the Existing Shareholders to be sold in connection with the offering.
Costs of the Offering for the Company	As the costs of the offering depend on the total number of shares placed and the offer price that determine the amount of the commissions, the Company cannot reliably predict the offering costs at this time. The Company estimates that the total costs it will incur (including commissions for the Underwriters) will amount to between approximately TEUR 4,825 and TEUR 6,850.
Use of Proceeds	The Company intends to use its share of the total net proceeds to finance the further expansion of ZhongDe Group, particularly to invest approximately EUR 41 million

	to finance six BOT projects, approximately EUR 13 million to establish a new production base in Beijing, approximately EUR 5 million to finance working capital needs of organic growth, approximately EUR 2.5 million to EUR 3 million for the potential acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Ltd., and approximately EUR 2 million for research and development. In addition, approximately EUR 5 million will be used for the repayment of certain related party loans.
German Securities Identification Number (WKN)	ZDWT01[1] and ZDWT02[2].
International Securities Identification Number (ISIN)	DE000ZDWT018[1] and DE000ZDWT026[2]
Common Code	030736010[1] and 030735994[2].
Ticker Symbol	ZEF.

[1] Applies to the Company's shares except those subject to the Lock-up.

[2] Applies to the shares held by the Existing Shareholders after completion of the offering. After expiration of the Lock-up, the shares held by the Existing Shareholders will receive the same WKN, ISIN and Common Code as the Company's shares.

Selected Financial Information

The Company was incorporated on 4 May 2007 in the course of certain restructuring steps and therefore has no historical financial data (within the meaning of Annex 1 No. 20.1 of (EC) Regulation No. 809/2004), except for its opening balance sheet. However, the business of the Company essentially corresponds to the business activities that previously comprised the business of Chung Hua Holding, the Company's wholly owned and direct subsidiary. The operational business of ZhongDe Group was and is managed by FengQuan, the wholly owned and direct subsidiary of Chung Hua Holding and the Company's indirect subsidiary. The entities of the ZhongDe Group existing prior to the restructuring and the Company are under common control within the meaning of IFRS 3 ''Business Combinations''.

In order to present the net assets, financial position and results of operations for the last three financial years in relation to the above business activities, the Company has prepared IFRS combined consolidated financial statements as of 31 December 2006, with comparative information for the financial years ended 31 December 2005 and 31 December 2004. These combined consolidated financial statements were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Furthermore, the Company has prepared IFRS unaudited combined consolidated interim financial statements as of 31 March 2007, which have been reviewed by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The combined consolidated financial information has been presented as if the Company already existed as of 1 January 2004.

*The selected financial information of ZhongDe Waste Technology AG (the **''Company''**), which is reflected in this section, was derived from the audited combined consolidated financial statements of the Company under IFRS as of 31 December 2006, 31 December 2005 and 31 December 2004 and the unaudited combined consolidated interim financial statements of the Company under IFRS as of 31 March 2007.*

In order to present the net assets, financial position and results of operations for the last three financial years in relation to the operational business activities, FengQuan has prepared IFRS financial statements as of 31 December 2006, 31 December 2005 and 31 December 2004. These financial statements were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Furthermore, FengQuan has prepared IFRS unaudited interim financial statements as of 31 March 2007, which have been reviewed by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprufungsgesellschaft.

The selected financial information of FengQuan, which is reflected in this section, was derived from the audited financial statements of FengQuan under IFRS as of 31 December 2006, 31 December 2005 and 31 December 2004 and the unaudited interim financial statements of FengQuan under IFRS as of 31 March 2007.

Since the operational business of ZhongDe Group is exclusively carried out by FengQuan, differences between the combined consolidated financial statements of the Company and the financial statements of FengQuan only relate to certain line items (including ''Finance income'', ''Finance costs'', ''Other receivables and prepayments'', ''Other payables and accruals'', ''Cash and cash equivalents'' and ''Share capital''). Differences occurred with regard to liquid funds and book interests for the financial statements as of 31 December 2006 and as of 31 March 2007 in connection with the purchase of shares of FengQuan by Chung Hua Holding.

Furthermore, the discussion and analysis of the financial condition and results of operations in the Prospectus is based on the audited financial statements of FengQuan under IFRS as of 31 December 2004, 31 December 2005, 31 December 2006 and the unaudited interim statement of FengQuan under IFRS as of 31 March 2007.

The following figures were commercially rounded; their sums when added may not be the same as the sums indicated.

Selected Combined Consolidated Financial Information of the Company for the Financial Years ended 31 December 2004, 2005 and 2006 and for the First Quarter of 2007 ended on 31 March 2007, in accordance with IFRS

	31 December			31 March
	2004	2005	2006	2007
		(audited)[1]		(unaudited)
		in TEUR		
Selected Income Statement Data				
Revenues	6,162	11,398	18,995	7,359
Cost of sales	–2,271	–3,508	–5,611	–2,563
Gross Profit	3,891	7,890	13,384	4,796
Selling and distribution expenses	–353	–420	–735	–242
Administrative expenses	–265	–367	–377	–289
Research and development expenses	–177	–181	–203	–48
Profit from operations	3,049	6,781	11,903	4,133
Profit before income tax	3,000	6,733	11,869	4,173
Income tax	–1,135	–2,380	–3,847	–61
Profit for the period	1,865	4,353	8,022	4,112
Selected Balance Sheet Data				
Non-current assets	278	338	432	358
Current assets	6,175	9,840	16,385	20,329
Total assets	6,453	10,178	16,817	20,687
Current liabilities	2,394	2,233	7,994	7,798
Non-current liabilities	0	0	0	0
Total liabilities	2,394	2,233	7,994	7,998
Total equity	4,059	7,945	8,823	12,889
Total liabilities and equity	6,453	10,178	16,817	20,687
Selected Cash Flow Data				
Profit before income tax	3,000	6,733	11,869	4,173
Operating cash flows before working capital changes	3,142	6,914	12,243	4,384
Cash flow from operating activities	1,862	1,478	6,373	965
Cash flow used in investing activities	–8	–14	–110	—
Cash flow from financing activities	–2,088	–2,482	3,598	–16
Net increase in cash and cash equivalents	–234	–1,018	9,861	949
Cash at beginning of year	259	26	4	9,199
Foreign exchange differences	1	996	–666	–45
Cash at end of the period	26	4	9,199	10,103
Other Selected Financial Data				
EBITDA[2]	3,085	6,818	11,942	4,145
EBITDA margin (in %)	50.1	59.8	62.9	56.3
Net profit margin (in %)	30.3	38.2	42.2	55.9
EPS (computed on the basis of 10,000,000 shares)[3]	0.19	0.44	0.80	0.41

1 Audited information with the exception of EBITDA, EBITDA margin, Net profit margin, EPS.

2 Earnings before interests, taxes, depreciation and amortization.

3 Earnings per share in EUR.

Selected Financial Information of FengQuan for the Financial Years Ended 31 December 2004, 2005 and 2006 and for the First Quarter of 2007 ended on 31 March 2007, in accordance with IFRS

	31 December			31 March
	2004	2005	2006	2007
		(audited)[1] in TEUR		(unaudited)
Selected Income Statement Data				
Revenues	6,162	11,398	18,995	7,359
Cost of sales	–2,271	–3,508	–5,611	–2,563
Gross Profit	3,891	7,890	13,384	4,796
Selling and distribution expenses	–353	–420	–735	–242
Administrative expenses	–265	–367	–377	–289
Research and development expenses	–177	–181	–203	–48
Profit from operations	3,049	6,781	11,903	4,133
Profit before income tax	3,000	6,733	11,867	4,174
Income tax	–1,135	–2,380	–3,847	–61
Profit for the period	1,865	4,353	8,020	4,113
Selected Balance Sheet Data				
Non-current assets	278	338	432	358
Current assets	6,175	9,840	16,274	20,220
Total assets	6,453	10,178	16,706	20,578
Current liabilities	2,394	2,233	7,886	7,690
Non-current liabilities	0	0	0	0
Total liabilities	2,394	2,233	7,886	7,690
Total equity	4,059	7,945	8,820	12,888
Total liabilities and equity	6,453	10,178	16,706	20,578
Selected Cash Flow Data				
Profit before income tax	3,000	6,733	11,867	4,174
Operating cash flows before working capital changes	3,142	6,914	12,243	4,384
Cash flow from operating activities	1,862	1,479	6,288	1,046
Cash flow used in investing activities	–8	–14	–110	—
Cash flow from financing activities	–2,088	–2,482	3,598	–16
Net increase in cash and cash equivalents	–234	–1,017	9,776	1,030
Cash at beginning of year	259	26	4	9,114
Foreign exchange differences	1	995	–666	–45
Cash at end of the period	26	4	9,114	10,099
Other Selected Financial Data				
EBITDA[2]	3,085	6,818	11,942	4,145
EBITDA margin (in %)	49.3	59.8	62.9	56.3
Net profit margin (in %)	30.3	38.2	42.2	55.9

1 Audited information with the exception of EBITDA, EBITDA margin, Net profit margin, EPS.

2 Earnings before interests, taxes, depreciation and amortization.

Summary of Risk Factors

Prior to making a decision on the purchase of shares in the Company, investors should carefully consider certain risks. If any of the events associated with these risks occur, individually or in connection with other circumstances, the business of ZhongDe Group may be affected to a substantial degree, with a material adverse effect on the net assets, financial condition and results of operations of the ZhongDe Group. The stock exchange price of the shares could fall as a result of an event associated with the occurrence of any of these risks, and investors could lose some or all of the capital they have invested. The following are risks factors:

Risks Related to ZhongDe Group's Business

- ZhongDe Group's success depends upon its ability continuously to secure new orders for the construction of waste incinerators and its results of operation are subject to fluctuations.
- The national budget for waste management may be reduced or ZhongDe Group's relations with public entities may deteriorate.
- Sales of medical waste incinerators depend significantly upon subsidies granted by the PRC government to the customers of the ZhongDe Group.
- Government procurement bodies may favor domestically-owned suppliers.
- ZhongDe Group's profitability may decline as a result of an increase in costs or a decline in prices.
- The intended construction of waste incineration plants bears risks.
- ZhongDe Group's future strategy to expand into the BOT business may fail.
- The future strategy to focus on BOT projects exposes ZhongDe Group to additional finance and operational risks.
- The production of waste incinerators or other waste disposal facilities might be disrupted.
- The installation of waste incinerators may be delayed due to the failure of customers or third parties properly to construct plant buildings.
- ZhongDe Group may not be able to maintain and/or obtain necessary approvals and licenses from PRC authorities to carry out its business or to cope with future regulatory requirements.
- Customers of ZhongDe Group are subject to environmental laws and regulations and may demand recourse or compensation in the event of breaches of such laws or regulations.
- Future legislation on environmental protection and solid waste disposal could adversely affect ZhongDe Group's business.
- ZhongDe Group is subject to the default risks of its customers and the enforcement of claims against its customers could be particularly difficult as a result of the agreed payment terms and as most of its customers are public entities.
- Competition could intensify because of the entry of domestic or international competitors into the market.
- Rapid technological change or stricter environmental standards could be disadvantageous for ZhongDe Group.
- Substantial investments in research and development may not necessarily lead to timely improvements in technology and ZhongDe Group may not have sufficient resources to make the necessary investments in order to remain competitive.
- ZhongDe Group depends on relationships with certain suppliers for components and materials to construct its waste incinerators.
- As the entire management is primarily located in China, the Supervisory Board may have difficulties to adequately supervise the Management Board.

- ZhongDe Group faces risks associated with the management of its current and future growth and has no experience in complying with German legal requirements.
- ZhongDe Group relies on certain key personnel and on the availability of qualified engineers, technicians and sales personnel.
- ZhongDe Group may have a conflict of interest with its chairman of the Management Board and the Company's major shareholder.
- ZhongDe Group's right to use intellectual property could expire or be subject to infringement claims.
- ZhongDe Group might infringe upon the intellectual property rights of third parties.
- ZhongDe Group may be unsuccessful in establishing a trademark or brand identifying its products or could lose the right to use its trademark.
- Undetected product defects may lead to increased costs and exposure to liability claims, and impair the market acceptance of ZhongDe Group's products and technologies.
- ZhongDe Group may have insufficient insurance to cover its potential risks.
- The revenues of ZhongDe Group are denominated in RMB and a change in foreign currency exchange rates could be financially disadvantageous for ZhongDe Group and may have negative impact on dividends to be distributed to the Company's shareholders.
- ZhongDe Group may have difficulty in raising additional funds.
- ZhongDe Group may be required to make additional payments for social insurance contributions and housing funds.
- The Company is a holding company the liquidity of which depends upon having access to the liquid funds of its operating subsidiary located in China.
- PRC regulations pertaining to loans and direct investments by holding companies to PRC entities may delay or prevent ZhongDe Group from using the proceeds of this offering.

Risks Related to the Political, Social and Legal Environment of the People's Republic of China

- General risks relating to business operations in emerging markets.
- New PRC legislation on offshore special purpose vehicles (''SPV'') which are formed by Chinese legal entities and/or individuals for the purpose of indirect listings and that control PRC companies directly or indirectly may have a material adverse effect on ZhongDe Group's business.
- SAFE (State Administration of Foreign Exchange) regulations relating to offshore investments by PRC residents or passport holders may adversely affect ZhongDe Group's business operations and financing alternatives.
- Economic instability in China could adversely affect ZhongDe Group's business.
- A destabilization of the political system could threaten China's economic liberalization.
- Economic growth in China could be adversely affected by conflicts with other countries or terrorist attacks.
- Fluctuations in the global economy could materially and adversely affect the Chinese economy.
- The infrastructure of China is inadequate, which could disrupt ZhongDe Group's business operations.
- Health epidemics and outbreaks of contagious diseases, including avian influenza and severe acute respiratory syndrome (SARS), could materially adversely affect the Chinese economy.

- The PRC legal system and local taxation laws contain inherent uncertainties and inconsistencies.
- The judiciary's lack of independence and limited experience and the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent ZhongDe Group from obtaining effective remedies in a court proceeding.
- There are difficulties in seeking recognition and enforcement of judgments in China.
- Restrictions might be imposed upon foreign control of PRC companies.
- The tax status of ZhongDe Group or tax legislation or its interpretation might change.

Risks Related to the Offering

- Public trading in the Company's shares might not develop.
- A volatile stock exchange price for the shares might develop.
- The sale of shares by the Existing Shareholders could affect the share price.
- Conflicts of interest with the Existing Shareholders.
- Risks of short sales before delivery of the shares.

ZUSAMMENFASSUNG

Die folgende Zusammenfassung ist als Einführung zu diesem Prospekt zu verstehen und sollte in Verbindung mit den ausführlicheren Informationen gelesen werden, die sich an anderer Stelle in diesem Prospekt finden. Anleger sollten jede Entscheidung zur Anlage in Aktien auf die Prüfung des gesamten Prospekts stützen.

*Die ZhongDe Waste Technology AG (die „**Gesellschaft**" und, gemeinsam mit ihren unmittelbaren und mittelbaren Tochtergesellschaften die „**ZhongDe Group**"), Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, Köln, („**Sal. Oppenheim**" oder der „**Globale Koordinator**"), BOCI Asia Limited und CLSA Limited (gemeinsam mit dem Globalen Koordinator die „**Konsortialbanken**") übernehmen im Sinne von § 5 Abs. 2 Satz 3 Nr. 4 Wertpapierprospektgesetz die Verantwortung für den Inhalt dieser Zusammenfassung. Sie können jedoch für den Inhalt der Zusammenfassung nur haftbar gemacht werden, falls die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird.*

Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in diesem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger in Anwendung einzelstaatlicher Rechtsvorschriften der Staaten des Europäischen Wirtschaftsraumes die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben.

Allgemeine Informationen zur Gesellschaft und ihrer Geschäftstätigkeit

Überblick

Die ZhongDe Group entwickelt, produziert und installiert Verbrennungsanlagen für die Beseitigung von klinischen Abfällen, Hausmüll (gemischte Siedlungsabfälle) und industriellen Abfällen einschließlich gefährlicher Abfälle (Sondermüll) in China. Hierbei kommen verschiedene Verbrennungsverfahren zum Einsatz, die Rostfeuerung (grate incineration), das Pyrolyse-Verfahren (pyrolytic incineration) und Drehrohröfen (rotary kiln). ZhongDe Group stellt gegenwärtig die reine Müllverbrennungsanlage her, ohne das Betriebsgebäude zu errichten, in das die Verbrennungsanlage eingebaut wird. Seit 1996 hat die ZhongDe Group über 170 Müllverbrennungsanlagen an Kunden in 13 Provinzen in ganz China verkauft, 112 davon allein in den vergangenen drei Geschäftsjahren. Im Wesentlichen sind die Müllverbrennungsanlagen der ZhongDe Group für Betreiber von Entsorgungszentren für klinischen Abfall aus der Krankenhausbranche und dem Gesundheitswesen sowie für kleine und mittelgroße Städte in den erschlossenen Gebieten der Volksrepublik China („**VRC**" oder „**China**") konzipiert. ZhongDe Group zählt sich zu den führenden Anbietern kleiner und mittelgroßer Müllverbrennungsanlagen in China.

2006 erwirtschaftete die ZhongDe Group Umsatzerlöse in Höhe von TEUR (tausend Euro „**TEUR**") 18.995, einen Bruttogewinn in Höhe von TEUR 13.384, Einnahmen vor Steuern und Zinsen (EBIT) in Höhe von TEUR 11.903 und einen Nettogewinn von TEUR 8.022, was einer Steigerung von jeweils 66,7%, 69,6%, 75,5% bzw. 84,3% im Vergleich zu 2005 entspricht. Im ersten Quartal 2007 erwirtschaftete die ZhongDe Group Umsatzerlöse in Höhe von TEUR 7.359, einen Bruttogewinn von TEUR 4.796, Einnahmen vor Steuern und Zinsen (EBIT) in Höhe von TEUR 4.133 sowie einen Nettogewinn von TEUR 4.112. Die Umsatzerlöse aus dem Geschäftsbereich Verbrennungsanlagen für klinische Abfälle sind im Laufe der letzten drei Jahre erheblich gestiegen und entsprachen 29,4% der Gesamtumsatzerlöse für 2004, 90,8% der Gesamtumsatzerlöse für 2005 und 81,8% der Gesamtumsatzerlöse für 2006.

Das operative Geschäft der ZhongDe Group ist in zwei separate Geschäftsbereiche unterteilt, den Geschäftsbereich Verbrennungsanlagen für klinische Abfälle sowie den Geschäftsbereich Verbrennungsanlagen für Hausmüll (einschließlich industrieller Abfälle und gefährlichem Abfall (Sondermüll)).

Im Geschäftsbereich Verbrennungsanlagen für klinische Abfälle erwirtschaftete ZhongDe Group im Geschäftsjahr 2006 Umsatzerlöse in Höhe von TEUR 15.543 und im ersten Quartal 2007 betrugen die Umsatzerlöse TEUR 3.864, was jeweils 81,8% bzw. 52,5% des Gesamtumsatzes der ZhongDe Group für die jeweiligen Zeiträume entspricht. Verbrennungsanlagen, die für diesen Geschäftsbereich produziert werden, verwenden das Pyrolyse-Verfahren und sind bislang dafür

ausgelegt, Kapazitäten zwischen einer und 32 metrischen Tonnen Abfall pro Tag („**t/Tag**“) zu beseitigen. Eigenen Schätzungen zufolge ist die ZhongDe Group einer der führenden Hersteller von Verbrennungsanlagen für klinische Abfallprodukte in China mit einem Marktanteil von ungefähr 35% per Ende 2006. Die Verbrennungsanlage LFRY-32, die die ZhongDe Group 2004 für das Nangong (Peking) Projekt verkauft hat, ist nach Ansicht der ZhongDe Group die zur Zeit größte Verbrennungsanlage für klinische Abfallprodukte in China mit einer Entsorgungskapazität von 32 t/Tag. Die Umsatzerlöse und Anzahl der verkauften Einheiten im Geschäftsbereich Verbrennungsanlagen für klinische Abfälle sind im Verlauf der letzten drei Jahre erheblich gestiegen, da die chinesische Regierung als Reaktion auf die SARS-Epidemie Krankenhäusern die Auflage erteilt hat, klinische Abfälle an einem zentralen Ort zu sammeln und sachgerecht zu beseitigen. ZhongDe Group rechnet in diesem Bereich weiterhin mit starken Umsätzen und einer stetigen Nachfrage. Dies ergibt sich aus der Tatsache, dass das von der chinesischen Regierung angekündigte Ziel, 300 neue Entsorgungszentren für klinische Abfälle zu errichten, bis Ende 2006 erst ungefähr zur Hälfte erreicht worden ist, sowie aufgrund der hohen Subventionierung für die von diesem Programm betroffenen Entsorgungszentren. Beispielsweise im Nordwesten Chinas werden die Kosten für Anlagen zur Beseitigung von klinischen Abfall mit bis zu 70% subventioniert.

Im Geschäftsbereich Verbrennungsanlagen für Hausmüll erwirtschaftete die ZhongDe Group im Geschäftsjahr 2006 Umsatzerlöse in Höhe von TEUR 3.452 und im ersten Quartal 2007 Umsatzerlöse in Höhe von TEUR 3.495, was jeweils 18,2% bzw. 47,5% des Gesamtumsatzes der ZhongDe Group für die entsprechenden Zeiträume entspricht. In diesem Geschäftsbereich werden von der ZhongDe Group, Verbrennungsanlagen zur Beseitigung von Hausmüll produziert, die entweder mit dem Pyrolyse-Verfahren (pyrolytic) oder mit Rostfeuerung (grate) arbeiten sowie mit Drehrohröfen (rotary klin). Bislang haben die Verbrennungsanlagen der ZhongDe Group im Bereich Hausmüll, Kapazitäten zwischen 10 t/Tag und 150 t/Tag erreicht. Die ZhongDe Group rechnet gerade in diesem Geschäftsbereich mit einem deutlichen Wachstum der Umsatzerlöse, da sich die ZhongDe Group auf kleine und mittelgroße chinesischen Städte mit 100.000 bis 200.000 bzw. 200.000 bis 750.000 Einwohner, die einen steigenden Bedarf an Verbrennungsanlagen für Hausmüll verzeichnen, konzentriert und die Akzeptanz für Müllverbrennung in China generell zunimmt. Ein weiterer Grund für das von der ZhongDe Group erwartete Wachstum besteht in der zunehmenden Urbanisierung der chinesischen Bevölkerung, die in Kombination mit höheren Durchschnittseinkommen zu einem erheblichen Anstieg an Hausmüll führen wird und somit einen weiterhin steigenden Bedarf an sicheren Lösungen für die Beseitigung von Hausmüll erwarten lässt.

Die Geschäftstätigkeit der ZhongDe Group umfasst die Entwicklung, Produktion und Installation von Müllverbrennungsanlagen. Sie ist traditionell vor allem auf die Lieferung von Müllverbrennungsanlagen für Einzelprojekte staatlicher und privater chinesischer Unternehmen ausgerichtet. Für die Zukunft plant die ZhongDe Group ihre Geschäftstätigkeit auf die Errichtung gesamter Müllverbrennungsanlagen einschließlich des Betriebsgebäudes auszuweiten und damit als Anbieter schlüsselfertiger Projekte (Turnkey-Projekte / BT-Projekte) aufzutreten. Damit wird einerseits den Kunden der Erwerb einer Komplettlösung von der ZhongDe Group ermöglicht, während andererseits die ZhongDe Group auf diese Weise Einfluss auf das Gesamtprojekt nehmen kann, um die Konstruktion und Gestaltung der Anlage insgesamt zu optimieren und so vor allem sicherstellen kann, dass die Betriebseinrichtung rechtzeitig installiert werden kann. Damit kann die ZhongDe Group eine effizientere Nutzung ihrer Betriebsmittel sowie bessere Lieferzeiten erreichen. Die ZhongDe Group plant außerdem eine Ausweitung ihrer Geschäftstätigkeit auf so genannte BOT-Projekte (BOT steht für „Build, Operate/Own, and Transfer“ — d.h. Bauen, Betreiben/Besitzen und Übertragen). Duch den Betrieb würden der ZhongDe Group wiederkehrende Umsatzerlöse zufließen. Die ZhongDe Group hat bereits sechs (rechtlich nicht verbindliche) Absichtserklärungen mit chinesischen Gemeinden über Bau und Betrieb von Müllverbrennungsanlagen als BOT-Projekte in mehreren chinesischen Städten mit einem geschätzten Finanzierungsvolumen von insgesamt EUR 41 Mio. unterzeichnet.

Der Sitz der Gesellschaft ist in Hamburg, Deutschland. Die wesentlichen Betriebsstätten der ZhongDe Group befinden sich in Fuzhou, Volksrepublik China, im Cangshan Technology and Science Park, Gaoshi Road, Cangshan District. Zum 30. April 2007 hatte die ZhongDe Group 189 Mitarbeiter. Bis zum Datum dieses Prospektes hat sich die Mitarbeiterzahl nicht wesentlich verändert.

Stärken

Nach Ansicht der ZhongDe Group tragen die folgenden Kernstärken zu ihrem zukünftigen Wachstum bei:

- ***Ein im operativen Geschäft erfahrenes und nachweislich erfolgreiches Management und hohe Profitabilität.*** Die Geschäftsleitung der ZhongDe Group kann auf nachweisbare Erfolge im operativen Geschäft und beim Ausbau ihrer Geschäftstätigkeit zurückblicken. Im Zeitraum von 2004 bis 2006 baute die ZhongDe Group 112 Verbrennungsanlagen. Sie hielt zum Jahresende 2006 eigenen Schätzungen zufolge einen Anteil von 35% am chinesischen Markt für Verbrennungsanlagen für klinische Abfälle. Im selben Zeitraum steigerte die ZhongDe Group ihre Gesamtumsatzerlöse von TEUR 6.162 im Jahr 2004 auf TEUR 18.995 im Jahr 2006 und erhöhte ihren Nettogewinn von TEUR 1.865 im Jahr 2004 auf TEUR 8.022 im Jahr 2006, was einer durchschnittlichen jährlichen Wachstumsrate in den letzten drei Jahren von jeweils 76% bzw. 109% entspricht. Die Umsatzrendite lag in den vergangenen drei Jahren durchweg bei über 29% (Nettoergebnis / Umsatz). Der Vorstandsvorsitzende der Gesellschaft, Herr Chen Zefeng, ist seit über zehn Jahren für die ZhongDe Group tätig und hat im Laufe dieser Zeit beträchtliche Erfahrungen in der sich dynamisch wandelnden chinesischen Müllentsorgungsbranche gesammelt. Herr Chen Zefeng ist derzeit stellvertretender Leiter der chinesischen Vereinigung der Umweltschutzindustrie („China National Association of Environmental Protection Industry" (CAEPI)) und Mitglied des Volkskongresses (People's Congress) der Provinz Fujian. Das Managementteam der ZhongDe Group vereinigt umfassende Branchen- und Marketingkenntnisse mit technologischer Expertise.

- ***Ausgereifte und erprobte Technologie, die speziell auf den chinesischen Abfallentsorgungsmarkt zugeschnitten ist und nur geringe Betriebskosten verursacht***. Die ZhongDe Group hat technisch ausgereifte Produkte entwickelt, die sich besonders gut für den chinesischen Abfallentsorgungsmarkt eignen. Sie verfügt außerdem über hervorragende Kenntnisse über die Beschaffenheit des Abfalls aus den unterschiedlichen Regionen Chinas sowie seine sich aus unterschiedlichen Quellen ergebende Herkunft. So ist das in den Verbrennungsanlagen der ZhongDe Group eingesetzte Pyrolyse-Verfahren besonders auf die Verbrennung von nicht vorsortiertem Siedlungsabfall mit hohem Feuchtigkeitsanteil und niedrigen Heizwerten, wie er häufig in chinesischen Haushalten anzutreffen ist, zugeschnitten. Verbrennungsanlagen, die mit dem Pyrolyse-Verfahren arbeiten, benötigen lediglich kleinere Mengen Flüssigbrennstoffe oder Kohle, um die Verbrennung in Gang zu bringen, während der fortlaufende Verbrennungsprozess nahezu keinen zusätzlichen Brennstoff erfordert. Diese Eigenschaft und die Entbehrlichkeit jeglicher Vorbehandlung oder Vorsortierung des Abfalls führt zu erheblich geringeren Betriebskosten im Vergleich zu konkurrierenden, Flüssigbrennstoff oder Kohle konsumierenden Technologien. Jedes Produkt der ZhongDe Group entspricht den derzeitigen nationalen Grenzwerten für den Schadstoffausstoß. Bei einer vom Chinese Academy of Science's Institute of Hydrobiology im Jahr 2004 auf einer Müllverbrennungsanlage durchgeführten Untersuchung wurde eine Dioxinemission durch die mit dem Pyrolyse-Verfahren ausgestatteten Verbrennungsanlagen der ZhongDe Group von 0,011mgTEQ/m3 festgestellt, was 1/50 des derzeitigen Standards in China sowie 1/10 der in den Mitgliedstaaten des Europäischen Wirtschafsraumes (**"EWR"**) gemäß Richtlinie 2000/76/EG geltenden Standards entspricht. Die zur Konstruktion der Verbrennungsanlagen von ZhongDe Group benötigten Teile brauchen nur zu einem sehr geringen Anteil importiert zu werden. Der niedrige Importanteil sowie die leichte Bedienbarkeit und robuste Technik der von ZhongDe Group hergestellten Verbrennungsanlagen zielen auf eine lange Lebensdauer, und vergleichsweise niedrige Betriebs- und Wartungskosten ab. Der LFRY-5 Pyrolyse-Verbrennungsanlage für klinische Abfälle wurde der dritte Platz bei den Auszeichnungen für Forschung und Technik für Umweltschutz verliehen. Dies ist die bislang einzige Verbrennungsanlage in China, der eine solche Auszeichnung zuteil wurde. Das Forschungs- und Entwicklungsteam der ZhongDe Group besteht aus 21 Fachkräften (Stand: 30. April 2007), die vor allem dafür verantwortlich sind, den technologischen Vorsprung der ZhongDe Group in diesem Bereich kontinuierlich zu verbessern und die Produkte auf die Kundenbedürfnisse abzustimmen.

- ***Starkes landesweites Vertriebsnetz und Markenname mit hohem Bekanntheitsgrad.*** Seit ihrer Gründung im Jahr 1996 hat die ZhongDe Group ein starkes landesweites Vertriebsnetz

mit hervorragenden Verbindungen zu Lokalbehörden und kommunalen Verwaltungen aufgebaut. Dadurch konnte die ZhongDe Group ihre Produkte in 13 Provinzen in ganz China liefern und vereinzelt an Exporteure verkaufen, die diese Produkte nach Taiwan, Indonesien und Singapur geliefert haben. Die Verkaufsabteilung der ZhongDe Group (Verkauf und Kundendienst) umfasst 45 Mitarbeiter in China (Stand: 30. April 2007), die dem Chief Executive Officer der ZhongDe Group, Herrn Chen Zefeng, unterstehen. Als Mitglied mehrerer Industrie- und Umweltschutzvereinigungen verfügt Herr Chen Zefeng über sehr gute Marktkenntnisse und ist über aktuelle Markttrends laufend informiert, so dass er sich bietende Marktchancen frühzeitig erkennen kann. Darüber hinaus profitiert die ZhongDe Group von ihrem Markennamen ,,Fengquan'', der in der Branche bekannt ist und ein wichtiges Vermarktungsinstrument darstellt. Die Marke ,,Fengquan'' wurde vom ,,China Enterprise Cultural Promotion Committee'' als eine der Top 10 Marken in der chinesischen Umweltbranche ausgezeichnet. Im Dezember 2006 wurde FengQuan vom Umweltschutzbranchenausschuss von Fujian als herausragendes Mitglied benannt und im Januar 2005 wurde der ''Price for Contributions to Chinese Environmental Protection'' an Herrn Chen Zefeng verliehen.

- ***Eingespielte Produktion und Montage mit etabliertem Zulieferernetz.*** Die ZhongDe Group hat eine Produktionsstätte in Fuzhou mit einer jährlichen Kapazität von ungefähr 40 Verbrennungsanlagen, in der 93 Mitarbeiter (Stand: 30. April 2007) mit der Teileherstellung, Montage und Installation beschäftigt sind. Um die Flexibilität der Produktion zu steigern und die Herstellungskosten zu optimieren, hat die ZhongDe Group ein breites Netz qualifizierter Zulieferer im Umkreis ihrer Produktionsbasis in Fuzhou aufgebaut. Die Hauptkomponenten, die von Fremdherstellern bezogen werden, sind Beutelfilter, Entsäuerungssysteme, elektronische Zubehörteile und Generatoren. Diese Teile können kostengünstig und in guter Qualität von Fremdherstellern produziert und bezogen werden. Nahezu alle Teile und Komponenten werden vor Ort in China bezogen, was der ZhongDe Group zusätzliche Kostenvorteile im Vergleich zu vielen inländischen und internationalen Konkurrenten verschafft.

- ***Diversifizierter und breit gestreuter Kundenstamm.*** Da sich die ZhongDe Group derzeit auf die Entwicklung, Produktion und Installation von Verbrennungsanlagen konzentriert, die einmalig und speziell für die Anforderungen ihrer privaten oder öffentlichen Auftraggeber angefertigt werden, ist das Geschäft der ZhongDe Group nicht von Aufträgen eines einzelnen Kunden abhängig. Vielmehr kommen Kunden aus unterschiedlichen Branchen als Zielgruppe in Betracht, z.B. Gemeinden, Städte und Müllentsorgungsunternehmen für kommunalen Hausmüll, Gesundheitsfürsorgeunternehmen und Entsorgungsunternehmen für klinische Abfälle, Flughäfen und Müllentsorger für im Flugverkehr anfallende Abfallprodukte so genannter ''Aviation Waste'', sowie bestimmte Industriebetriebe für gefährliche Abfälle (Sondermülle). Allein im Jahr 2006 baute die ZhongDe Group 37 Müllverbrennungsanlagen. Mit einer Ausnahme im Jahr 2005 wurden in den vergangenen drei Jahren mit keinem einzelnen Kunden der ZhongDe Group Umsatzerlöse von mehr als 15% des Jahresgesamtumsatzes erzielt.

Strategie

Die ZhongDe Group beabsichtigt, sich auf den Markt für kleinere und mittelgroße Verbrennungsanlagen zu konzentrieren und ihre Marktposition und Technologie in diesem Bereich auszubauen. Die ZhongDe Group plant des Weiteren, Müllverbrennungsanlagen im Auftrag von Gemeinden selbst zu betreiben und die beim Betrieb von Verbrennungsanlagen entstehenden Nebenprodukte wie Dampf, Warmwasser, Ziegelsteine und Elektrizität selbst zu vermarkten. Das strategische Leitmotiv der ZhongDe Group besteht in der Fortführung der starken Profitabilitäts- und Wachstumsentwicklung des Unternehmens, um besondere Werte für ihre Aktionäre zu schaffen. Dies soll durch die Umsetzung der folgenden strategischen Maßnahmen, erreicht werden:

- ***Stärkung der Marktposition im Bereich der kleineren und mittelgroßen Verbrennungsanlagen für Hausmüll in kleinen und mittelgroßen Städten.*** Die ZhongDe Group hat sich eine starke Marktposition auf dem Markt für kleine und mittelgroße Verbrennungsanlagen für Hausmüll in den kleinen und mittelgroßen Städten Chinas geschaffen. Die ZhongDe Group beabsichtigt, diese Position durch die Herstellung kleinerer

und mittelgroße Verbrennungsanlagen für Hausmüll mit einer Entsorgungskapazität zwischen 50 und 300 t/Tag auszubauen. Hierdurch sollen gezielt kleine und mittelgroße chinesische Städte mit einer Bevölkerung von 100.000 bis 750.000 Einwohnern als Kunden angesprochen werden. Derzeit gibt es in China über 500 Städte kleiner und mittlerer Größe, die zumeist nicht über angemessene Anlagen zur Abfallbeseitigung verfügen. Das Fehlen einer funktionsfähigen Infrastruktur zur Abfallbeseitigung in kleinen und mittelgroßen chinesischen Städten, einhergehend mit dem Trend zunehmender Urbanisierung und das starke Produkt- und Technologieangebot der ZhongDe Group in diesem Bereich, eröffnet der ZhongDe Group nach eigener Einschätzung zunehmendes Geschäftspotenzial.

- ***Einsatz der führenden Position bei Verbrennungsanlagen für klinischen Abfall zur stärkeren Durchdringung dieses Marktsegments.*** In den letzten zwei Jahren ist die ZhongDe Group nach eigener Einschätzung zu einem der führenden chinesischen Hersteller für Verbrennungsanlagen für klinischen Abfall mit einem geschätzten Marktanteil von etwa 35% zum Jahresende 2006 aufgerückt. Nach Schätzungen der ZhongDe Group sind von den staatlich geplanten 300 Entsorgungszentren für klinischen Abfall bis Ende 2006 erst rund die Hälfte gebaut worden. Die ZhongDe Group rechnet mit weiterem, über die staatliche Planung hinausgehenden, Bedarf an solchen Entsorgungszentren für klinische Abfälle und sieht daher auch in Zukunft erhebliches Marktpotenzial in diesem Bereich. Die ZhongDe Group beabsichtigt ihre führende Marktstellung zu nutzen, um mithilfe von verstärkten Vertriebsaktivitäten und dem Herausstellen der technischen Stärken und Vorzüge ihrer Produkte, eine weitere Durchdringung dieses Marktes zu erreichen.

- ***Ausbau der derzeitigen Geschäftstätigkeit, um durch den Betrieb von BOT-Projekten wiederkehrende Umsatzerlöse zu erzielen.*** Die ZhongDe Group plant, in Zukunft ihre Geschäftstätigkeit um den Betrieb von BOT-Projekten (BOT steht für ,,Build, Operate/Own, and Transfer'' — d.h. Bauen, Betreiben/Besitzen und Übertragen) zu erweitern. Durch BOT-Projekte hat die ZhongDe Group die Möglichkeit, wiederkehrende Umsatzerlöse aus der Einnahme von Abfallentsorgungsgebühren sowie dem Verkauf von Nebenprodukten, die beim Verbrennungsprozess entstehen, zu erwirtschaften. Zu diesem Zweck hat die ZhongDe Group auf Grundlage von Durchführbarkeitsstudien externer Forschungsinstitute sechs rechtlich nicht verbindliche Absichtserklärungen mit chinesischen Gemeinden für die Durchführung von BOT-Projekten unterzeichnet. Der Finanzbedarf für die von diesen Gemeinden angebotenen Projekte beläuft sich auf insgesamt etwa EUR 41 Mio. Die ZhongDe Group ist der Ansicht, dass es ihr gelingen wird, in diesem neuen Geschäftsbereich einen erheblichen Marktanteil zu erlangen. Sie rechnet damit, dass die Verträge für diese sechs BOT-Projekte kurzfristig abgeschlossen werden können und die Umsetzung der jeweiligen innerhalb von einem bis drei Jahren verwirklicht werden kann. Aufgrund ihrer Marktposition, ihrer vorhandenen Technologie und der aus ihrem Kerngeschäft gewonnenen Erfahrungen ist die ZhongDe Group davon überzeugt, dass sie über die erforderlichen Voraussetzungen für die Konstruktion und den profitablen Betrieb solcher mittelgroßen und großen Müllverbrennungsanlagen verfügt. In Zukunft könnten sogar zusätzliche BOT-Projekte akquiriert oder bestehende BOT-Projekte von der ZhongDe Group übernommen werden. Diesbezüglich plant die ZhongDe Group einen möglichen Erwerb von 60% der Aktien der BOT-Projektgesellschaft Zhuji Fengquan Lipu Municipal Waste Disposal Center von der Fujian Fengquan Environmental Protection Group Ltd.

- ***Entwicklung innovativer Produkte für neue Branchen wie die Beseitigung von Abfällen, die durch den Flugverkehr entstehen (Aviation Waste).*** Die ZhongDe Group erforscht fortlaufend die Entwicklung neuer Verbrennungsanlagen, um den Anforderungen der sich ständig ändernden Müllentsorgungsbranche in China gerecht zu werden. Da zum Beispiel der internationale und inländische gewerbliche Flugverkehr zwischen 1999 und 2005 um jährlich mehr als 10% zugenommen hat, hat sich auch die Menge an Aviation Waste, der von Passagieren im Flugzeug zurück gelassen wird oder bei Wartungs- und Reparaturarbeiten von Flugzeugen entsteht, erheblich erhöht. Ende 2005 waren 142 Flughäfen in China für den öffentlichen Passagierverkehr zugelassen (Quelle: Allgemeine Verwaltung des Passagierflugbetriebs in China, Bericht zur Entwicklung des Lufttransports in China (2005/2006)). Diese Flughäfen sind verpflichtet, für die ordnungsgemäße Beseitigung von Aviation Waste, zu sorgen. Infolgedessen rechnet die ZhongDe Group mit einer zunehmenden Nachfrage nach Verbrennungsanlagen zur Beseitigung solcher Abfälle. Um dieser Nach-

frage gerecht zu werden, wird die ZhongDe Group ca. EUR 1,5 Mio. in Forschung und Entwicklung investieren, um ihre mit dem Pyrolyse-Verfahren arbeitenden Verbrennungsanlagen für klinische Abfälle an die besonderen Eigenschaften von Aviation Waste anzupassen. Die ZhongDe Group hat außerdem erste Verhandlungen mit dem internationalen Flughafen in Peking (Beijing International Airport) über die Konstruktion einer Verbrennungsanlage für derartige Abfallstoffe mit einer Kapazität von 35 t/Tag aufgenommen und rechnet mit dem Eingang von Aufträgen in diesem Bereich in der nächsten Zukunft. Des Weiteren beabsichtigt die ZhongDe Group, ihre Technologie für bestimmte Arten von gefährlichen Sondermüllen weiterzuentwickeln, und plant außerdem, spezielle Verbrennungsanlagen für Sondermüll aus Industrieanwendungen anzubieten.

- ***Erweiterung der Produktionskapazität und Errichtung einer zweiten Produktionsanlage in Nordchina.*** Um die zukünftige Produktionskapazität zu erhöhen, ihre regionale Anbindung zu verbessern und sich auf künftiges Wachstumspotenzial einzustellen, plant die ZhongDe Group den Bau einer neuen Produktionsanlage in Peking mit einem Investitionsvolumen von ca. EUR 13 Mio. Mit dem Bau der Anlage soll im August 2007 begonnen werden, die planmäßige Fertigstellung ist für Ende 2008 vorgesehen. Die ZhongDe Group hat bereits eine Absichtserklärung für das Nutzungsrecht von Land zum Bau dieser Fertigungsstätte unterzeichnet. Schätzungen der ZhongDe Group zufolge wird sich damit ihre Gesamtproduktionskapazität in beiden Werken auf ungefähr 80 Verbrennungsanlagen pro Jahr erhöhen.

- ***Expansion in internationale Märkte.*** Als mittel- bis langfristige Strategie beabsichtigt die ZhongDe Group, Expansionsmöglichkeiten für ihre bestehenden Produkte in die südostasiatischen Märkte wie Thailand, Indonesien sowie die Philippinen und in einem zweiten Schritt die Expansion in neue Märkte in Afrika und Osteuropa zu eruieren. Die ZhongDe Group hat ihre Verbrennungsanlagen bereits an Exporteure verkaufen, die die Verbrennungsanlagen nach Taiwan, Singapur und Indonesien exportiert haben und die ZhongDe Group hat erste Gespräche mit Regierungsstellen und Gemeinden in Thailand und auf den Philippinen aufgenommen. Aufgrund der beachtlichen Gelegenheiten auf dem chinesischen Markt verfolgt die ZhongDe Group jedoch mögliche sich international bietende Gelegenheiten nicht mit Priorität.

- ***Fokussierung auf große Verbrennungsanlagen mit ausländischen Unternehmen als Partner.*** Die ZhongDe Group erwägt auch einen Eintritt in den Markt für große Verbrennungsanlagen. Der Bau großer Müllverbrennungsanlagen in China wird heute fast ausschließlich von ausländischen und international operierenden Unternehmen abgewickelt. Als ein operativ in China tätiges Unternehmen sieht die ZhongDe Group jedoch die Chance zum Eintritt in das Marktsegment für große Anlagen, und zwar entweder auf Basis ihrer eigenen Technologie oder für Anlagen mit einer Kapazität von über 1.000 t/Tag durch eine Partnerschaft mit einem internationalen Mitbewerber, der über keine Erfahrungen in Bezug auf die Besonderheiten im chinesischen Markt verfügt und daher potenziellen Bedarf an der Nutzung des operativen Know-hows der ZhongDe Group hat.

Weitere wesentliche Angaben betreffend die Gesellschaft

Die Gesellschaft ist eine nach deutschem Recht gegründete Aktiengesellschaft mit Sitz in Hamburg. Sie ist im Handelsregister des Amtsgerichts Hamburg unter HRB 101376 eingetragen. Unternehmensgegenstand der Gesellschaft ist der Geschäftsbetrieb als Holding der Chung Hua Environmental Protection Assets (Holdings) Group Limited, Hong Kong („**Chung Hua Holding**"), einer nach dem Recht von Hongkong im Jahr 2004 gegründeten Gesellschaft, die einzige Gesellschafterin der alleinigen operativ tätigen FengQuan Environmental Protection Equipment LTD., Fuzhou, Volksrepublik China („**FengQuan**") ist. Die Gesellschaft, die Chung Hua Holding und FengQuan werden in diesem Prospekt gemeinsam als „**ZhongDe Group**" bezeichnet.

Vorstand	Herr Chen Zefeng und Frau Lin Na.
Aufsichtsrat	Herr Hans-Joachim Zwarg, Herr Joachim Ronge und Herr Quan Hao
Grundkapital (vor Durchführung des Angebots)	Euro („**EUR**") 10.000.000 unterteilt in 10.000.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien).
Gegenwärtiger Abschlussprüfer	BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Ferdinandstraße 59, 20095 Hamburg, Deutschland.
Altaktionäre	Unmittelbar vor Durchführung des Angebots waren Herr Chen Zefeng mit 68,03%, 9998 Holding Ltd mit 15,50%, Delotte Group Ltd. mit 3,00%, Dragonup Enterprises Ltd. mit 4,50%, Linch Investments Ltd. mit 4,97% und Synergy Investment Group Ltd. mit 4,00% am Aktienkapital der Gesellschaft beteiligt. (gemeinsam „**Altaktionäre**" genannt).
Sitz und Geschäftsjahr	Sitz der Gesellschaft ist Hamburg, Deutschland. Geschäftsjahr ist das Kalenderjahr. Das erste Geschäftsjahr ist ein Rumpfgeschäftsjahr.
Mitarbeiter	Zum 30. April 2007 beschäftigte die ZhongDe Group 189 Mitarbeiter. Bis zum Datum dieses Prospektes hat sich die Mitarbeiterzahl nicht wesentlich verändert.

Zusammenfassung des Angebots

Angebot	Das Angebot besteht aus einem öffentlichen Angebot in der Bundesrepublik Deutschland und Luxemburg sowie Privatplatzierungen an institutionelle Investoren außerhalb der Bundesrepublik Deutschland, Luxemburg und den Vereinigten Staaten. Gegenstand des Angebots sind bis zu 4.185.264 auf den Inhaber lautende Stammaktien ohne Nennbetrag der ZhongDe Waste Technology AG mit einem anteiligen Betrag am Grundkapital von jeweils EUR 1,00 und mit voller Gewinnanteilberechtigung für das gesamte Rumpfgeschäftsjahr 2007. Von diesem Betrag stammen (i) bis zu 3.000.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus einer vom Vorstand der Gesellschaft voraussichtlich am 4. Juli 2007 mit Zustimmung des Aufsichtsrats voraussichtlich am selben Tag zu beschließenden Kapitalerhöhung gegen Bareinlagen aus genehmigtem Kapital („**Neue Aktien**"), (ii) bis zu 639.360 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus dem Eigentum der 9998 Holding Ltd., der Delotte Group Ltd., der Dragonup Enterprises Ltd., der Synergy Investment Group Ltd., der Linch Investments Ltd. (gemeinsam die "**Abgebenden Aktionäre**") (die "**Bestehenden Angebotenen Aktien**"), von denen bis zu 310.000 auf den Inhaber lautende Stammaktien aus dem Eigentum der 9998 Holding Ltd., bis zu 60.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus dem Eigentum der Delotte Group Ltd., bis zu 90.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus dem Eigentum der Dragonup Enterprises Ltd., bis zu 80.000 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus dem Eigentum der Synergy Investment Group Ltd., bis zu 99.360 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus dem Eigentum der Linch Investments Ltd. stammen und (iii) bis zu 545.904 auf den Inhaber lautende Stammaktien ohne Nennbetrag aus dem Eigentum der Altaktionäre im Hinblick auf eine eventuelle Mehrzuteilung („**Greenshoe-Aktien**", gemeinsam mit den Neuen Aktien und den Bestehenden Angebotenen Aktien die „**Angebotsaktien**").
Angebotsfrist	Die Angebotsfrist beginnt voraussichtlich frühestens am 29. Juni 2007 und endet spätestens am 4. Juli 2007. Die Angebotsfrist dauert voraussichtlich mindestens drei Bankarbeitstage. Beginn und Ende der Angebotsfrist, innerhalb welcher Anleger Kaufangebote abgeben können, werden gemeinsam mit der Preisspanne und anderen Angaben in Form eines Nachtrags zum Prospekt veröffentlicht. Kaufangebote sind bis zum Ende der Angebotsfrist frei widerruflich. Am letzten Tag der Angebotsfrist können Privatanleger Kaufangebote bis 12:00 Mittag (MEZ) und institutionelle Anleger bis 16:00 (MEZ) abgeben.
Preisspanne und Platzierungspreis	Die Preisspanne, innerhalb derer Kaufangebote abgegeben werden können, wird gemeinsam mit den genauen Daten

	des Beginns und des Endes der Angebotsfrist vor Beginn der Frist in Form einer Ad-hoc Mitteilung über ein elektronisch betriebenes Informationssystem und nach Erhalt der Billigung durch die Bundesanstalt für Finanzdienstleistungsaufsicht („**BaFin**") in Form eines Nachtrags zum Prospekt auf der Internetseite der Gesellschaft (www.zhongdetech.com) bekannt gegeben. Der Nachtrag wird auch in einer kostenlosen Ausgabe in gedruckter Form während der üblichen Geschäftszeiten in den Geschäftsräumen der Gesellschaft, der Konsortialbanken und der Zahlstelle in Luxemburg bereitgehalten. Eine Mitteilung über die Veröffentlichung des Nachtrags zum Prospekt wird frühestens einen Werktag nach Billigung des Nachtrags in der *Frankfurter Allgemeinen Zeitung* erfolgen. Der Platzierungspreis je Angebotsaktie wird von der Gesellschaft, den Abgebenden Aktionären und dem Globalen Koordinator mit Hilfe eines im Bookbuilding-Verfahren erstellten Orderbuchs gemeinsam festgelegt. Der Platzierungspreis wird im Anschluss hieran in Form einer Ad-hoc Mitteilung über ein elektronisch betriebenes Informationssystem und auf der Internetseite der Gesellschaft (www.zhongdetech.com) sowie frühestens am darauf folgenden Werktag durch Bekanntmachung in der *Frankfurter Allgemeinen Zeitung* veröffentlicht. Insbesondere für den Fall, dass das Platzierungsvolumen nicht ausreicht, um sämtliche Kaufaufträge zum Platzierungspreis zu bedienen, behält sich der Globale Koordinator vor, Kaufangebote nicht oder nur teilweise anzunehmen.
Änderungen der Angebotsbedingungen	Die Gesellschaft und die Abgebenden Aktionäre behalten sich gemeinsam mit dem Globalen Koordinator das Recht vor, die Anzahl der Angebotsaktien zu verringern, die obere und/oder untere Begrenzung der Preisspanne zu ermäßigen oder zu erhöhen und/oder den Angebotszeitraum zu verlängern oder zu verkürzen. Im Falle einer Änderung der Angebotsbedingungen wird die Änderung als Mitteilung über elektronische Medien wie Reuters oder Bloomberg sowie auf der Internetseite der Gesellschaft (www.zhongdetech.com) und, soweit dies nach dem Wertpapierhandelsgesetz oder dem Wertpapierprospektgesetz erforderlich ist, als Ad-hoc Mitteilung und/oder als Nachtrag zu diesem Prospekt veröffentlicht werden. Eine individuelle Unterrichtung der Anleger, die Kaufangebote abgegeben haben, erfolgt nicht.
Lieferung und Abrechnung der Angebotsaktien	Die Angebotsaktien werden voraussichtlich zwei Bankarbeitstage nach Börsennotierung der Aktien, voraussichtlich am 10. Juli 2007, gegen Zahlung des Platzierungspreises geliefert.
Mehrzuteilung/Stabilisierung	Im Zusammenhang mit der Platzierung können im rechtlich zulässigen Umfang Mehrzuteilungen und so genannte Stabilisierungsmaßnahmen vorgenommen werden, um den Börsen- oder den Marktpreis der Aktien der Gesellschaft zu unterstützen und einen bestehenden Verkaufsdruck auszugleichen. Stabilisierungsmaßnahmen können mit dem Zeitpunkt der Aufnahme der

	Börsennotierung der Aktien der Gesellschaft eingeleitet werden und müssen spätestens am darauf folgenden 30. Kalendertag abgeschlossen werden.
Greenshoe-Option	Für die Vornahme einer eventuellen Mehrzuteilung haben die Altaktionäre Sal. Oppenheim vorübergehend bis zu 545.904 auf den Inhaber lautende Stammaktien ohne Nennbetrag im Rahmen einer so genannten Wertpapierleihe zur Verfügung gestellt, um eine eventuelle Mehrzuteilung zu ermöglichen. Hiervon stammen bis zu 200.000 auf den Inhaber lautende Stammaktien aus dem Eigentum von Herrn Chen Zefeng, bis zu 167.716 auf den Inhaber lautende Stammaktien aus dem Eigentum der 9998 Holding Ltd., bis zu 32.461, auf den Inhaber lautende Stammaktien aus dem Eigentum der Delotte Group Ltd., bis zu 48.691 auf den Inhaber lautende Stammaktien aus dem Eigentum der Dragonup Enterprises Ltd., bis zu 53.755 auf den Inhaber lautende Stammaktien aus dem Eigentum der Linch Investments Ltd. und bis zu 43.281 auf den Inhaber lautende Stammaktien aus dem Eigentum der Synergy Investment Group Ltd. Im Hinblick auf die Rückführung dieser Wertpapierleihe haben die Altaktionäre Sal. Oppenheim die Option eingeräumt, diese bis zu 545.904 Aktien zum Platzierungspreis abzüglich vereinbarter Provisionen zu erwerben (''**Greenshoe Option''**). Diese Greenshoe Option erlischt 30 Kalendertage nach der Börsennotierung der Aktien.
Allgemeine Zuteilungskriterien	Die Gesellschaft, die Abgebenden Aktionäre und der Globale Koordinator werden die ,,Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger'' beachten, die am 7. Juni 2000 von der Börsensachverständigenkommission beim Bundesministerium der Finanzen herausgegeben wurden.
Abgebende Aktionäre	Abgebende Aktionäre sind 9998 Holding Ltd., Delotte Group Ltd., Dragonup Enterprises Ltd., Synergy Investment Group Ltd., Linch Investments Ltd.
Globaler Koordinator	Sal. Oppenheim.
Konsortialbanken	Sal. Oppenheim, BOCI Asia Limited und CLSA Limited.
Selling Agents	Bayerische Landesbank, comdirect bank AG, DAB bank AG.
Zulassung zum Börsenhandel und zur Börsennotierung	Ein Antrag auf Zulassung sämtlicher Aktien der Gesellschaft einschließlich der Neuen Aktien zum Geregelten Markt (*Prime Standard*) an der Frankfurter Wertpapierbörse wird voraussichtlich am 26. Juni 2007 eingereicht, und die Zulassung wird voraussichtlich spätestens am 5. Juli 2007 erfolgen. Die Notierungsaufnahme wird voraussichtlich am 6. Juli 2007 beginnen.
Vorzeitige Beendigung des Angebots	Der Übernahmevertrag sieht vor, dass der Globale Koordinator den Übernahmevertrag bei Vorliegen von bestimmten Umständen kündigen kann. Dies ist auch noch nach Zuteilung und Notierung der Aktien bis zur Lieferung und Abrechnung der Aktien möglich.

	Im Falle einer Kündigung des Übernahmevertrags erfolgt kein Angebot. In einem solchen Falle werden Aktienzuteilungen an die Investoren für ungültig erklärt und die Investoren haben keinen Lieferungsanspruch. Ansprüche aus gezahlten Zeichnungsgebühren und den Investoren im Zusammenhang mit der Zeichnung entstandene Kosten werden ausschließlich nach Maßgabe der rechtlichen Verhältnisse zwischen dem jeweiligen Investor und der Institution, bei dem dieser ein Kaufangebot abgegeben hat, geregelt.
Marktschutzvereinbarung/ Veräußerungsbeschränkungen (Lock-Up)	Die Gesellschaft hat sich gegenüber den Konsortialbanken verpflichtet, für einen Zeitraum von sechs Monaten nach Notierung der Aktien an der Frankfurter Wertpapierbörse (1) keine Kapitalerhöhung aus genehmigtem Kapital anzukündigen oder durchzuführen, (2) der Hauptversammlung keine Kapitalerhöhung zur Beschlussfassung vorzuschlagen, (3) weder (a) direkt noch indirekt Aktien der Gesellschaft oder andere Wertpapiere, die in Aktien der Gesellschaft umgewandelt weden können oder dafür eingetauscht werden können oder ein Recht zum Erwerb von Aktien der Gesellschaft verkörpern, auszugeben, zu kaufen, zu verkaufen, anzubieten, sich zu deren Verkauf zu verpflichten, zu vermarkten, anderweitig abzugeben oder ein darauf bezogenes Angebot bekannt zu machen, noch (b) Geschäfte (einschließlich Derivativgeschäfte) abzuschließen oder durchzuführen, die wirtschaftlich dem Kauf oder Verkauf von Aktien der Gesellschaft entsprechen. oder (c) Geschäfte im Sinne der vorangehenden Bestimmungen (a) und/oder (b) direkt oder indirekt zu veranlassen oder diesen zuzustimmen. Darüber hinaus hat sich Gesellschaft für weitere sechs Monate verpflichtet, ohne der vorherigen schriftlichen Zustimmung des Globalen Koordinators keine der vorgenannten Geschäfte zu tätigen. Die Altaktionäre haben sich gegenüber den Konsortialbanken verpflichtet, für einen Zeitraum von sechs Monaten nach Notierung der Aktien an der Frankfurter Wertpapierbörse (1) keine Aktien der Gesellschaft oder andere Wertpapiere, die in Aktien der Gesellschaft umgewandelt oder dafür eingetauscht werden können, direkt oder indirekt anzubieten, zu verpfänden, zu verkaufen, sich zu deren Verkauf zu verpflichten, eine Option zu deren Erwerb zu verkaufen, eine Option zu deren Veräußerung zu kaufen oder die Wertpapiere in anderer Weise abzugeben oder zu veräußern (2) keine Swapgeschäfte oder Geschäfte abzuschließen, mit denen das wirtschaftliche Risiko des Aktienbesitzes teilweise oder ganz auf einen Dritten übertragen wird, unabhängig davon, ob dieses Geschäft durch Aktienlieferung, Barzahlung oder sonstiger Gegenleistung abgeschlossen wird, und (3) keine Kapitalerhöhung durch die Gesellschaft vorzuschlagen, dafür zu stimmen oder eine Kapitalerhöhung oder Ausgabe von Wertpapieren, die in Aktien oder Gesellschaft umgewandelt werden können, oder eine wirtschaftlich vergleichbare Transaktion der Gesellschaft zu initiieren, für sie zu stimmen oder in ande-

	rer Weise zu unterstützen. Darüberhinaus hat sich Herr Chen Zefeng für weitere sechs Monate verpflichtet ohne vorherige schriftliche Zustimmung des Globalen Koordinators, keine der vorgenannten Geschäfte zu tätigen. Von diesen Beschränkungen ausgenommen sind die Aktien der Gesellschaft und der Altaktionäre, die im Zusammenhang mit dem Angebot veräußert werden sollen.
Die Kosten des Börsengangs für die Gesellschaft	Da sich die Kosten des Börsengangs nach der gesamten Anzahl der platzierten Aktien und dem Platzierungspreis, auf deren Grundlage der Provisionsbetrag bestimmt wird, richten, können die Kosten des Börsengangs von der Gesellschaft zu diesem Zeitpunkt nicht zuverlässig berechnet werden. Die Gesellschaft schätzt, dass sich die von der Gesellschaft zu tragenden Kosten (einschließlich der Provisionen für die Konsortialbanken) auf insgesamt zwischen ca. TEUR 4.825 und TEUR 6.850 belaufen werden.
Verwendung des Emissionserlöses	Die Gesellschaft beabsichtigt, den ihr zufließenden Nettoemissionserlös zur Finanzierung der weiteren Expansion der ZhongDe Group zu verwenden, insbesondere ca. EUR 41 Mio. für die Finanzierung von sechs BOT Projekten, ca. EUR 13 Mio. für die Errichtung einer neuen Produktionsstätte in Peking, ca. EUR 5 Mio. als Betriebskapital für die Finanzierung des organischen Wachtums, etwa EUR 2,5 Mio. bis EUR 3,0 Mio. für den Erwerb von 60% der Anteile an der BOT-Projektgesellschaft Zhuji Fengquan Lipu Municipal Waste Disposal Center von Fujian Fengquan Environmental Protection Group Ltd. und ca. EUR 2 Mio. in Forschung und Entwicklung zu investieren. Darüber hinaus beabsichtigt die Gesellschaft, ca. EUR 5 Mio. zur Rückführung von Darlehen an verbundene Parteien zu verwenden.
Wertpapier-Kenn-Nummer (WKN)	ZDWT01[1] und ZDWT02[2].
International Securities Identification Number (ISIN)	DE000ZDWT018[1] und DE000ZDWT026[2].
Common Code	030736010[1] und 030735994[2].
Ticker-Symbol	ZEF.

[1] Bezieht sich auf die Aktien der Gesellschaft mit Ausnahme derjenigen Aktien, die der Marktschutzvereinbarung unterliegen.

[2] Bezieht sich auf die von den Altaktionären nach Abschluss des Angebots gehaltenen Aktien. Nach Ablauf der Marktschutzvereinbarung werden den von Altaktionären gehaltenen Aktien dieselben WKN, ISIN und Common Code wie den Angebotsaktien zugewiesen.

Ausgewählte Finanzangaben

Die Gesellschaft ist am 4. Mai 2007 im Rahmen verschiedener Umstrukturierungsmaßnahmen gegründet worden. Daher liegen, abgesehen von der Eröffnungsbilanz, keine historischen Finanzinformationen im Sinne von Anhang 1 Ziffer 20.1. der Verordnung (EG) Nr. 809/2004 vor. Gleichwohl entspricht die Geschäftstätigkeit der Gesellschaft weitest gehend der zuvor von der Chung Hua Holding ausgeübten Geschäftstätigkeit. Chung Hua Holding ist das unmittelbare, 100%ige und operativ nicht tätige Tochterunternehmen der Gesellschaft. Das operative Geschäft wurde und wird auch heute noch durch FengQuan ausgeübt. FengQuan ist das unmittelbare und 100%ige Tochterunternehmen der Chung Hua Holding und das mittelbare Tochterunternehmen der ZhongDe Waste Technology AG. Die vor der Umstrukturierung bestehenden Unternehmen der ZhongDe Group und die Gesellschaft stehen unter gemeinsamer Beherrschung im Sinne von IFRS 3 ''Unternehmenszusammenschlüsse''.

Um den Nettovermögenswert, die Finanzlage und die Geschäftsergebnisse der letzten drei Geschäftsjahre im Hinblick auf das oben erwähnte operative Geschäft darzustellen, hat die Gesellschaft kombinierte konsolidierte Finanzangaben nach IFRS zum 31. Dezember 2006 erstellt, die Vergleichsangaben zu den Geschäftsjahren endend zum 31. Dezember 2005 und zum 31. Dezember 2004 enthalten. Diese kombinierten konsolidierten Finanzangaben sind durch die BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft geprüft worden.

Des Weiteren hat die Gesellschaft ungeprüfte kombinierte konsolidierte Finanzangaben zum 31. März 2007 erstellt, die von der BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft überprüft (,,reviewed'') worden sind. Diese kombinierten und konsolidierten Finanzangaben sind so dargestellt als ob die Gesellschaft am 1. Januar 2004 bereits bestanden hätte.

*Die ausgewählten Finanzangaben der ZhongDe Waste Technology AG (der **''Gesellschaft''**), die in diesem Abschnitt dargestellt sind, sind aus den geprüften kombinierten konsolidierten Finanzangaben der Gesellschaft nach IFRS zum 31. Dezember 2006, zum 31. Dezember 2005 und zum 31. Dezember 2004 sowie aus dem ungeprüften kombinierten konsolidierten Finanzangaben der Gesellschaft nach IFRS zum 31. März 2007 entnommen worden.*

Um den Nettovermögenswert, die Finanzlage und die Geschäftsergebnisse der letzten drei Geschäftsjahre im Hinblick auf das oben erwähnte operative Geschäft darzustellen, hat FengQuan Finanzangaben nach IFRS zum 31. Dezember 2006, zum 31. Dezember 2005 und zum 31. Dezember 2004 erstellt. Diese Finanzangaben sind durch die BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft geprüft worden.

Des Weiteren hat die Gesellschaft ungeprüfte Finanzangaben zum 31. März 2007 erstellt, die von der BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft überprüft (,,reviewed'') worden sind.

Die ausgewählten Finanzangaben von FengQuan, die in diesem Abschnitt dargestellt sind, sind aus den geprüften Finanzangaben von FengQuan nach IFRS zum 31. Dezember 2006, zum 31. Dezember 2005 und zum 31. Dezember 2004 sowie aus dem ungeprüften Finanzangaben von FengQuan nach IFRS zum 31. März 2007 entnommen worden.

Da das operative Geschäft der ZhongDe Group ausschließlich durch FengQuan ausgeführt wird beziehen sich die Unterschiede zwischen den kombinierten konsolidierten Finanzangaben der Gesellschaft und den Finanzangaben von FengQuan lediglich auf bestimmte Einzelpositionen (einschließlich ,,Finanzerträge'', ,,Finanzaufwendungen'', ,,Sonstige Erträge und Aufwendungen'', ,,Sonstige Forderungen und geleistete Anzahlungen'', ,,Sonstige Rückstellungen und Verbindlichkeiten'', ,,Zahlungsmittel und Zahlungsmitteläquivalente''). Diese Unterschiede beziehen sich auf die liquiden Mittel und auf die Buchzinsen in den Finanzangaben zum 31. Dezember 2006 und zum 31. März 2007 und haben sich aufgrund des Erwerbs der Aktien von FengQuan durch die Chung Hua Holding ergeben. Des Weiteren bezieht sich die Diskussion und Analyse der Finanz- und Ertragslage im Rahmen des Prospektes auf die geprüften Finanzangaben von FengQuan zum 31. Dezember 2006, zum 31. Dezember 2005 und zum 31. Dezember 2004 und auf die ungeprüften Finanzangaben von FengQuan zum 31. März 2007.

Die folgenden Zahlenangaben wurden kaufmännisch gerundet, Additionen der Zahlenangaben können zu anderen als den dargestellten Summen führen.

Ausgewählte konsolidierte kombinierte Finanzinformationen der Gesellschaft für die Geschäftsjahre endend zum 31. Dezember 2004, 2005 und 2006 und für das erste Quartal 2007 zum 31. März 2007 nach IFRS

	31. Dezember			31. März
	2004	2005	2006	2007
		(geprüft)[1] in TEUR		(ungeprüft)
Ausgewählte Angaben aus der Gewinn- und Verlustrechnung				
Umsatzerlöse	6.162	11.398	18.995	7.359
Herstellungskosten	–2.271	–3.508	–5.611	–2.563
Bruttoergebnis	3.891	7.890	13.384	4.796
Aufwendungen für Verkauf und Vertrieb	–353	–420	–735	–242
Verwaltungsaufwand	–265	–367	–377	–289
Aufwendungen für Forschung und Entwicklung	–177	–181	–203	–48
Ergebnis aus Geschäftstätigkeit	3.049	6.781	11.903	4.133
Ergebnis vor Ertragssteuer	3.000	6.733	11.869	4.173
Ertragssteuern	–1.135	–2.380	–3.847	–61
Periodenergebnis	1.865	4.353	8.022	4.112
Ausgewählte Angaben aus der Bilanz				
Langfristige Vermögenswerte	278	338	432	358
Kurzfristige Vermögenswerte	6.175	9.840	16.385	20.329
Summe Vermögenswerte	6.453	10.178	16.817	20.687
Kurzfristige Verbindlichkeiten	2.394	2.233	7.994	7.798
Langfristige Verbindlichkeiten	0	0	0	0
Summe Verbindlichkeiten	2.394	2.233	7.994	7.998
Summe Eigenkapital	4.059	7.945	8.823	12.889
Summe Verbindlichkeiten und Eigenkapital	6.453	10.178	16.817	20.687
Ausgewählte Angaben aus der Kapitalflussrechnung				
Ergebnis vor Ertragssteuer	3.000	6.733	11.869	4.173
Betriebsergebnis vor Veränderung des Netto-Umlaufvermögens	3.142	6.914	12.243	4.384
Cash flow aus Geschäftstätigkeit	1.862	1.478	6.373	965
Cash flow aus Investitionstätigkeit	–8	–14	–110	—
Cash flow aus Finanzierungstätigkeit	–2.088	–2.482	3.598	–16
Netto-Veränderungen von Zahlungsmitteln und Zahlungsmitteläquivalenten	–234	–1.018	9.861	949
Zahlungsmittel zu Jahresbeginn	259	26	4	9.199
Kursdifferenzen	1	996	–666	–45
Zahlungsmittel zum Periodenende	26	4	9.199	10.103
Weitere ausgewählte Finanzinformationen				
EBITDA[2]	3.085	6.818	11.942	4.145
EBITDA Marge (in %)	50,1	59,8	62,9	56,3
Nettoumsatzrendite (in %)	30,2	38,2	42,2	55,9
Gewinn pro Aktie (errechnet auf der Basis von 10.000.000 Aktien)[3]	0,19	0,44	0,80	0,41

1 Geprüfte Finanzinformation mit Ausnahme von EBITDA, EBITDA Marge, Nettoumsatzrendite, Gewinn pro Aktie.

2 Gewinn vor Zinsen, Steuern, Abschreibungen auf Sachanlagen und Abschreibungen auf immaterielle Vermögensgegenstände.

3 In EUR.

Ausgewählte Finanzinformationen von FenqQuan für die Geschäftsjahre endend zum 31. Dezember 2004, 2005 und 2006 und für das erste Quartal 2007 zum 31. März 2007 nach IFRS

	31. Dezember			31. März
	2004	2005	2006	2007
		(geprüft)[1]		(ungeprüft)
		in TEUR		
Ausgewählte Angaben aus der Gewinn- und Verlustrechnung				
Umsatzerlöse	6.162	11.398	18.995	7.359
Herstellungskosten	–2.271	–3.508	–5.611	–2.563
Bruttoergebnis	3.891	7.890	13.384	4.796
Aufwendungen für Verkauf und Vertrieb	–353	–420	–735	–242
Verwaltungsaufwand	–265	–367	–377	–289
Aufwendungen für Forschung und Entwicklung	–177	–181	–203	–48
Ergebnis aus Geschäftstätigkeit	3.049	6.781	11.903	4.133
Ergebnis vor Ertragssteuer	3.000	6.733	11.867	4.174
Ertragssteuern	–1.135	–2.380	–3.847	–61
Periodenergebnis	1.865	4.353	8.020	4.113
Ausgewählte Angaben aus der Bilanz				
Langfristige Vermögenswerte	278	338	432	358
Kurzfristige Vermögenswerte	6.175	9.840	16.274	20.220
Summe Vermögenswerte	6.453	10.178	16.706	20.578
Kurzfristige Verbindlichkeiten	2.394	2.233	7.886	7.690
Langfristige Verbindlichkeiten	0	0	0	0
Summe Verbindlichkeiten	2.394	2.233	7.886	7.690
Summe Eigenkapital	4.059	7.945	8.820	12.888
Summe Verbindlichkeiten und Eigenkapital	6.453	10.178	16.706	20.578
Ausgewählte Angaben aus der Kapitalflussrechnung				
Ergebnis vor Ertragssteuer	3.000	6.733	11.867	4.174
Betriebsergebnis vor Veränderung des Netto-Umlaufvermögens	3.142	6.914	12.243	4.384
Cash flow aus Geschäftstätigkeit	1.862	1.479	6.288	1.046
Cash flow aus Investitionstätigkeit	–8	–14	–110	—
Cash flow aus Finanzierungstätigkeit	–2.088	–2.482	3.598	–16
Netto-Veränderungen von Zahlungsmitteln und Zahlungsmitteläquivalenten	–234	–1.017	9.776	1.030
Zahlungsmittel zu Jahresbeginn	259	26	4	9.114
Kursdifferenzen	1	995	–666	–45
Zahlungsmittel zum Periodenende	26	4	9.114	10.099
Weitere ausgewählte Finanzinformationen				
EBITDA[2]	3.085	6.818	11.942	4.145
EBITDA Marge (in %)	50,1	59,8	62,9	56,3
Nettoumsatzrendite (in %)	30,3	38,2	42,2	55,9

1 Geprüfte Finanzinformation mit Ausnahme von EBITDA, EBITDA Marge, Nettoumsatzrendite, Gewinn pro Aktie.

2 Gewinn vor Zinsen, Steuern, Abschreibungen auf Sachanlagen und Abschreibungen auf immaterielle Vermögensgegenstände.

Zusammenfassung der Risikofaktoren

Anleger sollten gewisse Risiken sorgfältig abwägen, bevor sie die Entscheidung zum Kauf von Aktien der Gesellschaft treffen. Das Eintreten der mit diesen Risiken verbundenen Ereignisse entweder einzeln oder zusammen mit anderen Umständen kann sich wesentlich nachteilig auf die Geschäftstätigkeit der ZhongDe Group auswirken und die Vermögens-, Finanz- und Ertragslage der ZhongDe Group erheblich beeinträchtigen. Es ist möglich, dass infolge eines mit dem Eintreten dieser Risiken verbundenen Ereignisses der Börsenkurs der Aktien sinkt und Anleger ihr investiertes Kapital ganz oder teilweise verlieren. Als Risikofaktoren gelten:

Risiken bezüglich der Geschäftstätigkeit der ZhongDe Group

- Der Erfolg der ZhongDe Group hängt von ihrer Fähigkeit ab, laufend neue Aufträge für den Bau von Müllverbrennungsanlagen zu erhalten, und ihre Ertragslage ist Schwankungen unterworfen.
- Das staatliche Budget für Abfallmanagement kann gesenkt werden oder die Beziehungen der ZhongDe Group zu öffentlichen Stellen können sich verschlechtern.
- Der Verkauf von Müllverbrennungsanlagen für medizinischen Abfall hängt entscheidend von den Subventionen ab, die von der Regierung der Volksrepublik China an Kunden der ZhongDe Group gewährt werden.
- Es kann sein, dass die für die Beschaffung zuständigen Stellen der Regierung Lieferanten bevorzugen, die sich in inländischem Besitz befinden.
- Die Rentabilität der ZhongDe Group kann sich aufgrund von Kostensteigerungen oder Preissenkungen verschlechtern.
- Der geplante Bau von Müllverbrennungsanlagen ist mit Risiken verbunden.
- Die zukünftige Strategie der ZhongDe Group, in das BOT-Geschäft zu expandieren, kann fehlschlagen.
- Durch die zukünftige Strategie, sich auf BOT-Projekte zu konzentrieren, setzt sich die ZhongDe Group zusätzlichen finanziellen und betrieblichen Risiken aus.
- Die Produktion von Müllverbrennungsanlagen oder sonstigen Abfallentsorgungsanlagen könnte unterbrochen werden.
- Die Installation von Müllverbrennungsanlagen kann sich verzögern, wenn es Kunden oder Dritten nicht gelingt, die für Müllverbrennungsanlagen erforderlichen Gebäude zu errichten.
- Es kann sein, dass es der ZhongDe Group nicht gelingt, die für ihre betriebliche Tätigkeit notwendigen Genehmigungen und Lizenzen von der Volksrepublik China einzuholen oder aufrechtzuerhalten oder zukünftige aufsichtsbehördliche Auflagen zu erfüllen.
- Die Kunden der ZhongDe Group müssen sich an Umweltschutzgesetze und -bestimmungen halten und könnten bei Verstößen gegen diese Gesetze oder Bestimmungen Regressansprüche stellen oder Schadensersatz fordern.
- Zukünftige Gesetze zum Umweltschutz und zur Abfallentsorgung könnten sich nachteilig auf das Geschäft der ZhongDe Group auswirken.
- Die ZhongDe Group ist den Verzugsrisiken ihrer Kunden ausgesetzt, und die Durchsetzung von Ansprüchen gegenüber ihren Kunden könnte sich vor dem Hintergrund der vereinbarten Zahlungsmodalitäten und der Tatsache, dass es sich bei den meisten Kunden um staatliche Betriebe handelt als besonders schwierig herausstellen.
- Der Wettbewerb könnte sich durch den Eintritt inländischer oder internationaler Wettbewerber in den Markt verschärfen.
- Schnelle technische Änderungen oder strengere Umweltschutzauflagen könnten für die ZhongDe Group von Nachteil sein.
- Erhebliche Investitionen in Forschung und Entwicklung müssen nicht zwangsläufig zu rechtzeitigen Technologieverbesserungen führen, und die ZhongDe Group könnte unter Umstän-

den nicht genügend Ressourcen für die Investitionen haben, die erforderlich sind, um konkurrenzfähig zu bleiben.

- Die ZhongDe Group ist von den Beziehungen zu bestimmten Lieferanten abhängig, die Bauteile und Material zum Bau ihrer Müllverbrennungsöfen liefern.
- Da das gesamte Management vornehmlich in China ansässig ist, könnte der Aufsichtsrat Schwierigkeiten haben, den Vorstand angemessen zu überwachen.
- Die ZhongDe Group trägt die mit dem Management ihres derzeitigen und zukünftigen Wachstums verbundenen Risiken und verfügt über keinerlei Erfahrungen bei der Einhaltung der gesetzlichen Anforderungen Deutschlands.
- Die ZhongDe Group ist auf bestimmte leitende Angestellte und auf die Verfügbarkeit qualifizierter Ingenieure, Techniker und Verkaufsfachkräfte angewiesen.
- Es könnte passieren, dass die ZhongDe Group einen Interessenkonflikt mit ihrem Vorstandsvorsitzenden und dem Hauptaktionär der Gesellschaft hat.
- Das Recht der ZhongDe Group auf die Verwendung von geistigem Eigentum könnte erlöschen oder es könnten sich diesbezüglich Ansprüche wegen Rechtsverletzung ergeben.
- Die ZhongDe Group könnte die Rechte Dritter an geistigem Eigentum verletzen.
- Es könnte der ZhongDe Group nicht gelingen, ein Warenzeichen oder eine Marke zur Identifikation ihrer Produkte eintragen zu lassen, oder sie könnte das Recht auf Benutzung dieses Warenzeichens verlieren.
- Unentdeckte Produktmängel können zu höheren Kosten oder Haftungsansprüchen Dritter führen und die Marktakzeptanz der Produkte und Techniken der ZhongDe Group beeinträchtigen.
- Die ZhongDe Group könnte gegen mögliche Risiken nicht ausreichend versichert sein.
- Die Erträge der ZhongDe Group werden in der Währung RMB angegeben, und eine Änderung der Wechselkurse könnte für die ZhongDe Group von finanziellem Nachteil sein und sich negativ auf die Dividenden auswirken, die an die Aktionäre der Gesellschaft ausgeschüttet werden sollen.
- Es könnte für die ZhongDe Group schwierig sein, zusätzliche Geldmittel aufzunehmen.
- ZhongDe Group könnte dazu verpflichtet sein, zusätzliche Sozialversicherungsbeiträge und Abgaben zur Eigenheimförderung zu zahlen.
- Die Gesellschaft ist eine Holdinggesellschaft, deren Liquidität vom Zugriff auf die liquiden Mittel ihrer operativ tätigen Tochtergesellschaften mit Sitz in China abhängt.
- Es ist möglich, dass durch die Bestimmungen der Volksrepublik China in Bezug auf Kredite und direkte Investitionen von Holdinggesellschaften in Körperschaften der Volksrepublik China die Verwendung der Erlöse aus diesem Angebot seitens der ZhongDe Group verzögert oder untersagt wird.

Risiken bzgl. des politischen, sozialen und rechtlichen Umfelds der Volksrepublik China

- Allgemeine Risiken im Zusammenhang mit der geschäftlichen Tätigkeit in stark wachsenden Märkten (emerging markets).
- Neue Gesetze der Volksrepublik China zu Offshore-Zweckgesellschaften (Special Purpose Vehicles, ,,SPV''), die von chinesischen juristischen Personen und/oder Privatpersonen zum Zweck indirekter Börsennotierungen gegründet werden und Unternehmen in der Volksrepublik China direkt oder indirekt kontrollieren, können sich äußerst ungünstig auf das Geschäft der ZhongDe Group auswirken.
- Die SAFE (State Administration of Foreign Exchange) Regularien betreffend Investitionen chinesischer Staatsbürger im Ausland können sich nachteilig auf die Geschäftsergebnissse und Finanzierungsmöglichkeiten der Zhong DE Group auswirken.

- Die wirtschaftliche Instabilität in China könnte das Geschäft der ZhongDe Group beeinträchtigen.
- Eine Destabilisierung des politischen Systems könnte die wirtschaftliche Liberalisierung Chinas gefährden.
- Das wirtschaftliche Wachstum in China könnte durch Konflikte mit anderen Ländern oder terroristische Anschläge beeinträchtigt werden.
- Schwankungen der Weltwirtschaft könnten sich in erheblichem Maße negativ auf die Wirtschaft Chinas auswirken.
- Die Infrastruktur in China ist rückständig, was die geschäftliche Tätigkeit der ZhongDe Group schädigen könnte.
- Epidemien oder das Ausbrechen ansteckender Krankheiten, wie z. B. der Vogelgrippe oder SARS (Severe Acute Respiratory Syndrome), könnten einen beträchtlichen sowie nachteiligen Einfluss auf die chinesische Wirtschaft haben.
- Das Rechtssystem der Volksrepublik China und die regionalen Steuergesetze beinhalten Unklarheiten und Widersprüche.
- Die mangelnde Unabhängigkeit der Richter und deren begrenzte Erfahrung, die Schwierigkeit, Gerichtsurteile durchzusetzen, sowie die Ermessensfreiheit der Regierung bei der Durchsetzung von Ansprüchen könnten die ZhongDe Group daran hindern, bei Gerichtsverfahren effektive Rechtsmittel in Anspruch nehmen zu können.
- Es ist schwierig, Urteile in China anerkennen und vollstrecken zu lassen.
- Es könnten der ausländischen Kontrolle von Unternehmen der Volksrepublik China Beschränkungen auferlegt werden.
- Der steuerliche Status der ZhongDe Group oder die Steuergesetze bzw. deren Auslegung könnten sich ändern.

Risiken bzgl. des Angebots

- Es könnte nicht zum Börsenhandel mit den Aktien der Gesellschaft kommen.
- Es könnte zu einem schwankungsanfälligen Börsenkurs der Aktien kommen.
- Der Verkauf von Aktien durch die Altaktionäre könnte sich auf den Aktienkurs auswirken.
- Interessenkonflikte mit den Altaktionären.
- Das Eingehen von Leerverkäufen vor Lieferung ist mit Risiken behaftet.

RISK FACTORS

Investors should carefully read and consider the risks described below and other information included in this Prospectus before deciding to purchase the shares of the Company (''ZhongDe Waste Technology AG'' or the ''Company'', and together with its direct and indirect subsidiaries, the ''ZhongDe Group''). The occurrence of these risks, alone or in connection with other circumstances, may materially and adversely affect the business of ZhongDe Group and have material adverse effects upon the business, financial condition and results of operations of ZhongDe Group. The market price of the shares could fall as a result of the occurrence of any of these risks, and investors may lose all or part of their investment. Additional risks and uncertainties of which the Company is currently not aware could also materially adversely affect the business of ZhongDe Group and could have material adverse effects on the business, financial condition, and results of operations of the ZhongDe Group. The order in which the following risk factors are presented does not reflect the likelihood of their occurrence, nor the extent or significance of the individual risks.

Risks Related to ZhongDe Group's Business

ZhongDe Group's success depends upon its ability continuously to secure new orders for the construction of waste incinerators and its results of operation are subject to fluctuations.

ZhongDe Group's business focuses on the designing, manufacture and installation of customized waste incinerators for waste treatment plants or projects in the People's Republic of China (**''PRC''**). As ZhongDe Group does not earn revenues from the operation of waste incineration plants, most of its customers are one-time customers and thus most of the revenues are non-recurring revenues, ZhongDe Group depends on continually and consistently securing orders in connection with new waste incinerator projects. In addition, the sales cycles for its products typically involve lengthy marketing and procurement processes. After ZhongDe Group is awarded a contract, delays in the construction of the waste incinerator plant may require that revenues associated with such a contract be recognized later than originally anticipated. Such delays may cause material fluctuations in ZhongDe Group's results of operations, and ZhongDe Group has experienced and expects to experience significant fluctuations in its quarterly results of operations.

The timing of customer orders may be unpredictable as a result of economic cycles, available budgets, securing of permits and licenses or subsidies granted to customers for the installation of waste management systems. An irregular and unpredictable inflow of customer orders may lead to an over- or under-utilization of ZhongDe Group's production capacities. The current production capacity is about 3-4 incinerators per month. Although the Company plans to set up a second production base in Beijing, its capacities still may not be sufficient to cope with incoming customers orders. Such over-utilization of the Company's capacities may lead to delays, and customers may demand penalties for breach of contract, claim for damages suffered through delayed delivery, or cancel their orders. On the other hand, the absence of incoming customer orders for a specific time period could lead to an under-utilization of the Company's capacities.

If ZhongDe Group fails continuously to attract new orders for incinerators to meet its production capabilities, or new orders do not correspond to its current production capacities, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The national budget for waste management may be reduced or ZhongDe Group's relations with public entities may deteriorate.

Public entities responsible for the waste management in PRC cities are directly or indirectly funded by the national budget. In the event that the PRC government reduces the overall budget allocation for disposal of municipal and medical waste, or the budget for incineration systems is reduced or eliminated because incineration is no longer seen as a suitable technique for the treatment of municipal or medical waste or for any other reason, the demand for ZhongDe Group's municipal waste incinerators could be far lower than expected. Additionally, the

intended initial public offering resulting in a shareholder structure composed of international rather than domestic investors may weaken ZhongDe Group's position and standing vis-à-vis Chinese authorities and/or customers. A decrease of the public budget for waste management or deterioration of ZhongDe Group's relations to the respective public entities could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Sales of medical waste incinerators depend significantly upon subsidies granted by the PRC government to the customers of the ZhongDe Group.

In 2006, ZhongDe Group generated about 80% of its revenues from the sale of medical waste incinerators. Apart from general measures for the promotion of environmentally friendly waste disposal systems or subsidies granted by the PRC government, the high demand for incinerators in the healthcare sector is particularly driven by subsidies granted to establish 300 waste disposal centers by the PRC government. In certain western regions in China up to 70% of the financing of medical waste disposal systems comes from public funding. If the PRC government decides to cease or to decrease such subsidies, hospitals and other healthcare entities will become reluctant to place new orders for incinerators and/or may demand lower prices. Such an event could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Government procurement bodies may favor domestically-owned suppliers.

Purchasers of ZhongDe Group's waste incinerators, or parties to future BOT agreements with ZhongDe Group, may be government bodies or entities which are subject to the PRC Government Procurement Law. This law provides, in general, that domestic products and services should be favored in government procurement, except where the products and services cannot be procured under commercially reasonable terms or at all within China, the products or services are used outside China, or under other circumstances as set out in relevant regulations. Although foreign-invested companies such as ZhongDe Group should be considered as ''domestic'' for these purposes, it is possible that future legislation or implementation policies may limit the definition of domestic suppliers to domestically-owned companies. Such an event could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group's profitability may decline as a result of an increase in costs or a decline in prices.

ZhongDe Group has been profitable in the past by selling its products at high margins. Based on its combined consolidated financial information, the ratio of direct costs or costs of goods sold to revenues has decreased from approximately 37% in 2004 to approximately 29% in 2006.

In particular, the cost of goods sold might significantly increase as a result of several factors, such as a substantial increase in private sector wages, increases in the costs of raw materials and supplies such as steel, electronic equipment, or auxiliary materials, or as a result of increased costs for water or energy required in the production. Furthermore, ZhongDe Group may be unable to react in a timely manner to significant cost increases, as cost estimates for the equipment are made based on costs indicators available at the time of preparing the cost estimates, and there might be a time lapse of up to or more than six months between the submission of a proposal and the final commissioning of the waste incinerator. Accordingly, any fluctuations in actual costs and ZhongDe Group's initial cost estimates might harm the profitability.

In addition, revenues from sales might decline if ZhongDe Group is forced to cut its prices or to give rebates to customers, e.g. due to increasing competitive pressure or falling demand for its products. Such an event could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The intended construction of waste incineration plants bears risks.

ZhongDe Group intends to expand its business activities to the construction of waste incineration plants in its entirety, either in conjunction with so-called BT (''Build'' — ''Transfer'') projects or BOT (''Build — Own — Transfer'') projects, where ZhongDe Group will also operate the plant. In all such cases, ZhongDe Group will be in charge of the whole project management associated with the construction of the plant, including the engagement of sub-contractors and construction firms. As it will be responsible for the installation of the waste incineration plant in its entirety, ZhongDe Group will also bear the risk for delayed delivery or construction by suppliers and sub-contractors. Additionally, such projects are more capital intensive and will require more personnel resources and time effort. In the event that ZhongDe Group fails to manage these challenges successfully, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group's future strategy to expand into the BOT business may fail.

ZhongDe Group has entered into non-binding letters of intent relating to six BOT projects with Chinese public entities. The respective Chinese public entities will, however, issue tender offers through which other companies can also compete for these BOT projects. According to the Company's estimates, the financing costs of these six projects would amount to more than twice the revenues earned by ZhongDe Group in 2006 such that a large portion of the offering proceeds would be used to fund these projects. If competitors submit more attractive counter bids or if ZhongDe Group is otherwise not successful in winning these tender offers, it would have a material adverse effect on the future prospects and future revenues of ZhongDe Group.

Furthermore, if ZhongDe Group intends to operate waste disposal incinerators, as would be the case under a BOT structure, according to the Measures for the Administration of the Franchise of Municipal Public Utilities, it must obtain either an ''A'' or a ''B'' License for the Operation of Environmental Pollution Control Facilities. An ''A'' license covers all solid waste disposal projects, whereas a ''B'' license is for smaller projects involving less than 300 tons of waste per day (t/day). In order to obtain either type of license, the Company must have experience in operating environmental projects. Since ZhongDe Group does not have such operational experience, as currently it is only engaged in manufacturing, it first must obtain a temporary license. ZhongDe Group has applied for a temporary license for ''Operation of Environmental Pollution Control Facilities'', but its approval is still pending. In addition, in order to engage in BOT projects, ZhongDe Group must comply with the Measures for the Administration of the Franchise of Municipal Public Utilities. Under these measures, ZhongDe Group will need to undergo certain procedures, normally, bidding for the project.

In the event that ZhongDe Group fails to win the tenders for the envisioned BOT projects or other attractive BOT projects, or fails to obtain a license for the ''Operation of Environmental Pollution Control Facilities'', this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The future strategy to focus on BOT projects exposes ZhongDe Group to additional finance and operational risks.

BOT projects are very capital intensive. ZhongDe Group will have to construct a waste incineration plant without receiving any direct payment for such a plant. An amortization of the initial investment can be expected at the earliest during the second decade of the concession period, generally consisting of a 2-year construction period and an operating period of between 20 to 25 years. As a result, BOT projects will initially require much capital that has to be financed by ZhongDe Group and the overall profitability of ZhongDe Group may decline.

Other than delays and/or cost increases that might occur during the construction period, returns on the initial investment are generated from proceeds from the operation of waste management facilities during the 20 to 25 year term of operation. During such a long period, risks which can neither be predicted nor evaluated at the beginning of the project might emerge and might jeopardize ZhongDe Group's initial calculations. Although BOT projects typically are provided to customers on the basis of guaranteed minimum quantities of waste and an agreed waste

treatment fee, it cannot be assured that the plant will work profitably during this time period. The profitability of such a plant could be harmed, *inter alia,* by increasing operational costs or maintenance costs, new regulations for the operation of waste management facilities requiring replacement and overhauls, and/or clean-up costs for pollution or natural disasters causing damage to or destruction of the facilities. Moreover, pursuant to ZhongDe Group's planning, a significant portion of the revenues to be generated through the operation of BOT projects shall result from the sale of by-products such as bricks (through the use of slag), steam, hot water, and to some extent in larger projects, electricity. Even though the income from waste disposal fees can be regarded to be relatively constant and predictable, it cannot be ensured that ZhongDe Group will be successful in its sale of bricks and/or other by-products at the estimated quantities and/or prices. Therefore, it cannot be assured that the proceeds to be generated through the operation of the incineration plant will suffice to cover the investment costs and/or generate the expected profits.

In the event that any of these risks associated with the financing and operation of the BOT projects emerge, they could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The production of waste incinerators or other waste disposal facilities might be disrupted.

ZhongDe Group produces its own waste incinerators with its own personnel and at its own manufacturing plant. The success of ZhongDe Group's projects thus depends upon the proper functioning of its production chain. The production could be interrupted as a result of, among others, human error in the operation of machines, power outages, natural disasters, or other incidents that have an impact on the productive availability of machines, material, or manpower. Difficulties encountered in the manufacturing process can reduce production yields or interrupt production, and may make it difficult or impossible for ZhongDe Group to deliver products on time or in a cost-efficient, competitive manner. ZhongDe Group could thus suffer financially in the form of damages and/or lost revenues, which could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The installation of waste incinerators may be delayed due to the failure of customers or third parties properly to construct plant buildings.

ZhongDe Group is a designer and manufacturer of waste incinerators and as such is currently not responsible for constructing the incineration plant itself. The plant building is currently constructed by the customer or a third party. If the customer or the third party in question fails to construct the plant building in a timely manner, or fails to properly prepare the site for the installation of the incinerator, ZhongDe Group may face delays and, even if such delays are not ZhongDe Group's responsibility, it cannot be assured that ZhongDe Group will be compensated for such delays. As a consequence of such delays, ZhongDe Group's production plan could be disrupted and capacities allocated to the manufacturing of other products may not be available. The occurrence of such delays could thus have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group may not be able to maintain and/or obtain necessary approvals and licenses from PRC authorities to carry out its business or to cope with future regulatory requirements.

ZhongDe Group has obtained the necessary approvals and licenses for the production, installation, and commissioning of waste incinerators as well as their distribution. However, in the future, ZhongDe Group might need further approvals or licenses, and some permits and business licenses are subject to periodic renewal by competent PRC authorities, and the standards of compliance required may change. ZhongDe Group is subject to the supervision of several authorities, each of which may be able to revoke or refuse to grant and/or to extend permits, licenses, or approvals that are required for the ZhongDe Group in the conduct of its business. Future changes in legal environmental standards, for example, may result in more

elaborate requirements and stricter enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments, and heightened responsibility for companies as well as their directors and employees. If any of the activities carried out by ZhongDe Group fails to meet the requirements of current rules or regulations and ZhongDe Group is held liable or responsible, or if ZhongDe Group fails to obtain the grant or renewal of the required permits, licenses, and approvals, such failure could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Customers of ZhongDe Group are subject to environmental laws and regulations and may demand recourse or compensation in the event of breaches of such laws or regulations.

The customers of ZhongDe Group, which currently are almost entirely based in the PRC, are required to comply with particular Chinese environmental and safety laws and regulations. Such regulations cover a wide variety of matters, including, for example, prevention of waste and pollution, protection of the environment, labor regulations, and worker safety. Those laws and regulations might be subject to changes and might become stricter in the course of time. ZhongDe Group must ensure that its waste incinerators will comply with such environmental laws and regulations. Though these laws and regulations may not apply to ZhongDe Group directly, there can be no assurances that customers of ZhongDe Group or the relevant authorities will not seek recourse or compensation payments from ZhongDe Group in the event of non-compliance with such laws and regulations.

In addition, as ZhongDe Group relies to a certain extent upon its reputation and word of mouth advertising, the reputation of ZhongDe Group could be harmed by the occurrence of such an event. Therefore, breaches of environmental or safety laws and regulations by customers operating ZhongDe Group's waste incinerators could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Future legislation on environmental protection and solid waste disposal could adversely affect ZhongDe Group's business.

The degree to which the Chinese government regulates the solid waste disposal industry is a potential key factor to the business in the future. Due to widespread environmental damage in China, environmental protection has been given a high level of priority on the Chinese government's agenda in recent years. The official concerns are reflected in the 11th Five-Year Plan (2006-10) which calls for a 20% reduction in energy consumption per unit of GDP by 2010. It is, therefore, to be expected that the Chinese government will promulgate additional laws and regulations in the field of environmental protection in general, and in the area of solid waste disposal in particular. Depending on the potential inability of ZhongDe Group's products to comply with such laws and regulations future legislation could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group is subject to the default risks of its customers and the enforcement of claims against its customers could be particularly difficult as a result of the agreed payment terms and as most of its customers are public entities.

ZhongDe Group is subject to the default risks of its customers and dependent on regular payments of its customers. Credit terms are stipulated in the respective contracts with the customer. The payment terms in contracts entered into by ZhongDe Group with its customers typically provide for small prepayment amounts (10% - 30%) whereas the remaining amount will only be paid within at least twelve months after delivery of the incinerator. The ability of ZhongDe Group to receive payment promptly depends on the creditworthiness of its customers. There can be no assurance that ZhongDe Group will be able to collect all or any part of its trade receivables within the credit terms stipulated in its project contracts. Moreover, ZhongDe Group received many orders from public entities in the past and expects to receive additional orders. If a public entity refuses payment for any reason it could be more difficult and time consuming for ZhongDe Group to enforce such claim through legal action. If ZhongDe Group fails to properly

collect its trade receivables, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Competition could intensify because of the entry of domestic or international competitors into the market.

As a result of the rising awareness of the need for environmental friendly waste disposal in China, new competitors could emerge in the market. ZhongDe Group has managed to achieve a strong position in the field of solid waste incineration for small and mid-sized incinerators compared to most of its current PRC domestic competitors. However, ZhongDe Group's success in competition depends upon its sustainable ability to distinguish its own products from those of its competitors. In this regard, the Several Opinions on the Revitalization of Equipment Manufacturing, issued by the PRC State Council on 13 February 2006, provide that, by 2010, China will develop a group of competitive companies capable of manufacturing major machine equipment including environmental protection equipment for treatment of solid waste. Thus, the Company may be forced to compete with private and state-supported domestic Chinese companies. If domestic manufacturers introduce substantially similar products to those of ZhongDe Group, it cannot be ruled out that they could manage to win market share from the ZhongDe Group or that ZhongDe Group may be forced to decrease its prices to remain competitive.

The accession of the PRC to the World Trade Organization on 11 December 2001 has led to a relaxation of import restrictions and a lowering of import tariffs on certain kinds of goods and services. The opening of the PRC market to foreign importers may bring about increased foreign competition. As a result, new international competitors from countries such as Japan, the USA or European countries may enter the market and may be able to offer more advanced technologies. This will be particularly true with respect to ZhongDe Group's plans to internationalize its business and for ZhongDe Group's strategy to supply in the future larger waste incinerators with capacities above 600 t/day. Further, according to the terms of China's accession to the WTO, China has agreed to allow foreign-invested companies to provide solid waste disposal in the form of joint ventures only. In its 2006 Catalogue for the Guidance of Foreign Investment, the Chinese government has provided that it will permit wholly foreign invested enterprises such as ZhongDe Group to provide services related to the construction and operation of environmental pollution treatment facilities. However, this policy may change as the domestic industry develops.

Therefore, no assurance can be made that ZhongDe Group will continue to be successful in maintaining its position against current and possible future competition. Any impairment of the competitive position of ZhongDe Group for the above reasons could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Rapid technological change or stricter environmental standards could be disadvantageous for ZhongDe Group.

Solid waste management in China is at an early stage compared to countries like the U.S., Japan or most of the member states of the European Economic Area (**"EEA"**). However, the market could experience rapid technological change with the frequent introduction of new and improved technologies and services associated with solid waste management. These might result in demand for techniques which are new in China, but which are already common in other countries. As a result, ZhongDe Group might face short product life cycles, as well as new and constantly changing customer requirements. ZhongDe Group cannot assure that it will be always in the position to keep pace with such rapid technological developments.

It can be expected that rapid technological developments will be followed by or might occur as a result of stricter environmental standards, e.g. in respect of emission limits. Although the respective indicators (including dioxins) of ZhongDe Group's incinerators were lower than those required by the national PRC standard and for dioxins with respect to EU standards following the testing of pyrolytic incinerators in 2004, it cannot be ruled out that ZhongDe Group might be unable to comply with amended and more stringent mandatory standards on an ongoing basis.

There is a particular risk that competitors will introduce new incinerators or other technologies allowing for more effective waste disposal or at cheaper prices, or may secure exclusive rights to more advanced technologies. In such an event ZhongDe Group's waste disposal technology might increasingly become obsolete, or customers might demand more efficient incineration techniques, e.g. the possibility to generate electricity from the incineration process. ZhongDe Group has not yet constructed such a waste-to-energy incinerator.

Therefore, a decisive factor for the success of ZhongDe Group is the timely identification of new developments of importance to the market for waste management techniques, so as to ensure that appropriate technological developments may be exploited for its own production, or that production can otherwise keep pace with technological developments. If such processes based on waste management technology should bring considerable cost and/or efficiency advantages, and if ZhongDe Group should fail to adapt to such a development in a timely manner, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Substantial investments in research and development may not necessarily lead to timely improvements in technology and ZhongDe Group may not have sufficient resources to make the necessary investments in order to remain competitive.

ZhongDe Group plans to invest approximately EUR 2 million in the next two years in the development of an aviation waste pyrolytic incinerator and in the development of a consecutive pyrolytic incineration technology for mid-sized incinerators with a waste disposal capacity of 200 t/day. In addition, each successive improvement in waste disposal techniques generally involves an increase in complexity that may enhance the required level of investment and demand more development effort.

ZhongDe Group may devote research and development resources to technologies or products that turn out to be unsuccessful. It cannot be assured that ZhongDe Group's above investments or further investments which will be made by ZhongDe Group in the future will lead to competitive products or technologies or that ZhongDe Group will have sufficient resources to maintain the level of investment in research and development that is required to remain competitive in the future. Any such failures could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group depends on relationships with certain suppliers for components and materials to construct its waste incinerators.

Most of the sourced materials and components needed for the production of ZhongDe Group's incinerators are available throughout China. However, it cannot be assured that ZhongDe Group will be able to obtain at any time sufficient quantities of steel and other raw materials, certain components such as bag filters, de- acidification systems, electronic equipment or generators and other materials required in its production. ZhongDe Group may be faced with increased costs, supply interruptions, and difficulties in obtaining certain components, resulting in delayed sales, lost orders, or cancellation of orders already received. Materials and components for the current product generation or new products developed by ZhongDe Group may not be available in sufficient quantities or due time to satisfy the need due to shortages of these materials and components. Any supply interruption, shortage, or delayed delivery could harm the reputation of ZhongDe Group and its relationships with its customers, and may result in liabilities to customers or lost sales opportunities, which could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

As the entire management is primarily located in China, the Supervisory Board may have difficulties to adequately supervise the Management Board.

Substantially all of ZhongDe Group's assets are located in China, and all of its senior management members and directors reside there. The Company is a holding company without any significant operational business of its own. The members of the Supervisory Board reside in Germany and they are responsible for the supervision of the Company's Management Board.

However, it may be more difficult for them to fulfil their supervisory duties arising from the German Stock Corporation Act (*Aktiengesetz*) vis-à-vis the management residing in China, e.g. according to Section 111 of the German Stock Corporation Act and/or to receive the reports required from the Management Board, e.g. according to Section 90 of the German Stock Corporation Act. It may in particular be difficult for the Supervisory Board to receive at any time all documents that are required to inspect and examine the books and the records of the Company.

ZhongDe Group faces risks associated with the management of its current and future growth and has no experience in complying with German legal requirements.

ZhongDe Group has grown considerably in recent years and intends to further advance such growth. This growth involves expanding the personnel structure in qualitative and quantitative terms, further developing organizational structures, and creating certain technical resources. This applies in particular to the areas of administration, finances and accounting, planning and controlling, project management as well as investor relations and the further development of the risk management system, and the composition of an efficient organizational structure.

In addition, ZhongDe Group plans to construct a second production base in Beijing, which will entail financial and organizational burdens associated with the increased amount of equipment and personnel. There is a risk that its management, which has so far only managed a single manufacturing site, will have difficulty managing multiple sites or will fail to satisfactorily integrate new personnel, operations, technology, products and services into its operations. If the organizational and personnel structures as well as technical resources are not adjusted to meet the aforementioned requirements, or if there is a delay in doing so, this could result in flawed development or in business-related or administrative lapses that could create a considerable financial burden for ZhongDe Group. Therefore, ZhongDe Group cannot rule out the possibility that other important tasks may be neglected if management resources are tied up in connection with the aforementioned areas of responsibility. Any such event could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group has no experience in complying with German legal requirements. None of the members of the Management Board of the Company speaks German or English. ZhongDe Group has until recently operated as a private Chinese company and maintains a small finance and accounting staff. ZhongDe Group is, therefore, not used to dealing with increased legal, accounting, transparency and administrative requirements imposed on a publicly listed company in Germany. The publicity and reporting obligations resulting from the offering will put increased demands on the compliance, finance and accounting departments, including the shift from the application of Chinese generally accepted accounting principles to internationally accepted accounting standards. As a result of the initial public offering ZhongDe Group will be required to prepare its consolidated financial statements in accordance with IFRS accounting rules and the Company has to report quarterly on its IFRS interim financial statements and must prepare its individual financial statements (*Einzelabschlüsse*) in accordance with German generally accepted accounting principles, i.e. pursuant to the German Commercial Code (*Handelsgesetzbuch*). If ZhongDe Group in the future fails to successfully comply with such obligations or fails to issue timely and accurate financial reports, this could have a material adverse effect on the share price and the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group relies on certain key personnel and on the availability of qualified engineers, technicians and sales personnel.

The success of ZhongDe Group depends upon its management and specialized personnel in certain key positions. Many of them possess extensive experience and would be difficult to replace. Competition over specialist personnel is intense in the waste management sector, and well-educated specialists in this sector are difficult to find in China. ZhongDe Group may not succeed in attracting newly qualified employees such as qualified engineers, technicians and sales people experienced in the waste management market. A migration of managerial and other specialist personnel away from ZhongDe Group to competitors might also place the competitors

in a position to exploit the ZhongDe Group's know-how. In the event that a member of the senior management team leaves and joins a competitor or forms a competing company, they may compete with ZhongDe Group for relationships with public and private customers, business partners, and other key professionals and staff members of ZhongDe Group. Although each member of the senior management has signed a confidentiality and non-competition agreement in connection with his or her employment, and such provisions are integrated into the terms of its employment, ZhongDe Group cannot make assurances that it will be successful in enforcing these provisions in the event of a dispute between the ZhongDe Group and any key employee.

The loss of any member of the management team could have a material adverse effect on ZhongDe Group's business. This is in particular true for Mr. Chen Zefeng, the chairman of the Management Board. Other than its technical skills and know-how related to the waste management industry, ZhongDe Group is highly dependent on its well-established sales network which is indispensable for successfully doing business in China. If ZhongDe Group loses managerial or technically specialized personnel holding key positions, or fails to attract suitable personnel in the future, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group may have a conflict of interest with its chairman of the Management Board and the Company's major shareholder.

Mr. Chen Zefeng, the major shareholder and chairman of the Management Board of the Company, is also the non-executive chairman of the board of directors and the majority shareholder of Fujian Fengquan Environmental Protection Group Co., Ltd., a company that is among others also engaged in the waste management sector and invested in two waste incineration projects. Although the Supervisory Board has granted its approval in accordance with Section 88 para. 1 of the German Stock Corporation Act (*Aktiengesetz*) to Mr. Chen Zefeng to remain non-executive chairman of Fujian Fengquan Environmental Protection Group Ltd., these other activities and investments of Mr. Chen Zefeng may lead to a conflict of interest between Mr. Chen Zefeng's duties towards ZhongDe Group, on the one hand and Fujian Fengquan Environmental Protection Group Co., Ltd. on the other hand. In particular, Mr. Chen Zefeng may not devote sufficient time to the development of ZhongDe Group or in the worst case could enter into competition with ZhongDe Group. Any such conflict of interest could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

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

Currently, ZhongDe Group has the exclusive right to use three patented inventions and seven patented utility models registered in China, all of which are legally owned by the chairman of the Management Board and the Company's major shareholder, Mr. Chen Zefeng. Mr. Chen Zefeng has entered into a transfer agreement to transfer the patent rights to ZhongDe Group and has already filed an application for such transfer. However, the registration of such transfer is still pending. Until the registration of the transfer has taken effect, ZhongDe Group will rely on the license agreement. ZhongDe Group has also applied for the registration of such license agreement with the Fujian Intellectual Property Office, but its registration is still pending. The registration is not a precondition for the validity of the patent license agreement. However, if Mr. Chen Zefeng grants a second license and this license is registered the second license would prevail.

Moreover, if Mr. Chen Zefeng or ZhongDe Group is unable to successfully defend its intellectual property rights its competitiveness may be adversely affected. In addition, asserting or defending its intellectual property rights could give rise to substantial costs and otherwise commit its management resources to a high degree. Measures taken by the ZhongDe Group may also not be sufficient to prevent the infringement of its intellectual property. ZhongDe Group might not be able to detect any such unauthorized use in the first place or might not undertake any suitable steps to enforce its intellectual property rights, in particular as implementation and enforcement of PRC intellectual property-related laws has historically been deficient and

ineffective. This could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group might infringe upon the intellectual property rights of third parties.

ZhongDe Group cannot exclude with certainty that it may infringe upon the intellectual property rights of third parties in the conduct of its business. In addition, it cannot be ruled out that third parties may be granted intellectual property rights that would restrict the ZhongDe Group in the conduct of its business operations.

Furthermore, ZhongDe Group could find itself involved in litigation concerning the alleged infringement of the intellectual property rights of third parties. Such disputes could last for a long time and commit considerable personnel and financial resources. In the event that ZhongDe Group loses a legal dispute ZhongDe Group could be ordered to pay substantial damages and fines. This could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group may be unsuccessful in establishing a trademark or brand identifying its products or could lose the right to use its trademark.

ZhongDe Group uses the trademark ''Fengquan'' as a device mark. ZhongDe Group's market awareness and success in business development depends to a certain extent on the ''Fengquan'' brand. However, due to the fact that the brand ''Fengquan'' is used by several other companies in different business sectors, which are also controlled by Mr. Chen Zefeng, it cannot be assured that ZhongDe Group will succeed in holding its brand permanently. This also entails the risk that ZhongDe Group's reputation may suffer if the reputation of the ''Fengquan'' brand is adversely affected by such other companies. Further, ZhongDe Group is not the legal owner of the above trademarks and/or brands and is merely entitled to use the trademarks on the basis of a license agreement with Fujian Fengquan Environmental Protection Group Co., Ltd., the owner of the trademark. ZhongDe Group has applied for the registration of the license agreement with the State Administration of Industry and Commerce, as required by Chinese regulations, but its registration is still pending. Although registration is not a precondition for the validity of the trademark license agreement, if Fujian Fengquan Environmental Protection Group Co., Ltd. grants a second license and the license is registered the second license would prevail. Fujian Fengquan Environmental Protection Group Co., Ltd. has entered into a transfer agreement to transfer the trademark right to ZhongDe Group and has already filed an application for such transfer. However, the registration of such transfer is still pending. Until the registration of the transfer has taken effect, ZhongDe Group will rely on the license agreement. If ZhongDe Group loses its right to use the brand because the license agreement is cancelled or becomes invalid due to any other reason, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Undetected product defects may lead to increased costs and exposure to liability claims, and impair the market acceptance of ZhongDe Group's products and technologies.

The products of ZhongDe Group may contain defects that were not detected during initial construction. As a result, when problems occur in a waste disposal system, it may be difficult to identify the exact cause of these problems. It is not possible to determine whether, in the future, ZhongDe Group will incur warranty costs or be subject to liability claims or litigation for damages related to product defects. If litigation were to arise, regardless of its outcome, it could result in substantial costs to the ZhongDe Group, significantly diverting the efforts of its technical and management personnel, and disrupt or otherwise severely impact the relationships with current and potential customers. ZhongDe Group does not maintain product liability insurance.

In addition, if any products fail to meet specifications or have reliability, quality or compatibility problems, the reputation of ZhongDe Group could be significantly damaged, and customers might be reluctant to purchase its products, which could result in a decline in sales, an increase

in product returns or warranty costs, a loss of existing customers, and/or the failure to attract new customers.

ZhongDe Group may incur substantial costs in remedying defects or errors, including material inventory write-downs. This could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group may have insufficient insurance to cover its potential risks.

ZhongDe Group has executed a property insurance policy for its machinery and equipment. However, further uninsured risks might emerge, e.g. during the installation, testing and commissioning of incinerators at the customer's site or through damage that occurs during the transportation of manufactured devices. Additionally, natural disasters and/or other events outside the control of ZhongDe Group could result in substantial losses and the inability to repair damages in a timely manner or at all, causing significant harm to ZhongDe Group's operations and profitability. Furthermore, ZhongDe Group may become subject to liabilities for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs or other reasons. The occurrence of such an event could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The revenues of ZhongDe Group are denominated in RMB and a change in foreign currency exchange rates could be financially disadvantageous for ZhongDe Group and may have negative impact on dividends to be distributed to the Company's shareholders.

The Company's combined consolidated financial statements are prepared in EUR and ZhongDe Group may use foreign currencies to purchase imported supply goods and for the Company to pay dividends to its shareholders. While the revenues of ZhongDe Group are generated almost exclusively in RMB, ZhongDe Group has incurred expenditures and expenses denominated in EUR which are expected to grow. Therefore, an increase in the value of the EUR against the RMB could lead to an increase in ZhongDe Group's overall expenditures that would not be offset by any corresponding increase in income. Furthermore, such increase of the EUR against the RMB would also result in lower amounts of dividends to be paid out in EUR. Under PRC foreign exchange rules and regulations, payments of current account items, including profit distributions and operation-related expenditures, may be made in foreign currencies without prior approval but are subject to procedural requirements. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by and/or registered with the State Administration of Foreign Exchange (**"SAFE"**), and repayment of loan principal, distribution of return on direct capital investment and investments in negotiable instruments are also subject to restrictions. There can be no assurance that ZhongDe Group will be able to meet all of its foreign currency obligations or to remit profits out of China. As a result of a possible internationalization of its business, it cannot be ruled out that ZhongDe Group will be exposed to increased exchange rate risks, and furthermore, be exposed to related currency risks. The materialization of these risks could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

ZhongDe Group may have difficulty raising additional funds.

ZhongDe Group may require additional cash in the future. The future capital needs will depend, *inter alia,* upon finance costs for the operation of future BOT projects, capital expenditures for additional BOT projects, costs to build-up international sales offices or further production bases in the PRC, and the amount of resources devoted to research and development or possible future acquisitions.

ZhongDe Group cannot be certain of its future financing needs or that suitable financing will be available in the required amounts or on acceptable terms. ZhongDe Group's future capital needs and its business plans may require ZhongDe Group to issue additional equity, bonds or obtain a credit facility in the future. If additional equity or equity-linked securities related to the Company are issued, this may result in the dilution of existing shareholders' holdings.

The incurrence of indebtedness would result in increased debt service obligations further resulting in operating and financing covenants that would restrict ZhongDe Group operations or the Company's ability to pay dividends to shareholders.

ZhongDe Group may be required to make additional payments for social insurance contributions and housing funds.

According to PRC law, ZhongDe Group is, among others, required to pay social insurance contributions and housing funds to their employees. ZhongDe Group has recently started to make these payments, but cannot exclude that additional payments might be requested for the past. ZhongDe Group was not obliged to make any accruals and has, therefore, not made any accruals relating to a possible claim for additional payments. The Company believes that such claim would not exceed TEUR 500. In the event that a claim for additional payments of social insurance contributions and housing funds would be successfully made, such claim would not be covered by accruals. This could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The Company is a holding company the liquidity of which depends upon having access to the liquid funds of its operating subsidiary located in China.

The Company is a holding company without any significant operating business of its own. Substantially all assets are located in China, and all members of the senior management reside in China. Current PRC regulations permit the payment of dividends only out of accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In addition, a subsidiary in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve fund until such reserves reaches 50% of its registered capital, and subsidiaries may be required to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of the board. These reserves are not distributable as cash dividends. Furthermore, if FengQuan, as a PRC subsidiary of the ZhongDe Group, incurs additional debt on its own behalf in the future, the instruments governing the debt may restrict FengQuan's ability to pay dividends or make other payments to ZhongDe Group.

Apart from raising debt and new equity, the Company's liquidity primarily depends on dividends and other distributions paid by its subsidiaries. Should the subsidiaries of the Company be or become restricted to and/or legally prohibited from and/or unable to pay dividends or other distributions outside of China this could have a material adverse effect on the financial condition and results of operations of the Company.

PRC regulations pertaining to loans and direct investments by holding companies to PRC entities may delay or prevent ZhongDe Group from using the proceeds of this offering.

In utilizing the proceeds of this offering to finance ZhongDe Group's business, the Company as a holding company may make loans or additional capital contributions to FengQuan as the operating subsidiary in China. Any loans to a PRC subsidiary are subject to PRC regulations and approvals. Therefore, loans by the Company to FengQuan must be within approval limits that satisfy its approval documentation and PRC debt to equity ratio requirements. Further such loans have to be registered with PRC State Administration of Foreign Exchange, or SAFE, or its local counterpart. Furthermore, if the Company finances FengQuan by additional capital contributions, the amount of these capital contributions must first be approved by the competent government authority. It cannot be assured that ZhongDe Group will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by the Company to FengQuan. If ZhongDe Group fails to receive such registrations or approvals, the ability to use the proceeds of this offering and its ability to fund and expand the operational business in China may be negatively affected, which could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Risks Related to the Political, Social and Legal Environment of the People's Republic of China

General risks relating to business operations in emerging markets.

The entire operational business of ZhongDe Group is conducted in China. According to the World Bank, China is classified as one of the five biggest emerging markets together with India, Indonesia, Brazil and Russia (*Source: World Bank Annual Report date 31 December 2005*). Investors should thus be aware that ZhongDe Group's operations are subject to greater risks than operations in more developed markets, including significant legal, economic and political risks. Moreover, emerging economies are subject to rapid change and the information set out herein may therefore become outdated quickly. Investments in emerging markets or in companies that operate in an emerging market are generally exposed to risks and speculation, and are generally, only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisors before making an investment.

New PRC legislation on offshore special purpose vehicles ("SPV") which are formed by Chinese legal entities and/or individuals for the purpose of indirect listings and that control PRC companies directly or indirectly may have a material adverse effect on ZhongDe Group's business.

On 8 August 2006, six Chinese regulatory agencies, including the China Securities and Regulatory Commission (**"CSRC"**), promulgated the *Provisions for the Acquisitions of Domestic Enterprises by Foreign Investors* (**"M&A Provisions"**) which took effect on 8 September 2006. The M&A Provisions provide, among others, that an offshore special purpose vehicle (**"SPV"**) which is formed by Chinese legal entities and/or individuals for indirect listings and that control directly or indirectly Chinese companies must obtain the approval of the CSRC prior to the listing and trading of the securities of such SPVs on an overseas stock exchange. On 21 September 2006, the CSRC published on its official website a notice specifying the documents and materials required to be submitted to it by SPVs seeking CSRC approval of its overseas listings. A number of additional requirements have to be fulfilled in the course of an initial public offering, the violation of which may lead to regulatory actions or other sanctions from part of the CSRC or other Chinese regulatory agencies. ZhongDe Group has been advised by its Chinese legal counsel that the M&A Provisions do neither apply to the direct transfer of the shares in FengQuan into Chung Hua Holding or its indirect transfer into the Company nor to the initial public offering of the Company's shares, because ZhongDe Group completed the first step of the corporate restructuring by means of the transfer of the entire share capital of FengQuan into Chung Hua Holding before the M&A Provisions came into effect. However, it cannot be excluded with ultimate certainty that CSRC will take an opposite view and require respective approvals. If an approval is required and as long as such approval has not been granted, CSRC or another competent government authority could prevent profits from being distributed by FengQuan to its parent company and/or loans from being granted by the Company to FengQuan. Such measures could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

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

In October 2005, SAFE (State Administration of Foreigns Exchange) issued a regulation regarding offshore investments by PRC residents, known as SAFE Notice 75. It requires PRC residents to register with and receive approval from the SAFE in connection with certain offshore investment activities. Since certain of the Company's direct or indirect shareholders are PRC residents, ZhongDe Group is affected by the registration requirements imposed by the SAFE Notice 75. Such shareholders must amend its SAFE registration under certain circumstances, including upon any further transfer of equity interests as well as any material change in the capital of the offshore company. In connection with the recent corporate restructuring of ZhongDe Group the Company's majority shareholder Mr. Chen Zefeng has made the required

SAFE filings but failed to make one of the filings timely. In addition, each of the Company's direct or indirect PRC shareholders is required to comply with the registration procedures set out in SAFE Notice 75, or to make additional amendments to its SAFE registration, as the case may be, within 30 days of any changes in such PRC shareholder's holdings in the Company's shares, including changes as a result of the corporate restructuring and of this offering. The failure or inability of any of the Company's direct or indirect shareholders, whose actions can not be controlled by the Company, to comply with the registration procedures set out in SAFE Notice 75 could subject FengQuan to fines and legal sanctions, restrict the Company's intended investments in FengQuan, or limit FengQuan's ability to make distributions or pay dividends to ZhongDe Group and, thus, could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Economic instability in China could adversely affect ZhongDe Group's business.

Chinese economic reform has, by and large, been an economic success. However, the relative success in the past is, by itself, no compelling indication of a stable development of the economy in the future. As a result of the ongoing rapid changes in China, the PRC economy faces a multitude of risks, *inter alia* significant declines in gross domestic product, hyperinflation, an unstable currency, high government debt relative to gross domestic product, a weak banking system providing limited liquidity to domestic enterprises; and rising unemployment due to further privatization of State-Owned Enterprises (**''SOE''**); rising costs triggered by environmental damages — notably air pollution, soil erosion, and the steady fall of the water table. The occurrence of one or several of these risk factors could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

A destabilization of the political system could threaten China's economic liberalization.

While the PRC economy has changed fundamentally from a centrally planned system to a more market-oriented economy during the last three decades, the political system in China still operates under communist control. Although political conditions in China seem to be generally stable, changes may occur in its political system which might affect the ownership or operation of ZhongDe Group's interests, including, *inter alia,* changes in government as well as in legislative and regulatory regimes.

A material change in China's economic liberalization triggered by political disruptions or by other means could impact the country's economic growth in general and the ZhongDe Group's business in particular. Social instability could increase public support for renewed centralized authority, and nationalism or violence and could lead to a tougher stance by the Chinese government on foreign investors operating in China. Such a development could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Economic growth in China could be adversely affected by conflicts with other countries or terrorist attacks.

In view of the latest increase in government spending on China's military, fears remain with respect to a military conflict with Taiwan involving the United States. There are also a number of ongoing border disputes between China and neighbouring countries, including India, Pakistan, and Vietnam. Furthermore, China has seen a rise of internal terrorist activities in its mainly Muslim frontier region of Xinjiang. If exacerbated, these internal and external conflicts could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Fluctuations in the global economy could materially and adversely affect the Chinese economy.

The Chinese economy is vulnerable to market downturns and to economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in China or in emerging economies in general could dampen foreign investment in China and businesses could face severe liquidity constraints,

further materially adversely affecting these economies. As a result, disruptions in the development of the global economy could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The infrastructure of China is inadequate, which could disrupt ZhongDe Group's business operations.

The infrastructure in China has not been adequately funded and maintained. Particularly affected are rail and road networks, power generation and transmission systems, communications systems, and building stock. The poor condition of physical infrastructure in China adds costs to doing business and can result in operational disruptions or delays, which could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Health epidemics and outbreaks of contagious diseases, including avian influenza and severe acute respiratory syndrome (SARS) could materially and adversely affect the Chinese economy.

There have been outbreaks of the highly pathogenic avian influenza, or avian flu, in certain regions of Asia and Europe. In 2005 and 2006, there have been reports on the occurrences of avian flu in various parts of China, including some confirmed human cases. A major outbreak of avian flu in the human population could result in a widespread health crisis adversely affecting the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, among certain other countries in Asia, would also have similar adverse effects. ZhongDe Group has not yet adopted any written preventive measures or contingency plans to combat any future outbreaks of avian flu, SARS, or any other epidemic. Since all of ZhongDe Group's operations and substantially all of ZhongDe Group's customers and suppliers are based in Asia, an outbreak of avian flu, SARS or other contagious diseases in China, other places in Asia, or elsewhere, or the perception that such outbreak could occur, as well as the measures taken by the governments of countries affected, could have significant adverse impact on the business, operations and net assets, financial position, and operating results of ZhongDe Group.

The PRC legal system and regional taxation laws contain inherent uncertainties and inconsistencies.

As ZhongDe Group's business is exclusively conducted in China, its operations are governed principally by PRC laws. China is still in the process of developing a comprehensive statutory framework, and its legal system is still considered to be underdeveloped in comparison with legal systems in most western countries. In particular, PRC company law and provisions for the protection of shareholders' rights and access to information are less developed and confer less protection than those applicable to companies incorporated in Germany or other member states of the EEA. The following factors create uncertainty with respect to the ZhongDe Group's business:

- inconsistencies between and among the constitution, national law, government decrees as well as governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and national rules and regulations;
- inconsistent use of terms for different rules by different localities and government departments;
- lack of judicial and administrative guidance on interpreting legislation;
- absence of a solid system of checks and balances between the different parts of the government;
- relative inexperience of judges and courts in interpreting legislation;

- high degree of discretion on the part of governmental authorities, which can result in arbitrary actions such as suspension or termination of licenses or approvals; and relatively untested bankruptcy procedures that might be vulnerable to abuse; and
- differences in the application of norms between different local authorities.

Furthermore, many laws, regulations and legal requirements have only recently been adopted by the central or local governments, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. Depending on the government agency or how an application or a case is presented to such agency, ZhongDe Group may receive less favorable interpretations of law than its competitors. In addition, any litigation in China may be protracted and result in substantial legal costs and diversion of resources and management attention. Similarly, legal uncertainty in China may limit the legal protection available to potential litigants. The occurrence of one or several of these risk factors could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

The judiciary's lack of independence and limited experience and the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent ZhongDe Group from obtaining effective remedies in a court proceeding.

China's judicial system may not be as independent or immune to economic, political and nationalistic influences as judicial systems in European jurisdictions. The court system in China is largely understaffed and under-funded. Since courts are financially dependent on the respective local governments, judges tend to favor the economic interests of the municipalities or provinces and the enterprises located there. The independence of judges is further undermined by the fact that Chinese judges are only appointed for a limited period of time, and may be dismissed during their term of office. Many elder judges have not enjoyed any prior legal education. Courts are often times inexperienced in the area of business law. Not all PRC legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. Enforcement of court orders can, in practice, be very difficult in China. Additionally, court claims are often used in furtherance of political and commercial aims or infighting. The ZhongDe Group might be subjected to such claims and may not be able to receive a fair hearing. Judicial decisions in China can be unpredictable and may not provide effective remedies. These uncertainties also extend to property rights.

Expropriation or nationalization of FengQuan, its assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

There are difficulties in seeking recognition and enforcement of judgments in China.

Substantially all of ZhongDe Group's assets are located in China, and all of its senior management members and directors reside there. The Company is a holding company without any significant operational business of its own. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts of Germany or most other jurisdictions including judgments obtained in relation of claims investors may have with regard to this offering. As a result, it will be difficult or impossible for investors to effect service of process or enforce court judgments against ZhongDe Group or its assets, senior management or directors in China.

Restrictions might be imposed upon foreign control of PRC companies.

As part of China's accession to the WTO in 2001, China undertook to eliminate certain trade-related investment measures and to open up specified industry sectors that had previously been closed to foreign investment. Even though China has lived up to the letter of most of its WTO commitments, foreign investors still encounter barriers in practice as some of the newly enacted or modified laws and regulations are enforced in an inconsistent manner by different authorities. Additionally, there can be no assurance that the Chinese government will not toughen its stance

on foreign investors in other areas not covered by the WTO commitments and that the control of environmental protection companies will not change.

The tax status of ZhongDe Group or tax legislation or its interpretation might change.

The new PRC enterprise income tax law will take effect on 1 January 2008. The tax rules and their interpretation relating to an investment in the ZhongDe Group may be subject to further adverse changes in the future. The applicable tax rates and exemptions may change in the future. Tax holidays and tax breaks referred to in this Prospectus are those currently available and their value depends upon the individual circumstances of investors. Any change in the ZhongDe Group's tax status or in taxation legislation or its interpretation could affect the value of the investments held by the Company, its ability to provide returns to shareholders and/or alter the post-tax returns to shareholders.

Statements in this Prospectus concerning the taxation of ZhongDe Group and Company's investors are based upon current tax laws and practices which are subject to change. In addition, the taxation regime applicable in China may change and could have an adverse impact on the after-tax profits of FengQuan. As almost all operational profits are generated with FengQuan that is subject to the tax law of China, this could have a material adverse effect on the business, financial condition and results of operations of ZhongDe Group.

Risks Related to the Offering

Public trading in the Company's shares might not develop.

Prior to the offering, there was neither any public trading in the Company's shares nor in shares of its subsidiaries. In addition, the Company's forthcoming initial public offering will presumably result in one of the first, though indirect, initial public offerings of a Chinese company in Germany. No assurance can be given that liquid trading in the shares of the Company will develop after the offering and that the stock exchange price will not fall below the offer price. The offer price for the shares is to be determined by way of a book-building procedure and will not necessarily provide any indication of the stock exchange price at which the shares will subsequently be traded at the Frankfurt Stock Exchange or any other exchange. The Company cannot forecast to what extent the investors' interest in its shares will foster trading, nor how liquid trading could become. The stock exchange price of the Company's shares could become subject to greater volatility and consequently, buy and sell orders might be executed less efficiently. Under certain circumstances, investors might not be able to sell their shares at the purchase price fixed for the offering or at a higher stock exchange price, or might not be able to sell them at all.

A volatile stock exchange price for the shares might develop.

After the offering, the stock exchange price of the Company's shares could fluctuate considerably, especially because of fluctuating actual or forecasted results, revised earnings outlooks, the failure to meet analysts' expectations, changed economic conditions in general, or other factors. The general volatility of stock exchange prices could also exert pressure on the stock exchange price of the Company's shares without there being any direct connection with ZhongDe Group's business, its financial condition or earnings position, or its business prospects. Because the shares are growth stocks, the Company's shares are particularly susceptible to fluctuations.

The sale of shares by the Existing Shareholders could affect the share price.

Immediately upon the closing of the offering assuming placement of all Offer Shares, the Existing Shareholders will hold approximately 72,00% of the share capital (or approximately 67,81% if the Greenshoe option is fully exercised) and respectively of the Company's voting rights. The Existing Shareholders have agreed with the Underwriters that, for the first six months after the listing of the shares of the Company on the Frankfurt Stock Exchange, they will not (i) offer, pledge, sell, contract to sell, sell an option to buy, buy an option to sell or otherwise,

directly or indirectly, transfer or dispose of shares of the Company or other securities that are convertible into or exchangeable for shares of the Company, (ii) enter into swap transactions or transactions that transfer the economic risk of holding the shares to a third party, in whole or in part, regardless of whether any such transaction is to be settled by delivery of shares, payment in cash or by other consideration, as well as (iii) initiate, vote in favor of or in any other way support a capital increase of the Company or issuance of shares which are exchangeable into shares of the Company or an economically equivalent transaction. Furthermore, Mr Chen Zefeng has agreed for a further period of six months not to undertake any of the aforementioned transactions without the prior written consent of the Global Coordinator. The Company can, however, not give any assurance that the Existing Shareholders will always observe and comply with this undertaking and/or the Underwriter will be in the position to enforce that market protection agreement.

Conflicts of interest with the Existing Shareholders.

Immediately upon closing of the offering assuming placement of all Offer Shares, the Existing Shareholders will hold approximately 72.00% of the Company's share capital, 52.33% of which held by Mr. Chen Zefeng, and of the Company's voting rights (or approximately 67.81% of the Company's shares and about 67.81% of the Company's voting rights, if the Greenshoe option is fully exercised). Through their shareholdings and the exercise of their voting rights in the general shareholders' meetings the Existing Shareholders are in the position to exercise considerable influence on the Company. The interests of the Existing Shareholders could conflict with the interests of the Company and/or other investors.

Risks of short sales before delivery of the shares.

The underwriting agreement provides that the underwriters may terminate the underwriting agreement under certain circumstances. If the underwriting agreement is terminated, the offering will not take place. Investors who have engaged in so-called ''short sales'' will bear the risk of being unable to cover such short sales through the delivery of shares.

GENERAL INFORMATION

Responsibility for the Content of the Prospectus

ZhongDe Waste Technology AG (the **''Company''** and collectively with its direct and indirect subsidiaries **''ZhongDe Group''**), Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, Cologne (**''Sal. Oppenheim''** or the **''Global Coordinator''**), BOCI Asia Limited and CLSA Limited (together with the Global Coordinator, the **''Underwriters''**) assume responsibility for the content of this prospectus (the **''Prospectus''**) pursuant to Section 5, para. 4 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and declare that the information contained in the Prospectus is correct to their knowledge, that no material facts have been omitted, and that they have exercised all reasonable care to ensure that, to their knowledge, the information contained in this Prospectus is correct and no facts have been omitted which could likely affect the statements made in this Prospectus.

Subject Matter of this Prospectus

For purposes of the public offering, this Prospectus relates to a total of up to 4,185,264 no par value ordinary bearer shares (*Inhaber-Stückaktien*) consisting of:

- up to 3,000,000 no par value ordinary bearer from the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) expected on the same day;
- up to 639,360 no par value ordinary bearer shares from the holdings of the Selling Shareholders, and
- up to 545,904 no par value ordinary bearer shares from the holdings of the Existing Shareholders in connection with a potential over-allotment;

each no par value ordinary bearer share having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire short financial year 2007.

For purposes of admission to trading, this Prospectus relates to a total of 13,000,000 no par value ordinary bearer shares consisting of:

- 10,000,000 no par value ordinary bearer shares (current share capital); and
- up to 3,000,000 no par value ordinary bearer shares from the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) expected on the same day

each no par value ordinary bearer share having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire short financial year 2007 (total share capital).

Forward-Looking Statements

This Prospectus contains certain forward-looking statements, which relate to the business, the financial development, and the results of operations of ZhongDe Group as well as the business divisions in which ZhongDe Group operates. Forward-looking statements relate to future facts, events and other circumstances which are not historical facts.

In particular, this applies to statements containing information on future financial results, plans, and expectations regarding the business and management of ZhongDe Group, its growth and profitability, and general economic and regulatory conditions, and other factors affecting ZhongDe Group.

Forward-looking statements are based on current estimates and assumptions made by the Company to the best of its knowledge. Such forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors that could cause the actual financial condition and results of ZhongDe Group to differ materially from and fail to meet the

expectations expressed or implied by such forward-looking statements. The business of ZhongDe Group is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. Accordingly, prospective investors are strongly advised to read the sections of the Prospectus, *''Summary''*, *''Risk Factors''*, *''Management's Discussion and Analysis of Financial Condition and Results of Operations''*, *''Industry Overview''*, *''Business''*, *''Regulatory Environment''*, and *''Recent Developments and Outlook''*, which contain a detailed description of factors that have an impact on the business of ZhongDe Group and the market in which ZhongDe Group operates.

In light of these risks, uncertainties and assumptions, it is possible that the future events mentioned in this Prospectus may not occur, and that forward-looking estimates and forecasts derived from third-party studies reproduced in this Prospectus may prove to be inaccurate *(See General Information — Information Derived from Third Parties)*. Moreover, neither the Company nor the Underwriters assume any obligations, except as required by law, to update any forward-looking statements or to conform such forward-looking statements to future events or developments.

Information Derived from Third Parties

The Prospectus contains numerous references to data, statistical information, and studies prepared by third parties. In the preparation of this Prospectus, the following sources have been relied upon:

- World Bank, ''Fighting Poverty: Findings and Lessons from China's Success'', 2006
- World Bank, ''Working Paper No. 9, Urban Development in China: Issues and Recommendations'', May 2005
- CIA, World Fact Book, 2007
- World Bank, ''Annual Report'', 31 December 2005.
- General Administration of Civil Aviation of China, ''Report on Development of China's Air Transport (2005/2006)'', 2006.
- National Bureau of Statistics of China, ''China Statistical Yearbook'', 2006.
- Solenthaler, Balz / Bunge, Rainer, University of Rapperswil, Switzerland, ''Waste Incineration in China'', 2003.
- World Health Organisation, ''Fact sheet No. 253'', October 2000.
- Samantha Jones, ''Medical Waste and Health Challenges in China'', February 2007

The Company has accurately reproduced such information derived from third parties and, insofar as the Company is aware and is able to ascertain from information published by third parties, has not made any omission which would render the reproduced information inaccurate or misleading. Market studies are often based on information and assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. This Prospectus also contains estimates made by the Company relating to market data of third parties that are based on published market data or figures from publicly available sources. Neither the Company nor the Underwriters have independently verified the figures, market data or other information on which third parties have based their studies. Accordingly, the Company and the Underwriters assume no responsibility and make no representation or warranty as to the accuracy of any information derived from information and studies of third parties included in this Prospectus.

Documents Available for Inspection

For the duration of the validity of this Prospectus, copies of the following documents will be available for inspection in printed form during regular business hours at the offices of ZhongDe Waste Technology AG:

- the Company's Articles of Association (*Satzung*) and the rules of procedure for the Management Board and Supervisory Board;
- FengQuan's annual financial statements as of 31 December 2004, 31 December 2005 and 31 December 2006 based on IFRS;
- FengQuan's interim financial statements as of 31 March 2007 based on IFRS
- the Company's combined consolidated annual financial statements as of 31 December 2004, 31 December 2005 and 31 December 2006 based on IFRS;
- the Company's combined consolidated interim financial statements as of 31 March 2007 based on IFRS; and
- the Company's opening balance sheet based on the German Commercial Code (Handelsgesetzbuch) as of 4 May 2007.

Future annual reports and interim reports of the Company will be available at its offices and the offices of the paying agent and depositary agent named in this Prospectus *(see: General Information on the Company Notices, Paying and Depositary Agent*).

Notes Regarding Financial and Currency Data

Some figures (including percentages) in this Prospectus have been rounded to the nearest whole number. As a result, figures in tables so rounded may in some cases not add up to the exact totals shown in the tables. Percentages quoted in the text were, however, calculated on the basis of actual values rather than the rounded values. Accordingly, percentages quoted in the text may in some cases differ from percentages based on the rounded values.

The revenues of ZhongDe Group are generated in China. The operational currency of ZhongDe Group is Renminbi (**"RMB"**) whereas the financial statements are made in EUR. The RMB-figures have been translated to EUR accordingly, using the following exchange rates

	31 March 2007	2006	2005	2004
End of period	10.3226	10.2793	9.5204	11.2741
Average	10.3010	10.0096	10.1955	10.2967

On 1 June 2007 the exchange rate has been 10.2930 RMB for EUR 1.00.

Chung Hua Holding has its legal domicile in Hong Kong. The currency of Hong Kong is Hong Kong Dollar (**"HKD"**). On 31 March 2007 the exchange rate was HKD 10.421 for EUR 1.00

All information with respect to currencies in this Prospectus refers to EUR. For the translation of RMB amounts which are not related to the Company's combined consolidated financial statements or to FengQuan's financial statements, the exchange rate of RMB 10.3226 per EUR 1.00 as of 31 March 2007 has been used. For the translation of RMB amounts related to the Company's or FengQuan's financial statements, see *Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Measurement and Presentation Currency*. Amounts denominated in other currencies are expressly identified as such with the corresponding currency designation or currency symbol.

Auditors

The Company's audited IFRS combined consolidated financial statements for the financial year ended as of 31 December 2006, with comparative information for the financial years ended 31 December 2005 and 31 December 2004 and FengQuan's audited IFRS financial statements for the financial year ended as of 31 December 2006, 31 December 2005 and 31 December 2004 and

the Company's opening balance sheet as of 4 May 2007 appearing in this Prospectus have been audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Ferdinandstrasse 59, 20095 Hamburg, Germany, independent accountants, as stated in their reports appearing elsewhere herein and each are accompanied by an unqualified auditor's report, copies of which are included in this Prospectus. The Company's combined consolidated interim financial information as of 31 March 2007 and FengQuan's interim financial information as of 31 March 2007 appearing in this Prospectus were subject to a review by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, as stated in its report appearing elsewhere herein. BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft is a member of the German Chamber of Public Accountants (*Wirtschaftsprüferkammer*).

THE OFFERING

Subject Matter of the Offering

The offering consists of a public offering in Germany and Luxembourg and private placements to institutional investors outside Germany, Luxembourg, and the United States.

The offering consists of up to 4,185,264 no par value ordinary bearer shares (*Inhaber-Stückaktien*) of ZhongDe Waste Technology AG, each ordinary bearer share having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire financial year 2007, consisting of:

- up to 3,000,000 no par value ordinary bearer shares from the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) expected on the same day (the **"New Shares"**) in accordance with Section 202 para. 1, Section 203 para. 1 sentence 1 and para. 2 and Section 186 para. 3 and para. 4 of the German Stock Corporation Act (*Aktiengesetz*);
- up to 639,360 no par value ordinary bearer shares from the holdings of the Selling Shareholders (the **"Existing Offered Shares"**); and
- up to 545,904 no par value ordinary bearer shares from the holdings of the Existing Shareholders in connection with a potential over-allotment (the **"Greenshoe Shares"**, together with the New Shares and the Existing Offered Shares, the **"Offer Shares"**).

The shares that are the subject of this offering represent a total of up to EUR 4,185,264 of the share capital. Upon implementation and registration of the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) expected on the same day, in the commercial register, the share capital will amount to EUR 13,000,000. In connection with the offering, up to 32.19% of the shares of the Company (4.20% including shares available for an over-allotment) will be offered. The actual number of Offer Shares is expected to be published on 6 July 2007 in an announcement in the *Frankfurter Allgemeine Zeitung*.

In connection with the offering, the Company will receive the net proceeds from the sale of the New Shares. The Selling Shareholders will receive the net proceeds from the sale of the Existing Offered Shares and the Existing Shareholders from the sale of the Greenshoe Shares if any.

Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, Unter Sachsenhausen 4, 50667 Cologne, Germany is the Global Coordinator, Sole Bookrunner and Joint Lead Manager. BOCI Asia Limited, 26th Floor, Bank of China Tower 1, Garden Road, Hong Kong is the Joint Lead Manager and CLSA Limited, Level 19, One Pacific Place, Queensway, Hong Kong the Co-Lead Manager.

Timetable for the Offering

The scheduled timetable for the offering is as follows:

20 June 2007	Approval of the Prospectus by BaFin and notification of the Prospectus to the CSSF
20 June 2007	Publication of the Prospectus on the website of ZhongDe Waste Technology AG (www.zhongdetech.com)
21 June 2007	Announcement in the *Frankfurter Allgemeine Zeitung* of publication of the Prospectus
21 June 2007	Start of Marketing (so-called Roadshow)
29 June 2007	Publication of the price range and offer period in the form of an ad-hoc notice as well as a supplement (*Nachtrag*) on the website of ZhongDe Waste Technology AG

	(www.zhongdetech.com) immediately following approval of the respective supplement to the Prospectus by BaFin and notification to the CSSF
29 June 2007	Commencement of the offer period
30 June 2007	Announcement in the Frankfurter Allgemeine Zeitung of the publication of the supplement to the Prospectus, the price range and the offer period
4 July 2007	Subscription of the New Shares
4 July 2007	End of the offer period of the offering for retail investors at 12:00 noon (Central European Summer Time) and for institutional investors at 4:00 p.m. (Central European Summer Time)
4 July 2007	Determination of the offer price and allotment; publication of the offer price, the offer volume and the allotment criteria in the form of an ad-hoc notice
5 July 2007	Registration of the completion of the capital increase with the commercial register and listing approval issued by the Frankfurt Stock Exchange
6 July 2007	Commencement of trading of the Company's shares
6 July 2007	Publication of the offer price in the *Frankfurter Allgemeine Zeitung*
10 July 2007	Book-entry delivery of Offer Shares against payment of the offer price

The Prospectus will be published on the Company's website at www.zhongdetech.com. The Prospectus is also expected to be available in printed form as of 21 June 2007 free of charge during regular business hours from the Company, the Underwriters and the paying agent in Luxembourg.

Price Range, Offer Period, Offer Price, and Allotment

The price range, within which purchase orders may be placed, will be published together with specific dates for the beginning and end of the offer period prior to the start of the offer period as an ad-hoc notice via an electronic information system and, upon approval by the German Federal Financial Supervisory Authority (**"BaFin"**) in the form of a supplement (*Nachtrag*) to the Prospectus on the website of the Company (www.zhongdetech.com). In addition, the supplement will be available free of charge during regular business hours in printed form from the Company, the Underwriters and the paying agent in Luxembourg. A notice of the publication of the supplement will be made in the *Frankfurter Allgemeine Zeitung* one business day after approval of the supplement at the earliest.

The offering, within which investors will have the possibility to place purchase orders for the shares, will be denominated in Euros and is expected to begin on 29 June 2007 and is expected to end on 4 July 2007. The offer period is expected to last at least three banking days. The beginning and end of the offer period together with the price range will be published, among other items, in the form of a supplement (*Nachtrag*) to the Prospectus. Interested investors are asked to pay attention to the announcements published in the media mentioned in the preceding paragraph for further details of the offering. During the offer period, offers to purchase shares may be submitted by retail investors at the branch offices of Sal. Oppenheim. On the last day of the offer period, retail investors will be able to submit offers to purchase shares until 12:00 noon (Central European Summer Time) and institutional investors will be able to submit offers to purchase shares until 4:00 p.m. (Central European Summer Time).

The Company and the Selling Shareholders, together with the Global Coordinator, reserve the right to decrease the number of Offer Shares, to increase or decrease the upper limit and/or lower limit of the price range, and/or to extend or shorten the offer period. If any of the terms of

the offer are modified, the change will be published by means of an announcement through electronic information service such as Reuters or Bloomberg and on the Company's website (www.zhongdetech.com) and to the extent required under the German Securities Trading Act (*Wertpapierhandelsgesetz*) or the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as an ad-hoc notice and / or as a supplement (*Nachtrag*) to the Prospectus. Investors who have submitted purchase offers will not be notified individually. Any changes to the number of Offer Shares or the price range or any extension or shortening of the offer period will not nullify purchase orders that have already been placed. Investors who have already placed purchase orders prior to the publication of a supplement will have the right provided under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) to withdraw from these purchase orders within two business days following publication of the supplement. Instead of withdrawing their purchase orders, investors may also amend these purchase orders submitted prior to publication of the supplement (*Nachtrag*) or place new limited or unlimited purchase orders within two business days after publication of the supplement (*Nachtrag*).

Once the offer period has expired, the Company, the Selling Shareholders and the Global Coordinator will jointly determine the offer price at the earliest on 4 July 2007 using the order book prepared during the bookbuilding process. The basis for the bookbuilding process will be the price range, which will be published prior to the start of the offer period in the form of a supplement (*Nachtrag*) to the Prospectus. The determination of the offer price will depend on the purchase offers for the shares submitted by investors during the offer period and collected in the above-mentioned order book.

Investors' purchase orders are freely revocable until the end of the offer period.

Once the offer price has been determined, the Offer Shares will then be allotted to investors based on the orders submitted. The offer price is expected to be published on 4 July 2007 by means of an ad-hoc notice on an electronic information system and on the Company's website and no earlier than the following business day, expected to be 6 July 2007, by an announcement in the *Frankfurter Allgemeine Zeitung*. Investors who have submitted purchase orders with the Global Coordinator will be able to obtain information from the Global Coordinator with respect to the offer price and the number of shares allotted to them beginning no earlier than the banking day following the determination of the offer price. Multiple subscriptions are not permissible. Book-entry delivery of the allotted shares against payment of the offer price is expected to occur two banking days following the commencement of trading of the Company's shares. Particularly in the event that the placement volume proves to be insufficient to satisfy all orders placed at the offer price, the Underwriters reserve the right not to accept purchase orders, in whole or in part.

Allotment Criteria

No agreements exist between the Company, the Selling Shareholders and the Underwriters as to the allotment procedure prior to the commencement of the offer period. The Company, the Selling Shareholders and the Underwriters will comply with the ''Principles for the Allotment of Share Issues to Private Investors'' (*''Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger''*), which was issued on 7 June 2000 by the Exchange Expert Commission (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). After the offer period has ended, the Company, the Selling Shareholders and the Underwriters will determine and publish the details of the allotment method in accordance with the ''Principles for the Allotment of Share Issues to Private Investors.''

Delivery and Settlement of the Offer Shares

Delivery of the Offer Shares against payment of the offer price and the customary securities commission is expected to take place two banking days following commencement of trading of the shares. The shares will be made available to shareholders as co-ownership interests in the respective global certificate.

At the investor's option, shares purchased pursuant to this offering will be credited to a securities deposit account maintained by a German bank at Clearstream Banking AG, Neue Börsenstrasse 1, 60457 Frankfurt am Main, Germany for the account of such investor or to the securities deposit account of a participant at Euroclear Bank S.A./N.V., 1, Boulevard Roi Albert II, 1120 Brussels, Belgium, as operator of the Euroclear Systems, or Clearstream Banking S.A., L-2967 Luxembourg.

Stabilization Measures, Over-Allotments, and Greenshoe Option

In connection with the placement of the offer shares, Sal. Oppenheim or persons acting on its behalf will act as stabilization manager in connection with the offering, and may take measures aimed at supporting the stock exchange or market price of the Company's shares in order to offset any sales pressure that may exist (so-called stabilization measures).

A stabilization manager is under no obligation to take stabilization measures. Therefore, there is no guarantee that any such stabilization measures will be effected. If stabilization measures are taken, they may be terminated at any time without prior notice. Such measures may be taken beginning as of the date of listing of the shares on the regulated market (*Geregelter Markt*) of the Frankfurt Stock Exchange and must be completed no later than the 30th calendar day after such date (so-called stabilization period).

Stabilization measures may lead to the stock exchange or market price of the Company's shares being higher than they would have been in the absence of such measures. In addition, such measures may result in a stock exchange or market price at a level that is not sustainable. With regard to potential stabilization measures, investors may be allotted up to 545,904 additional shares of the Company, in addition to the 3,639,360 Offer Shares of the Company, as part of the allotment of the shares to be placed by the Company (so-called over-allotment).

With regard to a potential over-allotment, up to 545,904 no par value ordinary bearer shares (*Inhaber-Stückaktien*) of the Existing Shareholders will be made available to Sal. Oppenheim for the account of the Underwriters by way of a securities loan. The Existing Shareholders have also granted Sal. Oppenheim the option of purchasing these shares of the Company at the offer price, less agreed commissions (the **"Greenshoe Option"**). This option will expire 30 calendar days following the date of commencement of trading of the shares.

Within one week after the end of the stabilization period, information will be announced in the *Frankfurter Allgemeine Zeitung* and on the Company's website at www.zhongdetech.com as to whether a stabilization measure was taken or not, the date on which such stabilization measure was commenced, the date on which the last stabilization transaction was taken, and the price range within which such stabilization was effected for each date on which a stabilization measure was effected. The exercise of the Greenshoe Option, the date of such exercise and the number and type of shares involved will also be published without delay (*unverzüglich*) in the manner described above for the publication of information regarding the implementation of stabilization measures following the end of the stabilization period.

Selling Shareholders and Existing Shareholders

9998 Holding Ltd. intends to sell in the offering up to 310,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*), Delotte Group Ltd. intends to sell up to 60,000 no par value ordinary bearer shares, Dragonup Enterprises Ltd intends to sell up to 90,000 no par value ordinary bearer shares, Synergy Investment Group Ltd intends to sell up to 80,000 no par value ordinary bearer shares and Linch Investments Ltd intends to sell up to 99,360 no par value ordinary bearer shares. In the event of the exercise of the Greenshoe Option, up to 545,904 Greenshoe Shares will be offered by the Existing Shareholders. The following overview sets forth the names of the Selling Shareholders and the Existing Shareholders indicating the number of shares which they

intend to sell in the offering and/or upon exercise of the Greenshoe Option. For further information about the shareholder structure of the Company *(see: Shareholder Structure)*.

Name	Business Address	Up to number of Existing Offered Shares offered	Up to number of Greenshoe Shares offered
Chen Zefeng	Science and Technology Garden, Gaoshi Road, Cangshan District, Fuzhou, Fujian, China	None	200,000
9998 Holding Ltd.	Level 2, Nia Mall, Vaea Street, Apia, Samoa	310,000	167,716
Delotte Group Ltd.	P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands	60,000	32,461
Dragonup Enterprises Ltd.	P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands	90,000	48,691
Linch Investments Ltd.	P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands	99,360	53,755
Synergy Investment Group Ltd.	P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands	80,000	43,281

General and Specific Information on the Shares

Voting Right

Each share confers one vote at the General Shareholders' Meeting (*Hauptversammlung*) of the Company. There are no limitations to the voting rights. Existing Shareholders of the Company do not have different voting rights.

Dividend Entitlement

The shares have full dividend rights for the entire short fiscal year (*Rumpfgeschäftsjahr*) 2007.

Taxation of Dividends

In principle, ZhongDe Waste Technology AG must deduct tax at a rate of 20% plus a solidarity charge thereon at a rate of 5.5% (total 21.1%) from the gross amount of its dividend distributions. Such withholding tax is levied irrespective of whether and to what extent the dividend distribution is taxable at the shareholder level and whether the shareholder resides inside or outside of Germany. Certain withholding tax exemptions are available for corporate shareholders resident in another EU Member State if they are eligible for the exemption regulation under the EU Parent-Subsidiary Directive (EU Directive 90/435/EEC dated 23 July 1990, as amended). For further details *(see: Taxation in Germany)*.

Form and Certification of Shares

According to the Company's Articles of Association (*Satzung*), all shares of the Company have been and will be issued as no par value ordinary bearer shares (*Inhaber-Stückaktien*). The current share capital of the Company in the amount of EUR 10,000,000 is represented by one or several global share certificates without dividend coupons, which are deposited with Clearstream

Banking AG, Frankfurt am Main, Germany. The shares from the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) by means of resolution expected on the same day, will be represented by an additional global share certificate, which will also be deposited with Clearstream Banking AG. Section 6 para. 2 of the Company's Articles of Association excludes the rights of shareholders to receive individual share certificates for their shares to the extent permissible by law and unless mandated by the rules of stock exchanges to which the shares are admitted. The Company may issue share certificates that represent one share (so-called individual certificates/(*Einzelurkunden*)) or several shares (so-called global certificates/(*Globalurkunden*)). The shares of the Company which are the subject of the offering provide holders thereof with the same rights as all other shares of the Company and do not entitle holders to any rights or advantages in excess thereof.

German Securities Code (WKN)/ISIN/Common Code/Ticker Symbol

German Securities Identification Number (WKN):	ZDWT01 and ZDWT02 (applies to the shares held by the Existing Shareholders until expiration of the Lock-up).
International Securities Identification Number (ISIN):	DE000ZDWT018 and DE000ZDWT026 (applies to the shares held by the Existing Shareholders until expiration of the Lock-up).
Common Code:	030736010 and 030735994 (applies to the shares held by the Existing Shareholders until expiration of the Lock-up).
Ticker Symbol	ZEF.

Transferability, Lock-Up

The shares are freely transferable in accordance with legal requirements for bearer shares. Except for the restrictions set forth under *''Market Protection Agreement/Selling Restrictions (Lock-Up)''*, there are no prohibitions with respect to the disposal or the transferability of the shares of the Company.

Market Protection Agreement/Selling Restrictions (Lock-Up)

The Company has agreed with the Underwriters that, for the first six months after the listing of the shares of the Company on the Frankfurt Stock Exchange, it will not:

- announce or implement any capital increase from authorized capital (*genehmigtes Kapital*),
- propose a resolution for any capital increase at the General Shareholders' Meeting (*Hauptversammlung*),
- neither (a) directly or indirectly issue, purchase, sell, offer, undertake to sell, promote, otherwise issue or announce an offer in relation to shares or other securities of the Company which are convertible or exchangeable into shares of the Company or grant an option to purchase shares of the Company, nor (b) enter into or execute transactions (including derivatives transactions) that are economically equivalent to the purchase or sale of the shares of the Company, nor (c) to directly or indirectly cause or approve transactions within the meaning of the foregoing provisions (a) and/or (b).

Furthermore, the Company has agreed for a further period of six months not to undertake any of the aforementioned transactions without the prior written consent of the Global Coordinator.

These restrictions do not apply to the shares of the Company to be sold in connection with the offering.

The Existing Shareholders have agreed with the Underwriters that, for the first six months after the listing of the shares of the Company on the Frankfurt Stock Exchange, they will not

- offer, pledge, sell, contract to sell, sell an option to buy, buy an option to sell or otherwise, directly or indirectly, transfer or dispose of shares of the Company or other securities that are convertible into or exchangeable for shares of the Company,
- enter into swap transactions or transactions that transfer the economic risk of holding the shares to a third party, in whole or in part, regardless of whether any such transaction is to be settled by delivery of shares, payment in cash or other consideration, as well as
- initiate, vote in favor of or in any other way support a capital increase of the Company or issuance of shares which are exchangeable into shares of the Company or an economically equivalent transaction.

Furthermore, Mr Chen Zefeng has agreed for a further period of six months not to undertake any of the aforementioned transactions without the prior written consent of the Global Coordinator These restrictions do not apply to transactions relating to the shares of the Company to be sold by the Selling Shareholders in connection with the offering and, in the event and to the extent that the Greenshoe Option is exercised, the Greenshoe Shares offered by the Existing Shareholders and in case of shares purchased in the open market.

Admission to Trading and Listing of Shares

An application for the admission of the entire existing share capital as well as the shares resulting from the capital increase against cash contributions from the authorized capital (*genehmigtes Kapital*) pursuant to a resolution of the Management Board (*Vorstand*) expected to be resolved on 4 July 2007 with the approval of the Supervisory Board (*Aufsichtsrat*) expected on the same day to trading on the regulated market (*Geregelter Markt*) of the Frankfurt Stock Exchange is expected to be filed on 26 June 2007. The admission approval is expected one banking day prior to expiration of the offer period, which is expected to be no later than 5 July 2007. Commencement of trading on the Frankfurt Stock Exchange is expected to take place on 6 July 2007. The Global Coordinator regularly places purchase orders at the time of listing in order to support the development of the initial market price. This may result in a higher initial market price than would otherwise exist in the absence of these measures.

Designated Sponsors

Sal. Oppenheim will assume the function of designated sponsor of the Company's shares traded on the Frankfurt Stock Exchange and Sal. Oppenheim is entitled to designate an appropriately licensed third party to perform its functions. Pursuant to the designated sponsor agreement among Sal. Oppenheim and the Company, Sal. Oppenheim will, among other things, place limited buy or sell orders for shares of the Company in the electronic trading system of the Frankfurt Stock Exchange during daily trading hours. This is expected to improve liquidity of trading for the shares of the Company.

Reasons for the Offering, Use of Proceeds, Costs and Interests of Third Parties Involved in the Offering

Reasons for the Offering

The reason for the offering is the objective of ZhongDe Group to use the proceeds from the capital increase to pursue its future growth, in particular to expand its business to BT and BOT projects, to establish a second production facility and to reduce its indebtedness.

Use of Proceeds and Costs

The Company will receive the net proceeds from the offering, i.e., the gross proceeds from the sale of the shares resulting from the capital increase less commissions paid by the Company to the Underwriters and its pro-rata share of the costs. As the costs of the offering depend on the

total number of shares placed and the offer price that determine the amount of the commissions, the Company cannot reliably predict the costs of the offering or the net proceeds at this stage.

The Company estimates that the total costs it will incur (including commissions of the Underwriters) will be between approximately TEUR 4,825 and TEUR 6,850. A reliable prediction can be made at the earliest when the offer price range is determined at a later date. The price range will depend on how the expected valuation of the shares develops during the marketing phase scheduled to begin on 21 June 2007 and what indications resulting from these discussions are made to the Company, the Selling Shareholders and the Global Coordinator, who will jointly determine the price range. In addition, the market environment and the assessment of the market in which the Company operates will also be decisive in determining the price range. The Company will publish a further estimate of the total costs of the offering (including commissions of the Underwriters) in a supplement (*Nachtrag*) to the Prospectus in which the price range will be published. Subject to the above uncertainties, the Company and the Global Coordinator believe that, assuming full placement of all Offer Shares, total net proceeds of between approximately TEUR 77,895 to TEUR 137,910 and net proceeds to the Company of between approximately TEUR 55,175 and TEUR 98,150 are possible.

The Company plans to use the net proceeds that it will receive from the sale of the New Shares to finance the further expansion of ZhongDe Group. ZhongDe Group plans, particularly to invest approximately EUR 41 million to finance six BOT projects, approximately EUR 13 million to establish a new production base in Beijing, approximately EUR 5 million to finance working capital needs of organic growth, approximately EUR 2.5 million to EUR 3 million for the acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Ltd., and approximately EUR 2 million for research and development. In addition, EUR 5 million will be used for the repayment of certain related party loans.

The Selling Shareholders intend to sell a total of up to 639,360 shares (Existing Offered Shares) of the Company pursuant to this offering. In the event of the exercise of the Greenshoe Option, up to 545,904 shares of the Company (Greenshoe Shares) will be sold by the Existing Shareholders additionally. The Selling Shareholders will receive all of the offer proceeds from the sale of the Existing Offered Shares, and in the event that the Greenshoe Option is exercised, the Existing Shareholders will receive all of the offer proceeds realized through the sale of the Greenshoe Shares (less commissions and costs).

Interests of Third Parties Involved in the Offering

The Selling Shareholders have an interest in the offering because of the portion of the offering proceeds they will receive.

Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, BOCI Asia Limited and CLSA Limited have entered into a contractual relationship with the Company in connection with the implementation of the offering. They have been mandated as Underwriters or Global Coordinator and will advise the Company in connection with the implementation of the offering and coordinate its structuring and execution and will purchase and sell the Offer Shares in accordance with the executed underwriting agreement. The compensation of the Underwriters is incentive based and depends, among other factors, on the amount of the offer proceeds such that the Underwriters have an interest in the successful implementation of the offering.

In connection with the offering, the Underwriters and affiliated companies will be able to acquire Offer Shares for their own accounts and hold, purchase or sell for their own accounts and can also offer or sell these shares outside of the offering. The Underwriters do not intend to disclose the scope of such investments or transactions to the extent that this is not legally required.

DIVIDEND POLICY AND EARNINGS PER SHARE

Dividend Rights and Dividend Policy

The shares of individual shareholders in profits of the Company are determined in accordance with their number of shares in the registered capital (Section 60 para 1 of the German Stock Corporation Act). In this regard, no restrictions or separate procedures apply to non-resident shareholders.

The adoption of resolutions regarding the distribution of dividends on the Company's shares for a given financial year is the responsibility of the General Shareholders' Meeting (*Hauptversammlung*) held during the following financial year, which resolves on the utilization of the Company's distributable profits on the basis of the non-binding proposal of the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*). If the Selling Shareholders hold an effective or, depending on their presence at the General Shareholders' Meeting of the Company, a factual majority of the voting rights present or represented at the General Shareholders' Meeting, they may exercise further influence on the utilization of the Company's profits and/or the dividends' policy (*see: Risk Factors — Risks Related to the Offering Conflicts of Interest with Existing Shareholders*).

Under German law a resolution concerning dividends and the utilization of distributable profits may be adopted only on the basis of a balance sheet profit (*Bilanzgewinn*) shown in the Company's adopted annual individual financial statement (*festgestellter Jahresabschluss*) to be prepared in accordance with generally accepted German accounting principles, i.e. the accounting provisions of the German Commercial Code (*Handelsgesetzbuch/HGB*). In determining the balance sheet profit available for distribution, the annual net income (*Jahresüberschuss*) or annual net loss (*Jahresfehlbetrag*) of the respective year must be adjusted for profits and losses carried forward from the previous year and for deposits into or withdrawals from reserves. Certain reserves are to be created by law and must be deducted, where applicable, when calculating the balance sheet profits available for distribution. In a resolution regarding the utilization of balance sheet profits, the General Shareholders' Meeting (*Hauptversammlung*) can include further amounts in retained earnings or carry them forward as profit.

The dividend for the prior fiscal year is resolved by the shareholders of the General Shareholders' Meeting of the following year. Dividends resolved at the General Shareholders' Meeting are payable on the first business day after such meeting, unless the dividend resolution provides otherwise. Dividend claims are subject to a 3-year limitation period. Expired dividends shall be retained by the Company. In the event that the Company's (individual) annual financial statement (*Jahresabschluss*) accounts for a balance sheet profit (*Bilanzgewinn*) in the future, the Company's Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*) intend to propose for a profit distribution among the shareholders of 10% where the remaining profits shall be booked into retained earnings and to be used to finance the further development of its business and its internal growth. Subject to the decision of the General Shareholders' Meeting (*Hauptversammlung*) regarding the use of such profits, the Company assumes that dividends of at most 10% of the respective balance sheet profit will be distributed in the foreseeable future.

Future dividend distributions will depend on the results of operations of the Company, its financial situation, its need for cash and the legal, tax and regulatory environment as well as other factors.

Dividend income is subject to German dividend withholding tax (*Kapitalertragssteuer*) (*see: Taxation in Germany — Taxation of Shareholders — Taxation of Dividends*).

Earnings per Share

The Company was formed in 2007 and, therefore, has no 3-year financial history. The following summary shows the earnings of the Company on a combined and consolidated basis (rounded to two decimal points) and the earnings per share, each in accordance with IFRS, and the distributed dividends for the financial years ended 31 December 2006, 2005 and 2004.

	Financial Year ended 31 December		
	2004	2005	2006
Consolidated combined net income for the year (in TEUR)	1,866	4,352	8,022
Number of shares on 31 December	10,000,000	10,000,000	10,000,000
Earnings per share in EUR	0.1866	0.4352	0.8022

CAPITALIZATION AND INDEBTEDNESS

The data presented in the following table show the capitalization of ZhongDe Group as of 31 March 2007 based on combined and consolidated interim financials. The data are unaudited and have been prepared in accordance with IFRS. The capitalization of the Company will change following the offering as a result of the net proceeds to the Company. As the net proceeds to the Company depend on the offer price in connection with the offering, the amount of proceeds the Company will receive from the public offering can, at the earliest, be predicted once the price range has been determined. Details regarding the proceeds and the potential effects thereof on the capitalization of ZhongDe Group will be published together with the supplement (*Nachtrag*) to the Prospectus announcing the price range.

	As of 31 March 2007 (TEUR) (unaudited)
Cash and Cash Equivalents	**10,103**
Current Term Financial Liabilities	**7,798**
thereof secured	0
thereof guaranteed	0
thereof unsecured / unguaranteed	7,798
Non-Current Financial Liabilities	**0**
Contingent Liabilities	**—**
Shareholder's Equity	
share capital	2,775
capital surplus	1,765
retained earnings	8,384
foreign exchange differences	(35)
Total	**12,889**

The Company believes that, based on its current needs, its working capital is sufficient to cover at least those payment obligations which will become due within the next twelve months and that it does not have any further financing needs.

DILUTION

The book value of the shareholders' equity of the Company as reflected in the combined consolidated financial statements in accordance with IFRS amounted to TEUR 8,823 as of 31 December 2006. This is equivalent to approximately EUR 0.88 per share (calculated on the basis of EUR 10,000,000 outstanding shares as of the date of this Prospectus).

Assuming that all 3,000,000 New Shares in the Company are placed and that the gross issue proceeds obtained by the Company are between EUR 60 million and EUR 105 million, the assumed range per offered share would be between EUR 20 and EUR 35. If the offer price were to correspond to the midpoint of this assumed range at EUR 27.50 per Offered Share, the Company would obtain net proceeds of approximately EUR 76.7 million. If the Company had obtained this amount as at 31 December 2006, the book value of shareholders' equity at that time would have been about EUR 85.5 million or around EUR 6.58 per share (based on the increased number of shares after the offering of 3,000,000 New Shares). Consequently, under the above-mentioned assumptions, the implementation of the offering would lead to a direct increase in the book value of shareholders' equity of about EUR 5.70 per share for the Existing Shareholders and a direct dilution of about EUR 20.92 per share for the purchasers of the Offer Shares and, thus, investors who acquire shares at the midpoint of the assumed range at EUR 27.50 per Offered Share are diluted by about 76.1%.

The Company will publish an updated and adjusted calculation of the dilution based on the changes resulting from the implementation of the offering together with the supplement in which the price range will be published.

SELECTED FINANCIAL INFORMATION

The Company was incorporated on 4 May 2007 in the course of certain restructuring steps and therefore has no historical financial data (within the meaning of Annex 1 No. 20.1 of (EC) Regulation No. 809/2004), except for its opening balance sheet. However, the business of the Company essentially corresponds to the business activities that previously comprised the business of Chung Hua Holding, the Company's wholly owned and direct subsidiary. The operational business of ZhongDe Group was and is managed by FengQuan, the wholly owned and direct subsidiary of Chung Hua Holding and the Company's indirect subsidiary. The entities of the ZhongDe Group existing prior to the restructuring and the Company are under common control within the meaning of IFRS 3 ''Business Combinations''.

In order to present the net assets, financial position and results of operations for the last three financial years in relation to the above business activities, the Company has prepared IFRS combined consolidated financial statements as of 31 December 2006, with comparative information for the financial years ended 31 December 2005 and 31 December 2004. These combined consolidated financial statements were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Furthermore, the Company has prepared IFRS unaudited combined consolidated interim financial statements as of 31 March 2007, which have been reviewed by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The combined consolidated financial information has been presented as if the Company already existed as of 1 January 2004.

*The selected financial information of ZhongDe Waste Technology AG (the **''Company''**), which is reflected in this section, was derived from the audited combined consolidated financial statements of the Company under IFRS as of 31 December 2006, 31 December 2005 and 31 December 2004 and the unaudited combined consolidated interim financial statements of the Company under IFRS as of 31 March 2007.*

In order to present the net assets, financial position and results of operations for the last three financial years in relation to the operational business activities, FengQuan has prepared IFRS financial statements as of 31 December 2006, 31 December 2005 and 31 December 2004. These financial statements were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

Furthermore, FengQuan has prepared IFRS unaudited interim financial statements as of 31 March 2007, which have been reviewed by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprufungsgesellschaft.

The selected financial information of FengQuan, which is reflected in this section, was derived from the audited financial statements of FengQuan under IFRS as of 31 December 2006, 31 December 2005 and 31 December 2004 and the unaudited interim financial statements of FengQuan under IFRS as of 31 March 2007.

Since the operational business of ZhongDe Group is exclusively carried out by FengQuan, differences between the combined consolidated financial statements of the Company and the financial statements of FengQuan only relate to certain line items (including ''Finance income'', ''Finance costs'', ''Other receivables and prepayments'', ''Other payables and accruals'', ''Cash and cash equivalents'' and ''Share capital'') which are briefly set out in the section ''Management's Discussion and Analysis of Financial Condition and Results of Operations''. Differences occurred with regard to liquid funds and book interests for the financial statements as of 31 December 2006 and as of 31 March 2007 in connection with the purchase of the shares of FengQuan by Chung Hua Holding.

Furthermore, the discussion and analysis of the financial condition and results of operations in the Prospectus is based on the audited financial statements of FengQuan under IFRS as of 31 December 2004, 31 December 2005, 31 December 2006 and the unaudited interim statement of FengQuan under IFRS as of 31 March 2007.

The following summarized selected financial information should be read in conjunction with the section ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and the financial information on pages F-1 et seq. In addition, investors should base their investment decision on a review of the entire Prospectus. The following figures were commercially rounded; their sums when added may not be the same as the sums indicated.

Selected Combined Consolidated Financial Data of the Company for the Financial Years Ended 31 December 2004, 2005 and 2006 and for the First Quarter of 2007 ended on 31 March 2007, in accordance with IFRS

	31 December			31 March
	2004	2005	2006	2007
		(audited)[1]		(unaudited)
		in TEUR		
Selected Income Statement Data				
Revenues	6,162	11,398	18,995	7,359
Cost of sales	–2,271	–3,508	–5,611	–2,563
Gross Profit	3,891	7,890	13,384	4,796
Selling and distribution expenses	–353	–420	–735	–242
Administrative expenses	–265	–367	–377	–289
Research and development expenses	–177	–181	–203	–48
Profit from operations	3,049	6,781	11,903	4,133
Profit before income tax	3,000	6,733	11,869	4,173
Income tax	–1,135	–2,380	–3,847	–61
Profit for the period	1,865	4,353	8,022	4,112
Selected Balance Sheet Data				
Non-current assets	278	338	432	358
Current assets	6,175	9,840	16,385	20,329
Total assets	6,453	10,178	16,817	20,687
Current liabilities	2,394	2,233	7,994	7,798
Non-current liabilities	0	0	0	0
Total liabilities	2,394	2,233	7,994	7,998
Total equity	4,059	7,945	8,823	12,889
Total liabilities and equity	6,453	10,178	16,817	20,687
Selected Cash Flow Data				
Profit before income tax	3,000	6,733	11,869	4,173
Operating cash flows before working capital changes	3,142	6,914	12,243	4,384
Cash flow from operating activities	1,862	1,478	6,373	965
Cash flow used in investing activities	–8	–14	–110	—
Cash flow from financing activities	–2,088	–2,482	3,598	–16
Net increase in cash and cash equivalents	–234	–1,018	9,861	949
Cash at beginning of year	259	26	4	9,199
Foreign exchange differences	1	996	–666	–45
Cash at end of period	26	4	9,199	10,103
Other Selected Financial Data				
EBITDA[2]	3,085	6,818	11,942	4,145
EBITDA margin (in %)	50.1	59.8	62.9	56.3
Net profit margin (in %)	30.3	38.2	42.2	55.9
EPS (computed on the basis of 10,000,000 shares)[3]	0.19	0.44	0.80	0.41

1 Audited information with the exception of EBITDA, EBITDA margin, Net profit margin, EPS.

2 Earnings before interests, taxes, depreciation and amortization.

3 Earnings per share in EUR.

Selected Financial Information of FengQuan for the Financial Years Ended 31 December 2004, 2005 and 2006 and for the First Quarter of 2007 ended on 31 March 2007, in accordance with IFRS

	31 December			31 March
	2004	2005	2006	2007
		(audited)[1] in TEUR		(unaudited)
Selected Income Statement Data				
Revenues	6,162	11,398	18,995	7,359
Cost of sales	–2,271	–3,508	–5,611	–2,563
Gross Profit	3,891	7,890	13,384	4,796
Selling and distribution expenses	–353	–420	–735	–242
Administrative expenses	–265	–367	–377	–289
Research and development expenses	–177	–181	–203	–48
Profit from operations	3,049	6,781	11,903	4,133
Profit before income tax	3,000	6,733	11,867	4,174
Income tax	–1,135	–2,380	–3,847	–61
Profit for the period	1,865	4,353	8,020	4,113
Selected Balance Sheet Data				
Non-current assets	278	338	432	358
Current assets	6,175	9,840	16,274	20,220
Total assets	6,453	10,178	16,706	20,578
Current liabilities	2,394	2,233	7,886	7,690
Non-current liabilities	0	0	0	0
Total liabilities	2,394	2,233	7,886	7,690
Total equity	4,059	7,945	8,820	12,888
Total liabilities and equity	6,453	10,178	16,706	20,578
Selected Cash Flow Data				
Profit before income tax	3,000	6,733	11,867	4,174
Operating cash flows before working capital changes	3,142	6,914	12,243	4,384
Cash flow from operating activities	1,862	1,479	6,288	1,046
Cash flow used in investing activities	–8	–14	–110	—
Cash flow from financing activities	–2,088	–2,482	3,598	–16
Net increase in cash and cash equivalents	–234	–1,017	9,776	1,030
Cash at beginning of year	259	26	4	9,114
Foreign exchange differences	1	995	–666	–45
Cash at end of period	26	4	9,114	10,099
Other Selected Financial Data				
EBITDA[2]	3,085	6,818	11,942	4,145
EBITDA margin (in %)	50.1	59.8	62.9	56.3
Net profit margin (in %)	30.3	38.2	42.2	55.9

1 Audited information with the exception of EBITDA, EBITDA margin, Net profit margin, EPS.

2 Earnings before interests, taxes, depreciation and amortization.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the other information in this Prospectus, including the financial information and related notes thereto beginning on page F-1 and the ''Selected Financial Information''.

The Company was incorporated on 4 May 2007 and therefore has no historical data, except for its opening balance sheet. Since the business of ZhongDe Group essentially corresponds to the business activities of its wholly owned indirect subsidiary FengQuan the following discussion and analysis of the financial condition and results of operations is based on the audited financial statements of FengQuan under IFRS as of 31 December 2004, 31 December 2005, 31 December 2006 and the unaudited interim statement of FengQuan under IFRS as of 31 March 2007. To the extent certain line items differ from those of the combined consolidated financial statements of the Company this will be briefly stated in the description of the development of certain relevant line items.

This discussion and analysis contains some forward-looking statements that are subject to known and unknown risks and uncertainties. The actual results and the timing of events could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the heading ''Risk Factors''.

The following figures were commercially rounded. It is therefore possible that the addition of such rounded amounts will not yield the same values as the sum of the full amounts.

Overview

ZhongDe Group designs, manufactures and installs pyrolytic, grate and rotary kiln waste incinerators for the disposal of solid medical, municipal and industrial (including hazardous) waste in China. ZhongDe Group is currently focused on the construction of the incinerator but does not construct the plant building, in which the incinerator will be installed. Since 1996 ZhongDe Group has sold more than 170 waste incinerators to clients in 13 provinces throughout China and in the last three financial years alone 112 waste incinerators. Its waste incinerators are principally constructed for operators of medical disposal centers in the hospital and healthcare industry as well as for small and mid-sized Chinese cities in developed areas of the People's Republic of China (**''PRC''** or **''China''**). The Company believes that ZhongDe Group is one of the leading suppliers of small and mid-sized solid waste incinerators in China.

In 2006, ZhongDe Group generated revenues of thousands of Euro (''**TEUR**'') 18,995, a gross profit of TEUR 13,384, an EBIT of TEUR 11,903 and a net profit of TEUR 8,022, equal to an increase of 66.7%, 69.6%, 75.5% and 84.3% compared to 2005, respectively. In the first quarter of 2007, ZhongDe Group generated revenues of TEUR 7,359, a gross profit of TEUR 4,796, an EBIT of TEUR 4,133 and a net profit of TEUR 4,112. Revenues from ZhongDe Group's medical waste incinerator business have increased significantly over the last three years representing 29.4% of total revenues in 2004, 90.8% in 2005 and 81.8% in 2006.

ZhongDe Group's business is divided into two separate business segments: the medical waste incinerator business and the municipal waste incinerator business (including industrial waste as well as hazardous waste).

ZhongDe Group's medical waste incinerator business generated TEUR 15,543 the revenues in financial year 2006 and TEUR 3,864 in revenues for the first quarter of 2007, accounting for 81.8% and 52.5% of total revenues for ZhongDe Group for these respective periods. ZhongDe Group's medical waste incinerator business produces pyrolytic gasification incinerators with a current waste disposal capacity of between 1 and 32 metric tons of waste per day (**''t/day''**). Based on internal estimates, ZhongDe Group is one of the leading manufacturers of waste incinerators for medical waste in China with a market share of approximately 35% as of the end of 2006. In 2004 ZhongDe Group sold a LFRY-32 medical waste incinerator for the Nangong (Beijing) Project, which ZhongDe Group believes is the largest incinerator for medical waste in China today.

Revenues and units sold increased substantially in the medical waste incinerator business over the last 3 years as a result of the Chinese government requiring hospitals to collect medical waste at a central location and dispose of it properly in the wake of the SARS epidemic. ZhongDe Group expects further significant revenues in the medical waste incinerator business as a result of steady demand for appropriate waste disposal solutions for medical waste as only approximately half of the government's target of 300 safe medical waste disposal centers had been established by the end of 2006 and as a result of the extensive amount of ongoing subsidies provided by the Chinese government for medical waste disposal systems. For example, in northwest of China, up to 70% of the financing for medical waste disposal systems is provided from public funding.

ZhongDe Group's municipal waste incinerator business generated TEUR 3,452 in revenues in financial year 2006 and TEUR 3,495 revenues for the first quarter of 2007, accounting for 18.2% and 47.5% of total revenues for ZhongDe Group for these respective periods. ZhongDe Group's municipal waste incinerator business produces pyrolytic, grate and rotary kiln incinerators for the disposal of municipal waste with a current waste disposal capacity of between 10 t/day and 150 t/day. ZhongDe Group expects that revenues, in particular in the municipal waste incinerator business, will significantly grow as ZhongDe Group targets smaller-sized cities in China between 100,000 and 200,000 inhabitants as well as mid-sized cities with between more than 200,000 and up to 750,000 inhabitants which have a growing need for waste incinerators for municipal waste and as general acceptance in China for waste incineration grows. In addition, the urbanization of the Chinese population has increased and will further increase which will in combination with improved average incomes generate substantial growth in municipal solid waste and thus increase the need for safe municipal waste disposal solutions.

Basis of Preparation

The financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and/or International Accounting Standards (IAS) as adopted by the International Standards Board (IASB) and by the European Union (EU), along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in connection with the applied scope of consolidated financial statements.

The standards, as revised in connection with the IASB Improvement Project, were published by IASB in December 2003, and their application is binding for financial years starting on or after 1 January 2005. Earlier adoption is recommended. In line with IFRS 1, the current standards and interpretations are applied with retroactive effect. The following standards relevant to FengQuan have already been applied in their revised version as of the 2004 financial year:

IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 8	Accounting policies: changes in accounting estimates and errors
IAS 10	Events after the balance sheet date
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 21	The effects of changes in foreign exchange rates
IAS 24	Related party disclosures

Moreover, the new or revised standards published by the IASB in 2004 —, IAS 32, Financial Instruments: Disclosure and Presentation, IAS 36, Impairment of assets, IAS 38, Intangible assets, and IAS 39, Financial Instruments: Recognition and Measurement — were applied as of the 2004 financial year.

Critical Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying the FengQuan's accounting policy and 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 financial statements and the reported amount of revenue and expenses during the reporting period.

Measurement and Presentation Currency

The presentation currency is EUR whereas the measurement currency of FengQuan is RMB.

The financial condition and results of operations are translated into EUR using the following procedures:

Assets and liabilities for each balance sheet are presented at the closing rate on the balance sheet date and income and expenses for income statements are translated at average exchange rates for the year, which approximates to the exchange rates at the date of transactions.

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

Equipment

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

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

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

Machinery equipment	10 years
Electronic equipment, furniture and fixtures	5 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 on 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 recognized in profit or loss.

Research and Development Costs

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

The carrying amount of the development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting period. Upon completion, the development costs are amortized over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Trade and Other Receivables

Trade and other receivables are recognized and carried at original amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made as follows: the basis to charge an allowance is its outstanding balance by deducting any subsequent collections from its book balance, the principal of the doubtful debt is 5% for debts aged less than one year, 50% for debts aged between one year and three years, 100% for debts aged more than three years. If there is no significant indication of an insolvency of debtors, the outstanding balances due from non trade related parties are not subject to allowance.

Bad debts are written off when identified.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing the inventories to their present location and condition is accounted for as follows:

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

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

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade and other payables.

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received. Gains and losses are recognized in the income statement when the payment of the liabilities is identified to be not necessary.

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

Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to FengQuan and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Sales of goods

Revenue is recognized upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

Taxation

Income tax for the financial year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case such tax is recognized directly in equity.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities, if any, are recognized for taxable temporary differences, except:

— Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— In respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reverse of the temporary difference can be controlled by FengQuan and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carried-forward unused tax credits and unused tax losses can be utilized except:

— Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— In respect of deductible temporary differences associated with investment in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities, if any, are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities, if any, are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority.

The carrying amount of deferred income tax assets is revised at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available

to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Key Factors Affecting Results of Operations

The Company believes that the following factors had and will continue to have a material effect on the results of operations and financial conditions.

Demand for waste disposal management in China

The overall demand for waste incinerators has increased over the last few years in China, in particular as a result of strong growth in the Chinese economy, accompanied by a significant increase in consumption leading to an overall increase of waste generated. In addition, storage capacity has been exhausted at many waste disposal sites which has increased the need for additional waste disposal capacity. In 2003 the share of waste disposal through incinerators amounted to merely 3% throughout China whereas roughly 93% of the waste was disposed of in landfills. However, the Chinese government has promulgated the target to increase the share of incineration significantly to 30% by 2030 (Source: World Bank, Working Paper No. 9, *Urban Development in China: Issues and Recommendations, May 2005* — **''World Bank Paper 2005''**).

Based on the Chinese government's 11th Five-Year Plan (2006 - 2010), which, inter alia, provides for investments of roughly EUR 5 billion to build new waste-disposal plants between 2006 and 2010, the Company believes that future investments in waste incinerator construction will increase significantly.

FengQuan's business has also benefited from measures taken by the Chinese government to prevent a recurrence of the SARS epidemic that occurred in 2003. In 2004, the Chinese government decided to build up to 300 medical waste disposal centers. The Company estimates that only approximately half of the expected 300 medical waste disposal centers had been built by the end of 2006. In addition, the Company expects that these originally planned 300 medical waste disposal centers are not sufficient to satisfy the demand of hospitals for waste disposal solutions and, thus, expects that the market will continue to grow.

Number of waste incinerators sold, sales prices and cost of materials, fluctuations

The business of ZhongDe Group carried out by FengQuan consists primarily of the construction of small and mid-sized waste incinerators. For this reason, the earnings of ZhongDe Group depend mainly on capacity utilization and the contribution margins received.

The level of margin included in calculated selling prices largely depends on the demand for ZhongDe Group's waste incinerators as well as the competitive situation prevailing in the given business segment.

The fixed costs to profit ratio depends on the number and sales price of units completed in a financial year. If only a small number of waste incinerators are completed and sold, the ratio of fixed costs to profit is relatively high. Depending on the business segment cost of sales over revenue ranges between 30% and 40%, whereas cost of materials, with a share of roughly 90% of the total cost of sales, is the most significant expense.

Since the average production time for waste incinerators varies between 1 to 3 months and the installation time between 1 to 2 months the time between signing of the contract and recognition of revenues ranges between 2 to 6 months. Therefore the Company's quarterly earnings can be subject to fluctuations. If only a few units are sold and delivered in a calendar quarter, quarterly revenue and earnings are comparatively low. On the other hand, there is an over-proportional increase in quarterly revenue and earnings when a comparatively large number of units are sold and delivered in a quarter. As a result, future changes in ZhongDe Group's revenue and earnings may defer from the revenues and earnings shown in individual quarterly reports.

Regulatory Environment

The degree to which the Chinese government regulates the solid waste disposal industry is a potential key factor to the business in the future. Due to widespread environmental damage in China, environmental protection has been given a high level of priority on the Chinese government's agenda in recent years. The official concerns are reflected in the 11th Five-Year Plan (2006-10) which calls for a 20% reduction in energy consumption per unit of GDP by 2010. It is, hence, to be expected that the Chinese government will promulgate additional laws and regulations in the field of environmental protection in general, and in the area of solid waste disposal in particular. Successful participation in the growing future market for waste management depends upon ZhongDe Group's ability to cope with future environmental laws and regulations.

Results of Operations

The following discussion of the results of operations is based on the audited financial statements of FengQuan under IFRS as of 31 December 2004, 31 December 2005, 31 December 2006 and the unaudited interim statements of FengQuan under IFRS as of 31 March 2007:

	31 December			31 March
	2004	2005	2006	2007
		(audited)		(unaudited)
		in TEUR		
Revenues	6,162	11,398	18,995	7,359
Cost of sales	–2,271	–3,508	–5,611	–2,563
Gross Profit	**3,891**	**7,890**	**13,384**	**4,796**
Other operating income	0	0	0	1
Selling and distribution expenses	–353	–420	–735	–242
Administrative expenses	–265	–367	–377	–289
Research and development expenses	–177	–181	–203	–48
Other operating expenses	–47	–141	–166	–85
Profit from operations	**3,049**	**6,781**	**11,903**	**4,133**
Finance income	7	10	14	54
Finance costs	–56	–58	–50	–13
Profit before income tax	**3,000**	**6,733**	**11,867**	**4,174**
Income tax	–1,135	–2,380	–3,847	–61
Profit	**1,865**	**4,353**	**8,020**	**4,113**

Revenues

Revenues are exclusively earned from the construction of small to mid-sized municipal and medical waste incinerators.

Revenues were TEUR 6,162 in 2004, which resulted from the sale of 40 units of waste incinerators with a total daily capacity of 250 tons.

Revenues increased by 85.0% to TEUR 11,398 in financial year 2005 as a result of a sizeable increase of 471.0% in the medical waste incinerator segment from 2004 to 2005 in which revenues increased to TEUR 10,352. Revenues from the sale of municipal waste incinerators decreased by 75.9% over the same period to TEUR 1,046. The total number of waste incinerators sold in 2005 amounted to 35 units with a total daily capacity of up to 212 tons.

In financial year 2006, revenues increased by 66.7% over the previous year to TEUR 18,995. This was due to a 230.0% increase in the municipal waste incinerator segment which increased revenues to TEUR 3,452 and a 50.1% increase in the medical waste incinerators segment over the previous year to TEUR 15,543. The total number of waste incinerators sold in 2006 amounted to 37 units with a total daily capacity of 369 tons.

Revenues were TEUR 7,359 in the first quarter of 2007, already totaling nearly 40% of the entire revenues generated in 2006. In the first quarter of 2007, 10 units of waste incinerators with a capacity of 342 metric tonnes per day (**"t/day"**) were sold.

The following table shows the changes in revenues according to segment for the years 2004 to 31 March 2007:

	31 December			31 March
	2004	2005	2006	2007
		(audited)		(unaudited)
		in TEUR		
Medical waste incinerators	1,813	10,352	15,543	3,864
Municipal waste incinerators	4,349	1,046	3,452	3,495
	6,162	11,398	18,995	7,359

Medical waste incinerators

Revenues from medical waste incinerators were TEUR 1,813 in financial year 2004 since government budgets for investments in medical waste incinerators were low until 2004. It was only after the SARS epidemic in 2003 that significant increases in future investments in medical waste incinerators were introduced into government budgets. As a result of the Chinese government's decision in 2004 to build up to 300 medical waste disposal centers, FengQuan moved the focus of its business to medical waste incinerators in 2004. The total number of medical waste incinerators sold in 2004 amounted to 8 units with a total daily capacity of 61 tons, whereas the individual capacities of the units sold ranged from 3 t/day to 24 t/day.

In financial year 2005, revenues from medical waste incinerators increased strongly by 471.0% over the previous year to TEUR 10,352. This increase was due to the decision made by FengQuan's management in 2004 to shift the focus to the sale of medical waste incinerators and the successful acquisition of several orders in this segment. FengQuan completed a total of 28 units with a total capacity of 162 t/day (capacity per unit between 1 t/day and 32 t/day) in the medical waste incinerator segment in financial year 2005, whereas the selling price of TEUR 2,354 for one 32 ton-model, which was sold in 2004, was received in 2005.

In financial year 2006, revenues from the medical waste incinerator segment increased 50.1% over the previous year to TEUR 15,543. FengQuan continued to strengthen its market share in the medical waste incinerator segment by constructing 34 units having a total capacity of 203 t/day in 2006 (capacity between 3 t/day and 10 t/day). In particular, the sales of 18 units of the model LFRY-5T with a capacity of 5 t/day contributed nearly half of total revenues in this segment for financial year 2006.

Revenues in the medical waste incinerator segment were TEUR 3,864 in the first quarter of 2007. In total 8 units with a capacity between 3 t/day and 8 t/day were sold of which 4 were the model LFRY-5T which contributed nearly half of the revenues generated in this business segment.

In total, FengQuan built 78 medical waste incinerators in the period under review. Of that number, approximately 50 units were sold in connection with the medical waste disposal centers program, which totaled approximately one third of the medical waste disposal centers that had been built in China until the end of 2006. The average sales price of the model LFRY-5T was TEUR 341 in 2005, rising by 19.1% to TEUR 406 in 2006 and then increasing by another 18.5% to TEUR 481 in the first quarter of 2007. In the Company's view the increase in sales prices for the model LFRY-5T was due to the proven technology and the high market acceptance of this product.

As a result, the ratio of revenues from medical waste incinerators to total revenues rose significantly during the reporting period. It was 29.4% in 2004, 90.8% in 2005, 81.8% in 2006 and 52.5% in the first quarter 2007 respectively. The lower portion in the first quarter of 2007 is due to the sale of two high capacity waste incinerators in the municipal waste incinerators business segment to one client.

Municipal waste incinerators

The municipal waste incinerator segment contributed TEUR 4,349 in revenues in financial year 2004. The total number of municipal waste incinerators sold in 2004 amounted to 32 units with a

total capacity of 189 t/day, whereas the individual capacities of the units sold ranged from 3 t/day to 10 t/day.

Revenues from the municipal waste incinerator segment declined by 75.9% in financial year 2005 to TEUR 1,046. This decrease in revenues is due to the shift in focus to medical waste incinerators that began in 2004. FengQuan completed sales of 7 units with a total capacity of 50 t/day, the individual capacities of the units sold ranged from 5 t/day to 10 t/day.

Revenues from municipal waste incinerators in financial year 2006 rose 230.0% over the previous year to TEUR 3,452. This increase was primarily due to the construction of one model LCH-100 unit with a 100 t/day capacity. The total number of municipal waste incinerators sold in 2006 amounted to 3 units with a total capacity of 166 t/day. The individual capacities of the units sold ranged from 10 t/day to 100 t/day.

Total revenues of TEUR 3,495 were generated in the municipal waste incinerator segment in the first quarter of 2007 from the construction of 2 units with a capacity of 150 t/day. These municipal waste incinerators with a 150 t/day capacity are the largest models that have ever been sold. The price of each of these units was approximately TEUR 1,744.

As a result, the ratios of revenues from municipal waste incinerators to total revenues were 70.6% in 2004, 9.2% in 2005, 18.2% in 2006 and 47.5% in the first quarter of 2007, respectively.

Cost of Sales

	31 December			31 March
	2004	2005	2006	2007
		(audited)		(unaudited)
		in TEUR		
Medical waste incinerators				
Revenues	1,813	10,352	15,543	3,864
Cost of sales	–686	–3,051	–4,276	–896
Cost of sales/revenues (%)	37.8	29.5	27.5	23.2
Municipal waste incinerators				
Revenues	4,349	1,046	3,452	3,495
Cost of sales	–1,585	–457	–1,335	–1,667
Cost of sales/revenues (%)	36.4	43.7	38.7	47.7
Total				
Revenues	6,162	11,398	18,995	7,359
Cost of sales	–2,271	–3,508	–5,611	–2,563
Cost of sales/revenues (%)	36.9	30.8	29.5	34.8

Costs of sales mainly relate to electric components, steel and auxiliary material.

The overall ratio of cost of sales to revenue decreased from 36.9% in 2004 to 30.8% in 2005. This decrease in the ratio of cost of sales to revenue during that period is primarily due to the 471.0% increase in revenues from the medical waste incinerator segment and the lower cost of sales to revenue ratio in this segment compared to the municipal waste incinerator segment. Average prices for steel plates, the main steel component used for the production of waste incinerators, increased by approximately 10% in financial year 2005, compared to the previous year. Cost of sales as a percentage of revenues was 37.8% in the medical waste incinerator segment in 2004 and only 29.5% in 2005 as a result of an increase in sales prices. In addition, this effect was due to the sale of a 32 t/day model with an above average margin in this segment. In contrast, the ratio of cost of sales to revenues in the municipal waste incinerator segment increased to 43.7% in 2005 compared to 36.4% in 2004.

The lower cost of sales to revenue ratio in the medical waste incinerator segment in financial year 2005 versus the municipal waste incinerator segment is primarily due to the higher sales prices charged in this segment. The percentage of steel necessary remained essentially unchanged in both segments and was roughly 30% of the cost of sales.

The overall ratio of cost of sales to revenues declined to 29.5% in 2006 compared to the previous year of 30.8%. Comparable to the financial year 2006, the continued decrease in the ratio of cost

of sales to revenues is due to a further 50.1% increase in revenues from the medical waste incinerator segment and the relatively low cost of sales ratio in this segment. The ratio of cost of sales to revenue was 27.5% in the medical waste incinerator segment in 2006, compared to 29.5% in the previous year due to an increase in sales prices. The ratio of cost of sales to revenues decreased to 38.7% in the municipal waste incinerator segment in 2006 compared to the previous year of 43.7% primarily as a result of the sale and delivery of a 100 ton model with relatively higher margin in 2006.

The overall cost of sales to revenue ratio was 34.8% in the first quarter 2007. In the first quarter, two municipal waste incinerators, each with a capacity of up to 150 t/day and a price of TEUR 1,744 were sold to one client at a price discount as a result of the high volume of the purchase order.

Personnel expenses in 2004 to 2006 accounted for approximately 10% of cost of sales.

Selling and Distribution Expenses

Selling and distribution expenses are principally comprised of salaries of sales personnel and after-sales personnel, travel expenses, after-sales fees, and sales-related expenses.

Selling and distribution expenses were TEUR 353 in financial year 2004, and increased by 19.0% to TEUR 420 in 2005, which represents an underproportional increase compared to the 85.0% rise in revenues during the same period.

In 2006, selling and distribution expenses rose 75.0% over the previous year to TEUR 735, while revenues increased by 66.7%. This above-average increase in selling and distribution expenses mainly derives from the bonus payment amounting to approximately 1% of annual revenues, which was paid for the first time in 2006 to employees in the sales department. It was also effected by the increases in travel, vehicle, advertising and telecommunications expenses resulting from enhanced marketing in the medical waste incinerator segment.

Selling and distribution expenses were TEUR 242 in the first quarter of 2007.

The ratio of selling and distribution expenses to revenues decreased over the reporting period as a whole. It was 5.7% in 2004, 3.7% in 2005, 3.9% in 2006 and 3.3% in the first quarter 2007, respectively. This reduction was due to the strong increase in revenues.

Administrative expenses

Administrative expenses consist mainly of salaries, statutory insurance expenses, office rent and other office related expenses.

Administrative expenses for financial year 2005 increased by 39.0% from TEUR 265 over the previous year to TEUR 367, which represents a smaller increase than the revenue increase of 85.0% for the same period. Administrative expenses increased by 2.7% to TEUR 377 in 2006 which represents once again an underproportional increase compared to the 66.7% increase in revenues over the same time period.

Administrative expenses, including consulting expenses in connection with the intended public offering were TEUR 289 in the first quarter of 2007.

The ratio of administrative expenses to revenues decreased on average over the reporting period as a whole. It was 4.3% in 2004, 3.2% in 2005, 2.0% in 2006 and 3.9% in the first quarter of 2007, respectively. This reduction was due to the strong increase in revenues.

Research and development expenses

Research and development expenses consist mainly of salaries for employees in that department.

In financial year 2005, research and development expenses increased by 2.3% from TEUR 177 in the previous year to TEUR 181. This amount was primarily used for the improvement of medical waste incinerator technology.

In financial year 2006, research and development expenses rose 12.2% over the previous year to TEUR 203. This increase resulted from the construction of two municipal waste incinerators with a capacity of 56 t/day and 100 t/day, respectively. Since the maximum capacity of the units previously built in the municipal waste incinerator segment was 10 t/day (Model: LFW-420), this was the first time that such large-scale units had been built. Additional development work was, therefore, needed, which led to an increase in research and development expenses in 2006.

Research and development expenses were TEUR 48 in the first quarter of 2007.

Other operating expenses

Other operating expenses consist of allowance for doubtful trade debts and remuneration for financial consulting services. Other operating expenses increased from TEUR 47 in 2004 to TEUR 141 in 2005 and to TEUR 166 in 2006.

Finance income

Finance income relates exclusively to interest on bank balances.

In financial year 2004, finance income was TEUR 7. Finance income increased to TEUR 10 in financial year 2005 and TEUR 14 (combined consolidated data: TEUR 16) in 2006.

Finance income was TEUR 54 in the first quarter of 2007 due to more deposits in accounts with short-term maturities in the first quarter of 2007 in comparison to the whole financial year 2006.

Finance costs

Finance costs relate exclusively to short term interest bearing bank loans.

Finance costs increased by 3.6% in financial year 2005 from TEUR 56 in 2004 to TEUR 58 and decreased by 13.8% in financial year 2006 to TEUR 50.

The average interest paid on short-term loans was 7.4% in 2006, which is essentially unchanged when compared over a 3-year period.

Finance costs were TEUR 13 (combined consolidated data: TEUR 14) in the first quarter of 2007.

Income tax

Income tax increased by 109.7% in financial year 2005 from TEUR 1,135 in the previous year to TEUR 2,380 while profit before income tax rose 122.3% over the same period.

Income tax increased again by 61.6% in financial year 2006 to TEUR 3,847, remaining below the rate of increase in profit before income tax, which rose by 76.3% over the same period.

In accordance with the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, FengQuan is entitled to a full exemption from Enterprise Income Tax for the first two years and a 50% reduction for the next three years, commencing from the first profit-making year after offsetting all tax losses carried forward from the previous five years.

Pursuant to these tax laws, FengQuan can choose whether to use the tax exemption when its operating period as a foreign enterprise is less than half a year. FengQuan obtained its Foreign Investment Enterprise license in August 2006. Accordingly, FengQuan chose the year 2007 to be the first profit-making year.

Income tax (deferred tax expense) was TEUR 61 in the first quarter of 2007.

Balance sheet data

The following discussion relating to selected balance sheet items is based on the audited financial statements of FengQuan under IFRS as of 31 December 2004, 31 December 2005, 31 December 2006 and the unaudited interim statements of FengQuan under IFRS as of 31 March

2007. To the extent certain line items differ from those of the combined consolidated financial statements of the Company this will be briefly indicated.

Assets

The following table shows the selected asset items of the balance sheet:

	31 December			31 March
	2004	2005	2006	2007
		(audited)		(unaudited)
		in TEUR		
Non-current assets				
Equipment	241	256	306	293
Intangible assets	0	4	3	3
Deferred tax assets	37	78	123	62
	278	**338**	**432**	**358**
Current assets				
Inventories	900	569	770	698
Trade receivables	1,547	3,600	4,923	9,158
Other receivables and prepayments	31	38	52	31
Amounts due from related parties	3,671	5,629	1,416	234
Cash and cash equivalents	26	4	9,113	10,099
	6,175	**9,840**	**16,274**	**20,220**
Total assets	**6,453**	**10,178**	**16,706**	**20,578**

Non-current assets

Since all production facilities and certain office premises are leased from Fujian FengQuan Environmental Protection Group Co. Ltd., non-current assets consist mainly of machine and electric equipment *(see: Business Description — Locations, Business Premises and Assets*).

Equipment

Machine and electric equipment mainly consists of manufacturing tools such as cranes and steel cutting and machining tools. Machine and electric equipment are depreciated over time. Depreciation is applied by the straight line method in accordance with expected useful lives.

As of 31 December 2004, machine and electric equipment accounted for TEUR 241, consisting of TEUR 219 in machine equipment and TEUR 22 in electric equipment.

Equipment increased by 6.2% in financial year 2005, from TEUR 241 in the previous year to TEUR 256. Despite regular depreciations the value of the equipment increased in EUR terms partly because of the purchase of additional electric equipment and partly due to an RMB appreciation of approximately 16% in 2005. As of 31 December 2005 machine and electric equipment consisted of TEUR 227 in machine equipment and TEUR 29 in electric equipment.

Machine and electric equipment increased in financial year 2006 by 19.5% over the previous year to TEUR 306. Despite regular depreciation and the RMB's depreciation by 8%, machine and electric equipment increased mainly due to further purchases which increased machine equipment to TEUR 286 as of 31 December 2006. Electric equipment was TEUR 20 for the same time period.

Machine and electric equipment was TEUR 293 as of 31 March 2007.

Intangible assets

Intangible assets consist primarily of software. Patents and any other intangible assets other than software have not been capitalized in the past *(see: Business Description — Intellectual Property)*.

Deferred tax assets

Deferred tax assets rose from TEUR 37 in 2004 to TEUR 78 in 2005 and to TEUR 123 in 2006. Deferred income tax assets is especially based on the higher allowance for bad debts and the provisions for warranty, which are counted only in the IFRS statements. Increases in allowances for bad and doubtful debts as well as provisions for warranty in the period 2004 to 2006 are mainly in line with revenue expansion.

Current assets

Inventories

Inventories relate to raw materials and consumables, work in progress and finished goods.

	31 December			31 March
	2004	2005	2006	2007
	(audited)			(unaudited)
	in TEUR			
Raw materials and consumables	141	275	172	140
Finished goods	673	294	520	439
Work in progress	86	0	78	119
Total	**900**	**569**	**770**	**698**

Inventories were TEUR 900 in financial year 2004, consisting of TEUR 141 in raw materials and consumables, TEUR 673 in finished goods, and TEUR 86 in work in progress.

Inventories decreased by 36.8% in financial year 2005 to TEUR 569, due primarily to reductions in finished goods and work in progress. Raw materials and consumables increased by 95.0% to TEUR 275. This increase resulted from higher demand for materials caused by increased incoming orders at the end of 2005.

Inventories grew by 35.3% in financial year 2006 to TEUR 770, due to a significant increase in finished goods and work in progress. Raw materials and consumables decreased by 37.5% to TEUR 172 caused by a normalized order income at the end of 2006.

Inventories were TEUR 698 in the first quarter of 2007.

In 2004 the turnover period for inventories was approximately 98 days, in 2005 approximately 75 days and in 2006 approximately 43 days. Therefore, the turnover period was shortened significantly over the years 2004 to 2006, which led to an optimization of working capital needs.

Trade receivables

Trade receivables were TEUR 3,600 in financial year 2005. This represents an increase of 132.7% over TEUR 1,547 in 2004. By contrast, revenues only increased by 85.0% over the same period. The average age of the receivables increased from 2004 to 2005 from 78 days to 81 days. This calculated increase was due to a high amount of deliveries at the end of the year 2005 with corresponding outstanding payments, which led to an increase in trade receivables.

Trade receivables increased by 36.8% in financial year 2006 to TEUR 4,923, while revenues increased by 66.7% during the same period. In 2006 the average age of receivables remained unchanged with 81 days.

Trade receivables were TEUR 9,158 at the end of the first quarter of 2007. This calculated increase of the average age of the receivables up to 86 days was due to the delivery of two upscale units, each with a capacity of 150 t/day, which was associated with extended contractual payment targets.

FengQuan has not written-off receivables in the past. All trade receivables are non-interest bearing. They are recognized at original invoice amounts, which represent their fair value at the time of initial recognition. Individual bad debt allowance is only accounted for if the receivable is finally judged to be uncollectible. Information on debtors' ability to pay is difficult to obtain. However, a provision for doubtful receivables is accounted for using the following rates: 5% for

ages less than one year, 50% for ages between one year and three years, 100% for ages over three years.

Other receivables and prepayments

Other receivables and prepayments rose from TEUR 31 in 2004 to TEUR 38 in 2005 to TEUR 52 (combined consolidated: TEUR 77) in 2006. Other receivables reflect in particular loans granted to staff members in 2004 and 2005 as well as stated bail receivables for the attendance of tenderings.

Amounts due from related parties

Amounts due from related parties increased by 53.3% in financial year 2005 from TEUR 3,671 in the previous year to TEUR 5,629. This increase was mainly due to an interest free loan to Fujian Fengquan Environmental Protection Group Co., Ltd. at year end. Due to this loan the cash and cash equivalents as of 31 December 2004 and 2005 were very low compared to 2006.

Amounts due from related parties decreased significantly by 74.8% to TEUR 1,416 in financial year 2006. This change was primarily due to the repayment of the interest free loan mentioned above of TEUR 4,764.

Amounts due from related parties were TEUR 234 in the first quarter of 2007.

Cash and cash equivalents

Cash and cash equivalents decreased 84.6% in financial year 2005, from TEUR 26 to TEUR 4. In financial year 2006, cash and cash equivalents increased substantially to TEUR 9,113 (combined consolidated data: TEUR 9,199). Cash and cash equivalents amount to TEUR 10,099 (combined consolidated data: TEUR 10,103) in the first quarter of 2007. For change in cash funds see below *''Cash flow statement''*.

Liabilities and Equity

The following table shows selected liability and equity items:

	31 December			31 March
	2004	2005	2006	2007
		(audited)		(unaudited)
		in TEUR		
Current liabilities				
Short-term loans	798	420	681	678
Trade payables	244	368	443	530
Other payables and accruals	733	459	627	1,177
Provisions	26	27	210	235
Amounts due to related parties	327	6	5,115	4,997
Income tax payable	266	952	810	73
	2,394	**2,233**	**7,886**	**7,690**
Non-current liabilities				
Long-term loan	0	0	0	0
Total liabilities	**2,394**	**2,233**	**7,886**	**7,690**
Capital and reserves				
Share capital	2,774	2,774	2,774	2,774
Statutory reserves	238	972	1,765	1,765
Retained earnings	1,394	3,726	4,271	8,384
Foreign exchange difference	–347	473	10	–35
Total equity	**4,059**	**7,945**	**8,820**	**12,888**
Total liabilities and equity	**6,453**	**10,178**	**16,706**	**20,578**

Current liabilities

Short term loans

Short-term loans were TEUR 798 in financial year 2004 and related in part to three bank loans which were fully repaid during 2005.

Short-term loans decreased by 47.4% to TEUR 420 in financial year 2005 due the aforementioned repayment of short-term loans. In the same period a new bank loan facility of TEUR 420 was entered into.

In financial year 2006, short-term debts increased by 62.1% over the previous year to TEUR 681. This was the result of short-term borrowing used to increase working capital.

As of 31 December 2006, total short-term loans of TEUR 681 consisted of two loans, which are required to be repaid in June (TEUR 389) and November 2007 (TEUR 292).

Short-term loans have not changed in the first quarter of 2007 without currency translation effects. However, due to a slight RMB depreciation in the first quarter of 2007, the EUR figures are slightly lower.

Trade payables

Trade payables rose from TEUR 244 in 2004 to TEUR 368 in 2005 to TEUR 443 in 2006. This increase is in line with the increase in cost of sales due to the positive development of FengQuan's business. In the first quarter of 2007 trade payables were TEUR 530.

Other payables and accruals

Other payables contain advances from customers, VAT payable and other. The accruals are mainly payroll related.

Other payables and accruals were TEUR 733 in 2004, TEUR 459 in 2005 and TEUR 627 (combined consolidated data: TEUR 735) in 2006. The increase in 2006 is mainly due to bonus payments to key personnel and the sales related employees.

Provisions

Provisions consist of maintenance, warranties and staff bonus and welfare. A provision is recognized for expected warranty claims on products sold during the last one year, based on past experience of the level of repairs and returns.

Provisions were TEUR 26 in 2004, TEUR 27 in 2005 and TEUR 210 in 2006. The increase resulted from warranty related provisions due to the overall increase in revenues.

Amounts due to related parties

Amounts due to related parties decreased significantly in financial year 2005 to TEUR 6 compared to the previous year of TEUR 327. This reduction relates to account payable trade (TEUR 321) paid by FengQuan.

Amounts due to related parties increased significantly in financial year 2006 to TEUR 5,115. This increase was mainly due to the shareholder loans of TEUR 4,843, which FengQuan received in connection with the first step of the corporate restructuring to get the status as a ''Foreign owned Company''.

FengQuan received two loans from its former shareholders. One loan of approximately TEUR 2,839 was owed to Fujian Fengquan Environmental Protection Group Co., Ltd. and one loan of TEUR 2,004 to Mr Chen Zesong. According to the loan agreements, these debts bear no interest, and the use of such debt within the normal scope of business is not restricted in any way. The principal amount of the debts is to be repaid within 30 days after the offering. The loan agreement owed to the Fujian Fengquan Environmental Protection Group Co., Ltd. had been terminated on 29 April 2007 and a loan agreement which is subject to the same conditions had

been concluded between Ms. Chen Qiling and FengQuan on the same date (See *''Related Party Transactions — Loan Agreements''*)

Income tax payable

Income tax payable increased by 257.9% in financial year 2005, from TEUR 266 to TEUR 952 and represents the open balance of income taxes to be paid.

In financial year 2006, income tax payable decreased by 14.9% compared to the previous year to TEUR 810 and the prepayment of income tax was slightly higher.

Capital and reserves

As reflected in the above table, equity was TEUR 4,059 in financial year 2004, and increased by 95.7% in financial year 2005 to TEUR 7,945. This increase was mainly due to the net profit made in this financial year (TEUR 4,353), which was contributed to statutory reserves (TEUR 734), to retained earnings (TEUR 2,333) and dividend payments to shareholders (TEUR 1,286). The share capital remained unchanged at TEUR 2,774. Furthermore, positive translation effects in foreign exchange differences of TEUR 819 led to the overall increase in total equity.

Equity was TEUR 8,820 in financial year 2006, representing a further increase of 11.0% over the previous year. This increase was due to the net profit of TEUR 8,020 (combined consolidated data: TEUR 8,022) made in financial year 2006 combined with an offsetting effect arising from the dividend payments for 2005 and advanced dividend payments to shareholders, which amounted to TEUR 6,519 (translated at average rate; at historic rates in statement of changes in equity TEUR 6,683). Negative translation effects in foreign exchange differences reduced total equity by TEUR 462 in 2006.

As of 31 March 2007 equity was TEUR 12,888 (combined consolidated data: TEUR 12,889). The increase from the value of 31 December 2006 was due to the net profits of TEUR 4,112 in the first quarter of 2007 which was slightly offset by negative translation effects in foreign exchange differences amounting to TEUR 46.

The equity ratio was 62.9% in 2004, 78.1% in 2005 and 52.5% in 2006 and 62.3% in the first quarter of 2007.

The share capital of ZhongDe Waste Technology AG as of 4 May 2007 amounts to TEUR 10,000 representing the contribution in kind of Chung Hua Holding respectively FengQuan, the wholly owned subsidiary of Chung Hua Holding. This equity will be eliminated in the future consolidation process.

The net equity (essentially share premium capital) of Chung Hua Holding, the subholding company, amounts to TEUR 4,107. This equity will be eliminated in the future consolidation process (except for TEUR 2).

Cash flow statement

The following discussion relating to selected cash flow items is based on the audited financial statements of FengQuan under IFRS as of 31 December 2004, 31 December 2005, 31 December 2006 and the unaudited interim statements of FengQuan under IFRS as of 31 March 2007. To the extent certain line items differ from those of the combined consolidated financial statements of the Company this will be briefly indicated.

	31 December			31 March
	2004	2005	2006	2007
		(audited)		(unaudited)
		in TEUR		
Profit before income tax	**3,000**	**6,733**	**11,867**	**4,174**
Adjustments for:				
Amortization of intangible assets	0	0	0	
Allowance for doubtful trade debts	29	121	139	164
Provision for warranty	28	–25	162	75
Depreciation of property, plant and equipment	35	37	39	12
Interest income	–7	–10	–14	–54
Interest expense	56	58	50	13
Operating cash flows before working capital changes	**3,142**	**6,914**	**12,243**	**4,384**
Working capital changes:				
(Increase)/decrease in:				
Inventories	–567	332	–201	72
Trade receivables	–464	–2,174	–1,462	–4,399
Other receivables and prepayments	9	–8	–14	22
Amounts due from related parties	0	–1,335	–551	1,181
Increase/(decrease) in:				
Trade payables	124	125	75	86
Other payables, provisions and accruals	277	–248	189	501
Amounts due to related parties	358	–321	–33	–118
Cash generated from/(used in) operations	**2,879**	**3,285**	**10,246**	**1,729**
Interest received	7	10	14	54
Income tax paid	–1,024	–1,816	–3,972	–737
Cash flow from operating activities	**1,862**	**1,479**	**6,288**	**1,046**
Cash flow from investing activities				
Purchase of property, plant and equipment	–8	–10	–110	—
Purchase of intangible assets	0	–4	0	—
Cash flow used in investing activities	**–8**	**–14**	**–110**	**—**
Cash flow from financing activities				
Capital injection	971	0	0	—
Increase in short-term bank loans	–340	–378	261	–3
Loans from related parties	0	0	5,142	—
Loans given to related parties	–2,663	–624	4,764	—
Interest paid	–56	–58	–50	–13
Dividends paid to shareholders	0	–1,422	–6,519	
Cash flow from financing activities	**–2,088**	**–2,482**	**3,598**	**–16**
Net increase in cash and cash equivalents	**–234**	**–1,017**	**9,776**	**1,030**
Cash at beginning of year	259	26	4	9,114
Foreign exchange differences	1	995	–666	–45
Cash at end of period	**26**	**4**	**9,114**	**10,099**

Cash flow from operating activities

Cash flow from operating activities decreased by TEUR 383 from TEUR 1,862 in 2004 to TEUR 1,479 in 2005 then rose by TEUR 4,809 to 6,288 (combined consolidated data: TEUR 6,373) in 2006. Other than the increase in profit before income tax, the result from operating cash flow in 2005 was mainly affected by the increase in trade receivables and amounts due from related parties. Other non cash adjustments did not have a material effect.

Cash flow from operating activities was TEUR 1,046 (combined consolidated data: TEUR 965) in the first quarter of 2007.

Cash flow from investing activities

Since there were no major investment activities in the period from 2004 to the end of the first quarter 2007, cash flows from investing activities were negligible.

Cash flow from financing activities

Cash flow from financing activities decreased by TEUR 395 from a cash outflow of TEUR –2,088 in 2004 to a cash outflow of TEUR –2,482 in 2005, then increased significantly by TEUR 6,080 to a cash flow of TEUR 3,598 in 2006. The cash outflow from financing activities in 2004 mainly results from loans given to related parties in the amount of TEUR 2,663.

In 2005 repayments of short-term bank loans (TEUR 378) and loans given to related parties (TEUR 624) and dividends paid to shareholders (TEUR 1,422) led to cash outflow from financing activities of TEUR –2,482.

Despite the dividend payment of TEUR 6,519 in 2006, cash inflows from financing activities amounted to TEUR 3,598. This is mainly due to loans from related parties (TEUR 5,142) and the repayment of loans from related parties (TEUR 4,764).

In the first quarter of 2007 cash outflow from financing activities was to TEUR –16. This development was due to the fact that, except for interest paid, no important payments were made in the sub items of cash flow from financing activities.

Change in cash funds

Cash funds at the end of the period always equal the sum of cash funds at the beginning of the period and the change in cash funds from cash relevant transactions (total cash flow from operating activities, cash flow from investing activities and cash flow from financing activities). Cash funds totalled TEUR 26 at the end of 2004, TEUR 4 at the end of 2005 and TEUR 9,114 (combined consolidated data: TEUR 9,199) at the end of the financial year 2006.

Change in cash funds was TEUR 10,099 (combined consolidated data: TEUR 10,103) at the end of the first quarter of 2007.

INDUSTRY OVERVIEW

Since 1978, the People's Republic of China (**''PRC''** or **''China''**) has been reforming its economy, turning it from a centrally planned economy into a market-oriented economy. These reforms have helped to lift millions of people out of poverty, bringing the poverty rate down from 53% of the population in 1981 to 8% by 2001. *(Source: World Bank, Fighting Poverty: Findings and Lessons from China's Success, 2006).* The economy of the People's Republic of China today is the fourth largest in the world measured by its nominal gross domestic product (**''GDP''**) and its economic output for 2006 was USD 2.5 trillion. (*Source: CIA, World Fact Book, 2007*). The Olympic Games in 2008 in Beijing and Expo 2010 in Shanghai are likely to support the further growth of the Chinese economy. The PRC's economic growth rate has been approximately 9% annually for the last 25 years (*Source: National Bureau of Statistics of China, China Statistical Yearbook 2006)*. The industrial sector has been the key driver since the 1990s. Urbanisation and industrialisation have accompanied China's rapid economic growth, resulting in major environmental concerns. Increasing domestic waste generation is regarded as one of the main causes of land, air and water pollution, particularly in highly populated areas. The economic growth increasingly extends to small and mid-sized cities making them also large waste producers. As the world's most populous country with an increasing population of approximately 1.3 billion, along with increasing industrialization and urbanization, ZhongDe Group expects an increased demand in China for waste disposal management systems and safe waste disposal solutions.

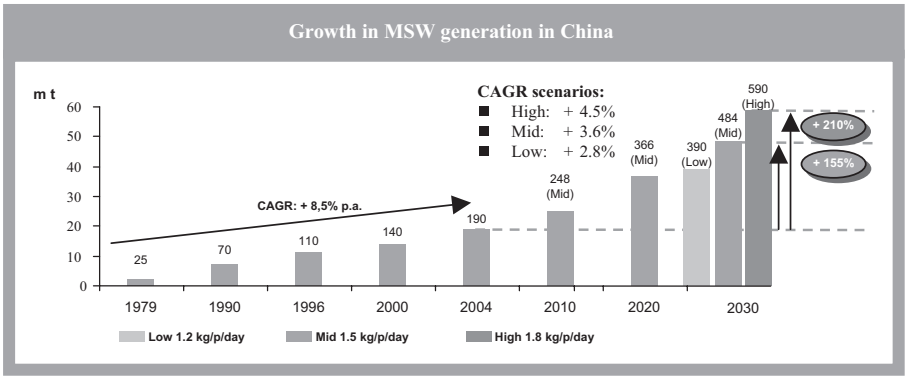
Waste Management and Waste Treatment

Waste management will be one of the key challenges for China's growing economy over the next decades. The goal of waste management is the collecting, transporting, processing, recycling or disposal of waste materials, generally produced by human activity, and reducing its negative impact on the environment, human health or local aesthetics. Waste management can involve solid, liquid or gaseous substances with different methods and fields of expertise for each type of waste. Waste management practices differ between developed and developing nations, urban and rural areas, and residential, industrial, and commercial producers. There are numerous concepts for waste management, the employment of which varies between countries or regions. Regardless of any efforts to reduce waste by reusing, recycling or recovering waste materials, the safe disposal of waste is an indispensable part of waste management.

Municipal Solid Waste

China has already become the world's largest generator of municipal solid waste, which includes refuse from households, non hazardous waste from industrial, commercial and public entities, market waste, and street sweepings. In 2004 the urban areas of China generated about 190 million tons of municipal solid waste. This corresponds to a compound annual growth rate (**''CAGR''**) of 8.5% during the time period from 1979 to 2004, compared to a CAGR of 1.1% in OECD countries, 1.7% in the EU and 1.0% in the US during the same reference period. Depending on the growth of urban population in the PRC and the quantity of daily waste generated per capita, by 2030 the annual amount of the municipal solid waste is estimated to grow to at least 390 million tons (based on 1.2 kg waste per person and day) and up to 590 million tons (based on 1.8 kg waste per person and day) (*source: World Bank, Working Paper No. 9, Urban Development in China: Issues and Recommendations, May 2005* — **''World Bank Paper 2005''**).

The following graph illustrates the development of growth in municipal solid waste in the PRC in terms of the average waste generation per capita:

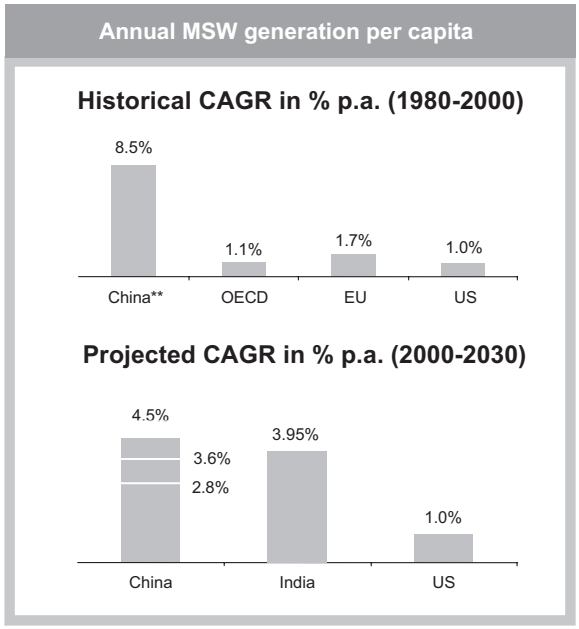


Source: Worldbank Paper 2005.

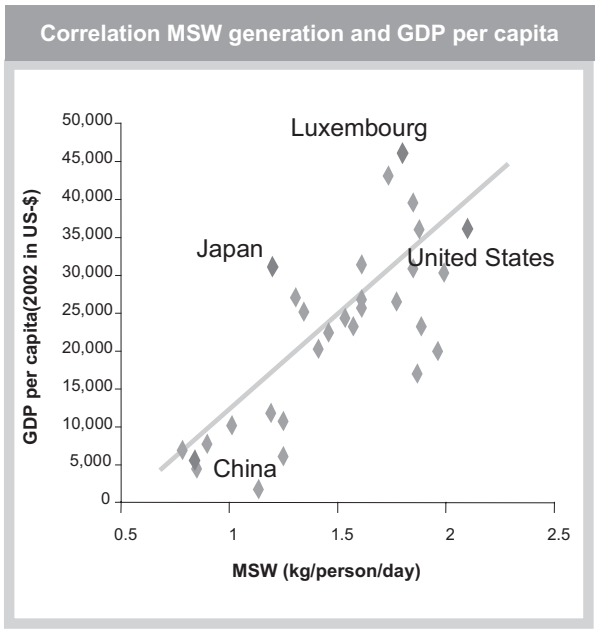
The key drivers of growth in municipal solid waste generation are:

- the rise in urbanization and the growth of urban population in China, as urban residents produce 2-3 times more waste than rural residents;
- an increase of prosperity and a higher average income resulting in growing consumption and changing consumer patterns; as well as
- an acceleration of waste collection rates from today 30% to 60-70% *(Source: World Bank Paper 2005)*.

It is anticipated that the expected rise in urbanization and increasing affluence will become the key drivers for growth in waste generation and cannot be compensated by efforts in waste reduction, waste segregation, and waste recycling. The following graphs show the annual generation of municipal solid waste per capita and the correlation of municipal solid waste and gross domestic product per capita.

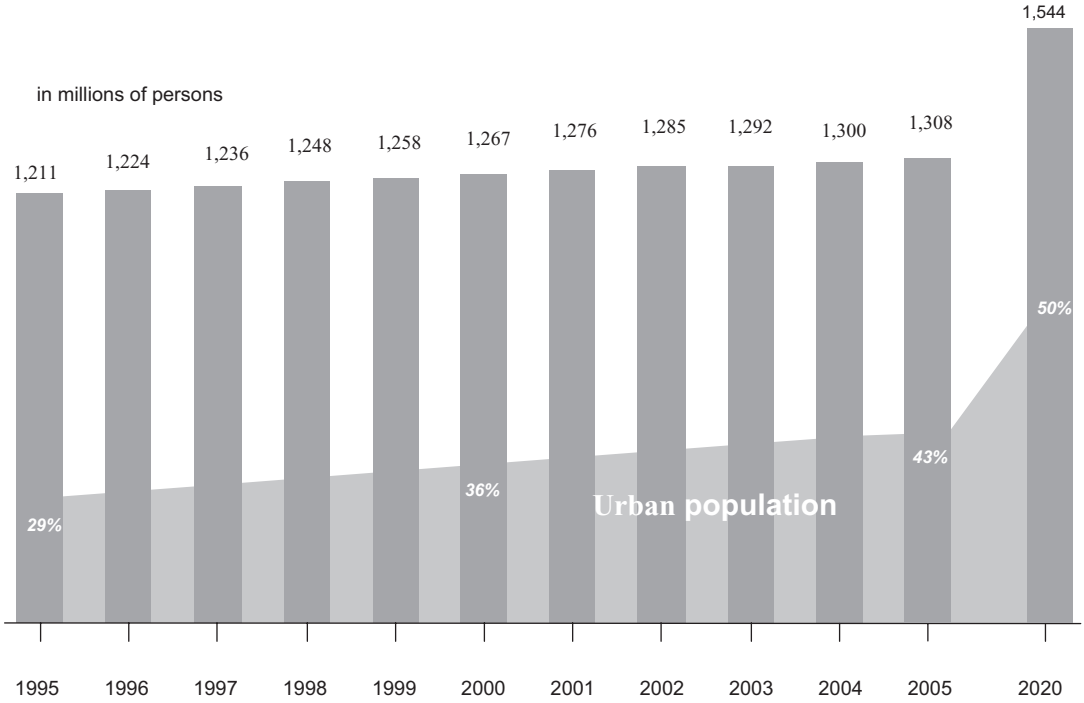


(Source: World Bank Paper 2005)



(Source: World Bank Paper 2005)

The following graph illustrates the development of urbanization over the past ten years in China and a projection for 2020:

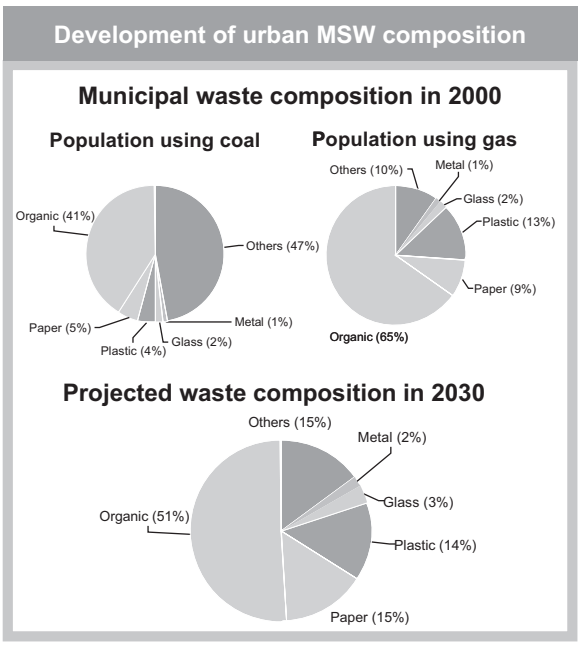


(Source: World Bank Paper 2005).

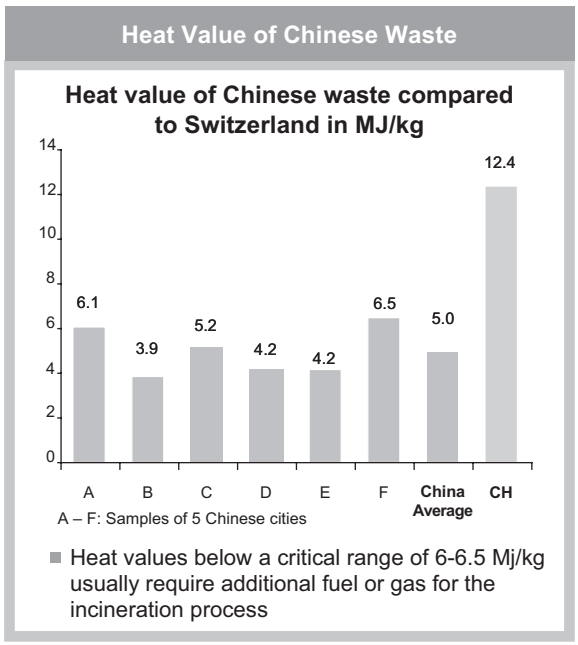
Municipal solid waste in China is characterized by a high degree of organic substances (as a portion of total municipal waste), which in 2000 ranged between 41% and 65% on average. It is expected that by 2030 the degree of organic substances of Chinese municipal solid waste will be above 50%. (*Source: World Bank Paper 2005*).

The high degree of organic substances results in very low heat values of municipal solid waste (of about 5 MJ/kg). According to academic surveys, additional fuel or gas is required to incinerate waste with heat values of less than 6-6.5 Mj/kg *(Source: University of Rapperswil, on Waste Incineration in China, 2003).*

The following graphes illustrate the development of the composition of urban municipal solid waste and the heat value of Chinese waste compared to Swiss waste:



(Source: World Bank Paper, 2005)



(Source: University of Rapperswil, Switzerland, 2003)

China currently faces serious environmental problems due to its enormous waste generation. In order to cope with a bulk of 2.5 times more municipal solid waste in 2030 than today (*Source: World Bank Paper 2005*), China is in urgent need of developing and implementing efficient waste management and waste disposal systems.

In the PRC, about 93% of the waste was disposed in landfills in 2003 (*Source: World Bank Paper 2005*). That traditional method of waste disposal, however, is becoming more and more inappropriate, particularly in highly populated cities where space required for new and existing landfills is rare. Moreover, most of the landfills in China have been constructed with low technical standards and are poorly operated. This increases the risk of so-called ''brownfields'', which are contaminated lands resulting from inadequate disposal practices, treatment of leachate, or chemical spills, having a negative impact on public health, environmental quality and land values. At present, there are likely to be at least 5,000 such sites in Chinese cities (*Source: World Bank Paper 2005*). Numerous Chinese cities are surrounded by solid waste, which damages the environment, worsens living conditions and prevents the development of urban construction. The costs to clean up these sites will always be significantly higher than the costs of disposing of the waste properly in the first place.

If waste management systems do not improve significantly, China will need to maintain waste disposal though landfills and approximately 1,400 new landfills will be needed over the next 25 years (*Source: World Bank Paper 2005*).

Medical Waste

Medical waste is generated by healthcare activities like medical treatments, immunizations or diagnostic tests and is composed of almost 80% of general waste and 20% of hazardous waste such as infectious materials, anatomic parts, sharps, chemicals, pharmaceuticals and radioactive waste (*Source: World Health Organisation, Fact sheet No. 253, October 2000)*. Chinese hospitals often dispose of medical waste by burying such waste which leads to unsanitary conditions where viruses can be transmitted and toxic materials can contaminate the surrounding environment (*Source: Samantha Jones, Medical Waste and Health Challenges in China, February 2007*). According to data published by the Institute of Environmental Planning of the PRC State Environmental Protection Bureau, the annual aggregate amount of waste includes about 700,000 tons of medical waste. In 2002, Shanghai alone produced 20,000 tons of medical waste per year (*Source: Samantha Jones, Medical Waste and Health Challenges in China, February 2007*).

In the wake of the outbreak of the severe acute respiratory syndrome (SARS) and avian influenza, the Chinese government has taken action to improve medical waste management and has focused on a centralized treatment of medical waste as opposed to individual hospital disposal. In connection with the Regulation to Standardize Disposal of Dangerous and Medical Waste, the Chinese government provided approximately TEUR 667,000 in 2004 to build 300 centralized facilities for the disposal of medical waste. According to the Company's internal research, from 2004 until year end 2006 roughly 50% of such facilities have been built.

Industrial Waste and Hazardous Waste

Industrial waste is generated through manufacturing, mining and agriculture along with commercial activities. Industrial waste is divided into hazardous and non-hazardous waste. Hazardous waste may result from manufacturing or other industrial processes. According to figures from the Institute of Environmental Planning of the PRC State Environmental Protection Bureau (**''SEPA''**), the annual aggregate amount of waste comprises more than 11,500,000 tons of hazardous waste. This includes electronic waste which has been moved from Western countries to China. China's SEPA revealed that 80% of the world's electronic waste is shipped to Asia where 90% of it is disposed of in China, making the PRC the world's largest dumping ground for such material (*Source: National Bureau of Statistics of China, World Bank 2005, Xinhua News Agency*). Currently, most of the industrial and hazardous waste is dumped in landfills with no further treatment.

Waste Incineration

The disposal of waste in dumps and sanitary landfills is the most traditional and widespread disposal method. The alternative to landfills is either disposal through composting or disposal through incineration. When appropriately carried out composting is environmentally friendly, but less efficient and requires waste segregation. Waste incineration is, though more expensive, less space-consuming and more efficient. Most of the waste can be significantly reduced in volume by being burned. In addition, modern incinerators are able to use the thermal energy from incineration to generate other forms of energy (such as steam or electricity) or various by-products.

The main characteristics of waste treatment through incineration compared to other waste treatment technologies can be summarized as follows:

Comparison of waste treatment technologies

	Dumps	Sanitary Landfill	Compost	Incineration
Minimization of Waste	Low	Low	Medium	High
Land Occupation	High	High	Medium	Low
Environmental impact	High (Risk of leakage, toxic emissions)	Medium	Low	Low to Medium (depending on technology, potentially toxic emissions)
Investment cost	Low	High	Medium	High
Operation cost	Low	Medium* (EUR 3.5 per ton)	Medium* (EUR 0.8-1.2 per ton)	High* (EUR 10 per ton)
Comprehensive utilisation	None	None	Compost as by-product	Electricity / hot water / steam / brick as by-products
Overall evaluation	Predominant disposal method with high future costs & environmental risks	Requires high standards to manage environmental impact avoid anthropogenic greenhouse gas (Methane), but highly flexible in use	Poor experience with large-scale composting; requires waste segregation	Attractive despite cost disadvantage; technology important in terms of operating costs and toxic emissions

* Source: www.china-envir.whilb.ac.cn; CMD umbrella guidelines for MSW in China (February 2004).

As incineration plants require significantly less space, waste disposal through incineration is particularly popular in countries with a high population density such as Japan and most of the EEA member states. Incineration is carried out both on a small scale by individual households and on a large scale by industry. Waste management through incineration results in a high waste elimination rate. It is also recognised as a practical method of disposing of certain hazardous materials (such as organic waste, medical waste, industrial hazardous waste and aviation waste), though it remains controversial in many places due to potential toxic emissions. Breaking down complex chemical chains such as dioxin through the application of heat usually cannot be achieved by simply burning the material at the temperatures generated with an open-air fire. To eliminate toxic substances, the combustion process of most incinerators must be supported by gas or oil burners and supplementary air blowers in order to arrive at high temperatures required to achieve molecular breakdown.

The thermal breakdown of pollutant molecules can, however, indirectly trigger other environmental problems. Dioxin breakdown begins at 850°C, but at the same time poisonous nitrogen oxides and ozone begin to form when atmospheric nitrogen and oxygen break down at 1,600°C. This undesired oxide formation may require further catalytic treatment of the exhaust gases.

Incineration and other high temperature waste treatment systems are described as ''thermal treatment''. In effect, the incineration of waste materials converts the waste into heat, gaseous emissions, and residual solid ash. Other types of thermal treatment include pyrolysis and gasification. Over the past 20 years, Sweden has been a leader in using the energy generated from incineration by thermal treatment.

Certain incinerators are waste-to-energy plants (**''WTE''**), which burn waste in high-efficiency furnaces or boilers to produce steam and/or electricity and employ modern air pollution control systems and continuous emissions monitors. These types of incinerators are sometimes also called energy-from-waste (**''EFW''**) facilities.

ZhongDe Group expects that the percentage of waste disposal through incineration in China will grow significantly from a level of approximately 3% in 2003. These expectations are based on the obvious disadvantages of the traditional disposal method of using landfills compared to the advantages of incineration. For the year 2030, PRC government has announced a target level of 30% for waste disposal through incineration.

In the ZhongDe Group's view, landfill disposal is characterized by the following major disadvantages:

- The waste occupies enormous land resources which are particularly lacking in most Chinese cities, many of which are already surrounded by waste which prevents the development of further urbanization.
- It is very difficult to prevent leaking toxic liquid from polluting rivers or ground water. If landfill leachate is not treated adequately, it will contaminate soil, ground water, and the atmosphere over the long term.
- Waste landfills not only breed dangerous bacteria but also generate explosive methane, which is a major greenhouse gas. These pose threats to the health and environmental safety of local residents.
- The use of landfills does not result in waste elimination.

ZhongDe Group takes the view that waste incineration is superior to landfills for the following reasons:

- Waste treatment by an incineration plant can significantly save land resources.
- Significantly lower overall emissions compared to landfills
- The bulk and weight of the waste will be decreased by 80% to 90% through incineration.
- Secondary pollution is minimized; incinerators can dispose of many sorts of wastes without pre-treatment. The thermal energy generated during incineration can be harnessed for the extraction of energy or other by-products.

Market for Waste Incinerators

ZhongDe Group primarily focuses on the PRC as its main market, and its target customers are small and mid-sized cities in developed areas. ZhongDe Group is, however, also aiming to expand into other countries characterised by underdeveloped waste management systems such as states in Southeast Asia, Africa and Eastern Europe.

PRC waste generation and public waste management budgets are growing at high rates. Based on the 11th National Five-Year Plan for Environmental Protection approved by the State Council in 2005 and distributed by State Environmental Protection Administration, the total investment for environmental protection in China will reach TEUR 67,812,373 budgeted and investment devoted to the prevention and treatment of solid waste will amount to approximately TEUR 11,625,000 during the same period.

Numerous initiatives that have been started by the Chinese government to improve waste treatment systems in China are supported by various environmental laws and regulations and measures, such as

- The national construction program for the facilities of hazardous waste and medical waste disposal which was promulgated after the SARS outbreak in 2003 and which stipulates a total investment of approximately TEUR 716,000 to establish 300 medical waste disposal centers and 31 facilities for disposal of hazardous waste;
- The Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste which was promulgated in 2005 and which stipulates that solid waste should be disposed of in an environmental- friendly manner;
- The 11th Five-Year-Planning of 2005 which provides for investment of TEUR 4,999,000 to build new waste disposal plants between 2006 and 2010.

Currently, the Chinese government is financing between 50% and 70% of the investment costs for the construction of medical waste disposal plants. In addition, WTE plants benefit from a state-guaranteed price for electricity generated by waste treatment facilities of EUR 0.024 per kw/h above the respective market price.

In 2003, when approximately 93% of its waste was disposed of in landfills, the share of waste disposal through incineration amounted to 3% in overall China and to about 6% in large cities. The Chinese government, however, has promulgated its target to increase the share of incineration to 30% by 2030. (*Source: World Bank Paper 2005*).

In ZhongDe Group's view, waste incineration is becoming an increasingly important tool in waste treatment and safe disposal in China. Many municipal authorities use incinerators for waste disposal as a result of the sound reputation of waste incinerators and experiences with medical waste incinerators, scarcity of sanitary landfills, the low level of operating costs as well as attractive opportunities for government entities to offer private companies to bid for the design, construction and operation of the waste incineration site by avoiding investment costs through so-called BOT projects (Build, Operate, Transfer *(see: Business — Products and Services — BOT projects)*. ZhongDe Group believes that the advantages of waste incineration outweigh higher investment costs required for incinerators compared to the construction of landfills and that the disposal of small and medium volumes of municipal solid waste through incineration will rapidly grow especially in small and mid-sized cities with 100,000-750,000 inhabitants over the next few years.

With regard to medical waste treatment solutions, the PRC government has recognised for the last few years that the level of appropriate and technologically advanced waste treatment is in urgent need of improvement. As a consequence of recent health epidemics such as the avian influenza and SARS which have enhanced public awareness of adequate waste management, the PRC government began to promote the application of waste incinerators. In 2003, the PRC government promulgated a law requiring hospitals to collect medical waste at one place and arrange for appropriate disposal facilities (*First Regulation of the State Council on Medical Solid Waste, 26 June 2003*). According to ZhongDe Group's estimate, of the targeted 300 medical waste disposal centers to be established under that program *(see: Industry Overview — Waste Management and Waste Treatment — Medical Waste),* about 50% had been established by the end of 2006. This leaves considerable market potential among replacements of existing sites for

treatment of medical waste. According to ZhongDe Group's internal research, the government is helping hospitals to implement this by contributing 50% of the project costs for the collection and incineration of medical waste, and in certain western regions as much as 70%.

With regard to solutions for aviation waste treatment, ZhongDe Group also sees considerable market potential. One reason is that through international air traffic various substances of uncertain origin such as hazardous, infectious or toxic waste may be ''imported''. Therefore, airports are required to clean up waste produced in the course of transportation. As of 2005, 142 airports had been certified for civil transportation in China *(Source: General Administration of Civil Aviation of China, Report on Development of China's Air Transport (2005/2006)*) and thus ZhongDe Group estimates a significant demand for efficient aviation waste incinerators.

As a result of the large amount of hazardous waste generated by China's fast growing economy and the continuing lack of appropriate waste treatment systems, SEPA has promulgated a construction plan, requiring Chinese cities to establish collection and disposal centers for industrial waste and hazardous waste. ZhongDe Group, therefore, believes there is significant market potential for industrial and hazardous waste incinerators.

BUSINESS

Overview

ZhongDe Group designs, manufactures and installs pyrolytic, grate and rotary kiln waste incinerators for the disposal of solid medical, municipal and industrial (including hazardous) waste in China. ZhongDe Group is currently focused on the construction of the incinerator but does not construct the plant building, in which the incinerator will be installed. Since 1996 ZhongDe Group has sold more than 170 waste incinerators to clients in 13 provinces throughout China and in the last three financial years alone 112 waste incinerators. Its waste incinerators are principally constructed for operators of medical disposal centers in the hospital and healthcare industry as well as for small and mid-sized Chinese cities in developed areas of the People's Republic of China (**''PRC''** or **''China''**). The Company believes that ZhongDe Group is one of the leading suppliers of small and mid-sized solid waste incinerators in China.

In 2006, ZhongDe Group generated revenues of thousands of Euro (''**TEUR**'') 18,995, a gross profit of TEUR 13,384, an EBIT of TEUR 11,903 and a net profit of TEUR 8,022, equal to an increase of 66.7%, 69.6%, 75.5% and 84.3% compared to 2005, respectively. In the first quarter of 2007, ZhongDe Group generated revenues of TEUR 7,359, a gross profit of TEUR 4,796, an EBIT of TEUR 4,133 and a net profit of TEUR 4,112. Revenues from ZhongDe Group's medical waste incinerator business have increased significantly over the last three years representing 29.4% of total revenues in 2004, 90.8% in 2005 and 81.8% in 2006.

ZhongDe Group's business is divided into two separate business segments: the medical waste incinerator business and the municipal waste incinerator business (including industrial waste as well as hazardous waste).

ZhongDe Group's medical waste incinerator business generated TEUR 15,543 in revenues in financial year 2006 and TEUR 3,864 in revenues for the first quarter of 2007, accounting for 81.8% and 52.5% of total revenues for ZhongDe Group for these respective periods. ZhongDe Group's medical waste incinerator business produces pyrolytic gasification incinerators with a current waste disposal capacity of between 1 and 32 metric tons of waste per day (**''t/day''**). Based on internal estimates, ZhongDe Group is one of the leading manufacturers of waste incinerators for medical waste in China with a market share of approximately 35% as of the end of 2006. In 2004 ZhongDe Group sold a LFRY-32 medical waste incinerator for the Nangong (Beijing) Project, which ZhongDe Group believes is the largest incinerator for medical waste in China today. Revenues and units sold increased substantially in the medical waste incinerator business over the last 3 years as a result of the Chinese government requiring hospitals to collect medical waste at a central location and dispose of it properly in the wake of the SARS epidemic. ZhongDe Group expects further significant revenues in the medical waste incinerator business as a result of steady demand for appropriate waste disposal solutions for medical waste as only approximately half of the government's target of 300 safe medical waste disposal centers had been established by the end of 2006 and as a result of the extensive amount of ongoing subsidies provided by the Chinese government for medical waste disposal systems. For example, in northwest of China, up to 70% of the financing for medical waste disposal systems is provided from public funding.

ZhongDe Group's municipal waste incinerator business generated TEUR 3,452 in revenues in financial year 2006 and TEUR 3,495 revenues for the first quarter of 2007, accounting for 18.2% and 47.5% of total revenues for ZhongDe Group for these respective periods. ZhongDe Group's municipal waste incinerator business produces pyrolytic, grate and rotary kiln incinerators for the disposal of municipal waste with a current waste disposal capacity of between 10 t/day and 150 t/day. ZhongDe Group expects that revenues, in particular in the municipal waste incinerator business, will significantly grow as ZhongDe Group targets smaller-sized cities in China between 100,000 and 200,000 inhabitants as well as mid-sized cities with between more than 200,000 and up to 750,000 inhabitants which have a growing need for waste incinerators for municipal waste and as general acceptance in China for waste incineration grows. In addition, the urbanization of the Chinese population has increased and will further increase which will in combination with improved average incomes generate substantial growth in municipal solid waste and thus increase the need for safe municipal waste disposal solutions.

ZhongDe Group's business of designing, manufacturing and installing waste incinerators has traditionally focused on the supply of waste incinerators for one-time projects for Chinese state owned and private companies. ZhongDe Group's customers consist of local municipalities, medical disposal centers as well as operators of waste incineration facilities. In the future, ZhongDe Group intends to expand its business into the construction of the entire waste incineration plant including the construction of the plant building and act as a turnkey provider (Turnkey Projects / BT Projects) which will enable clients to buy a complete solution from ZhongDe Group, enable ZhongDe Group to optimize the plant design and appearance, and most important, ensure that equipment can be installed in a timely manner, thus improving working capital management and optimizing delivery times. In addition, ZhongDe Group intends to expand into so-called BOT projects (known as Build, Operate/Own, and Transfer) to operate waste incineration plants for their clients over a defined concession period of usually 20 to 25 years. This would enable ZhongDe Group to earn recurring revenues. ZhongDe Group has entered into six non-binding letters of intent with Chinese municipalities or other government bodies for BOT projects pertaining to the construction and operation of waste incineration plants in several Chinese cities with estimated aggregate financing costs of about EUR 41 million.

The Company's registered office is located in Hamburg, Germany. Its primary production facilities are located in Fuzhou, Fujian Province, People's Republic of China at Cangshan Science and Technology Park, No. 6, Gaoshi Road, Cangshan District. As of 30 April 2007, ZhongDe Group had 189 employees. As of the date of this Prospectus there has been no material change in the number of employees.

Strengths

ZhongDe Group believes the following core strengths contribute to its future growth:

- ***Experienced Operational Management Team with Proven Track Record and Highly Profitable Business.*** ZhongDe Group's management has a proven track record in managing operations under its control and in expanding its business. In the period between 2004 and 2006, ZhongDe Group constructed 112 waste incinerators and had a market share of 35% as of the end of 2006 in the market for medical waste incinerators based on its internal estimates. Over that same period, ZhongDe Group increased its total revenues from TEUR 6,162 in 2004 to TEUR 18,995 in 2006 and increased net profit from TEUR 1,865 in 2004 to TEUR 8,022 in 2006 realizing average annual growth rates over the last 3 years of 76% and 109%, respectively. The overall net profit to sales ratio (*Umsatzrendite*) over the last three years has consistently exceeded 29%. ZhongDe Group's chief executive officer, Mr. Chen Zefeng, has been with ZhongDe Group for over ten years and has accumulated significant experience in the changing dynamics of the Chinese waste disposal industry during that time. Mr. Chen Zefeng is currently Deputy Director of the China National Association of Environmental Protection Industry (CAEPI) and a representative of the People's Congress of Fujian Province. ZhongDe Group's senior management team combines extensive industry, marketing and technology expertise.
- ***Well Developed and Proven Technology Adapted to the Chinese Waste Disposal Market Leading to Low Operating Costs.*** ZhongDe Group has developed technologically proven products well suited for the Chinese waste disposal market. It has also developed an excellent understanding of the characteristics of Chinese waste in different regions of China as well as from different sources. For example, ZhongDe Group's pyrolytic waste incinerators are tailored to incinerate unsorted and high humidity waste with low heat values typically found in the Chinese household by initially only adding small amounts of fuel or coal to start the incineration process while the ongoing incineration process almost requires no additional fuel or coal. This feature and the fact that any pre-treatment or pre-sorting of waste is not necessary will lead to significantly lower operating costs than competing technologies consuming fuel or coal. Each of ZhongDe Group's products complies with current Chinese thresholds for emissions. In 2004, according to an on-site examination by the Chinese Academy of Science's Institute of Hydrobiology, the emission of dioxins from ZhongDe Group's pyrolytic incinerators was calibrated at 0.011mgTEQ/m3, which is one-fiftieth of the current national standard, and one-tenth of the standards of the European Economic Area (**"EEA"**) according to Directive 2000/76/EC. In addition, as a result of only

having to import limited supplies for its incinerators and a design and system control targeted for easy handling and robustness with long life cycles, maintenance costs through replacements or overhauls and ongoing operating costs are comparatively low. The LFRY-5 pyrolytic incinerator for medical waste was awarded third place in the Science and Technology Awards for Environmental Protection. This is the only waste incinerator in China which received such an award. ZhongDe Group has a research and development team with 21 professionals (as of 30 April 2007) committed to continuously improving ZhongDe Group's technological edge in this industry and adapting the products to client needs.

- ***Strong Nationwide Sales Network and Brand Visibility.*** Since its formation in 1996, ZhongDe Group has developed a strong nationwide sales network with excellent connections to local and municipal governments. As a result, ZhongDe Group has delivered its products to clients in 13 provinces throughout China and sold single units also to export firms that have delivered such units to Taiwan, Indonesia and Singapore. ZhongDe Group's sales department (sales and aftersales) comprises 45 employees (as of 30 April 2007) in China and is ultimately headed by ZhongDe Group's chief executive officer, Mr. Chen Zefeng. As a member of several industrial and environmental associations, Mr. Chen Zefeng is well informed about current market trends which enables him to anticipate market opportunities at an early stage. In addition, ZhongDe Group benefits from its brand ''Fengquan'' which is well known in the industry and serves as an important marketing tool being named among the Top 10 Influential Brands in the Chinese Environmental Industry by the China Enterprise Cultural Promotion Committee. In December 2006, FengQuan was cited by the Fujian Committee of Environment Protection Industry as an outstanding member of the Committee. In January 2005, Mr. Chen Zefeng was awarded the Prize for Contributions to Chinese Environmental Protection.

- ***Experienced Own Production and Assembly Operations with Established Supplier Network.*** ZhongDe Group has an established production facility in Fuzhou with an annual capacity of approximately 40 incinerators employing 93 workers in parts production, assembly and installation. To increase production flexibility and optimize costs of goods sold, ZhongDe Group has established a broad network of qualified suppliers around its production base in Fuzhou. Main components sourced from third parties are bag filters, de-acidification systems, electronic equipment or generators as those can be more cost efficiently produced by third parties and can be bought in good qualities. Almost all of the parts and components are sourced locally from China, providing an additional cost advantage to ZhongDe Group compared to many national and international competitors.

- ***Diversified and Broad Customer Base.*** As ZhongDe Group's business currently focuses on designing, manufacturing and installing waste incinerators on a one-time tailor-made basis for Chinese state-owned entities and private companies, ZhongDe Group does not rely on one customer for its business and targets customers in different industries, such as local municipalities, cities and dedicated waste operators for municipal solid waste, healthcare facilities and dedicated operators for medical waste disposal, airports and their operators for aviation waste and various manufacturing industries for hazardous waste. In 2006 alone, ZhongDe Group constructed 37 waste incinerators. With one exception in 2005, over the last three years, none of ZhongDe Group's customers has accounted for over 15% of its annual revenues on an individual basis.

Strategy

ZhongDe Group intends to concentrate on the small and mid-sized waste incinerator market and expand its position in the market and technology in this area. ZhongDe Group also intends to operate waste incineration plants for and with municipalities and as by-products to produce and market its own steam, hot water, bricks as well as electricity through the operation of such plants. ZhongDe Group's overall strategic objective is to maintain the strong and profitable growth path of the business in order to create superior shareholder value through the following strategic steps:

- ***Strengthen Position in Small and Mid-Sized Municipal Waste Incinerator Market in Small and Mid-Sized Cities.*** ZhongDe Group has built a strong market position in the small

and mid-sized municipal waste incinerator market in small and mid-sized cities in China. ZhongDe Group intends to expand its focus on small and mid-sized incinerators for municipal waste with a disposal capacity of between 50 and 300 t/day for municipal waste. Target customers are small and mid-sized Chinese cities with a population of 100,000 to 750,000 inhabitants. More than 500 Chinese cities are small or mid-sized and most do not have appropriate waste disposal facilities. ZhongDe Group believes that the lack of an appropriate waste disposal infrastructure for municipal waste in the small and mid-sized Chinese cities, together with the growing urbanization trend and its strong product and technology offering, will present it with increasing business opportunities in the near future.

- ***Leverage its Leading Position in the Medical Waste Incinerator Business to Further Penetrate the Medical Waste Market.*** In the past two years, ZhongDe Group has become one of the leading Chinese companies in the market for medical waste incinerators, with a current estimated market share of 35% as of the end of 2006 based on its internal estimates. ZhongDe Group estimates that by year end 2006 roughly 150 medical disposal centers had been established from the government's target of 300, creating in combination with expected demand for further disposal centers beyond the government's target a significant future market potential. ZhongDe Group intends to penetrate this market based on its leading position in the near future by strengthening its sales activities and promoting its technological strengths and the advantages of its products in terms of investment, operation and maintenance costs.

- ***Extend the Current Business into the Operation of BOT Projects with Recurring Revenues.*** ZhongDe Group intends in the future to expand its business into the operation of BOT projects (known as Build, Operate (Own) and Transfer) which would provide ZhongDe Group with recurring revenues from operating fees and the sale of by-products produced during the incineration process. To that end, after detailed feasibility studies with external research institutes, ZhongDe Group has entered into six non-binding letters of intent with Chinese municipalities for these BOT projects to be offered by these municipalities with total financing needs of approximately EUR 41 million. ZhongDe Group believes that it will be able to capture a substantial market share in this new business area and expects that for those 6 projects contracts can be negotiated in due course and implementation of the respective projects can be completed within the next 1 to 3 years. Based on its market position as well as the available technology and its experience gathered from its core business, ZhongDe Group believes it has the ability to construct and profitably operate such mid-sized and larger waste incineration plants. In the future, additional BOT projects might be secured or existing BOT projects might be acquired by ZhongDe Group. In this latter respect ZhongDe Group plans an acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Ltd.

- ***Develop Innovative Products for New Industries such as Aviation Waste.*** ZhongDe Group is continuously exploring the development of new incineration products to meet the changing landscape of the waste disposal industry in China. For example, as international and national commercial air traffic between 1999 and 2005 increased by more than 10% per year, waste left by passengers in aircrafts as well as waste produced from the maintenance and overhauling of aircrafts has increased significantly. By the end of 2005, 142 airports in China had been certified for civil transportation (*Source: General Administration of Civil Aviation of China, Report on Development of China's Air Transport (2005/2006)*). Those airports are required to clean up the waste produced from aviation traffic. As a result, ZhongDe Group expects that there will be a growing demand for aviation waste incinerators. To meet that demand, ZhongDe Group will invest approximately EUR 1.5 million in research and development to adapt its pyrolytic incinerators for medical waste to the particular characteristics of aviation waste. In addition, ZhongDe Group is in an early stage of negotiations to construct one aviation waste incinerator for Beijing International Airport with a capacity of 35 t/day and anticipates receiving orders in this sector in the near future. Furthermore, ZhongDe Group plans to improve its technology for certain kinds of hazardous waste and plans to deliver special incinerators designed for hazardous waste from industrial applications.

- ***Expand Production Capacity and Establish a Second Production Facility in Northern China.*** To increase future capacities, diversify its regional footprint and prepare for further growth potential, ZhongDe Group plans to construct a new production plant in Beijing with planned investments of EUR 13 million. Construction is scheduled to begin in August 2007 with completion scheduled for the end of 2008. ZhongDe Group has already signed a letter of intent for the right to use land on which to build this plant. ZhongDe Group estimates that its total production capacity at both plants will amount in total to approximately 80 incinerators per year.
- ***Expand Internationally into Other Markets.*** As a mid-to long-term strategy, ZhongDe Group plans to explore the possibility of expanding with its existing products into markets in South-East Asia such as Thailand, Indonesia and the Philippines and in a second step into new markets in Africa and Eastern Europe. ZhongDe Group's incinerators have already been exported by export firms to Taiwan, Singapore and Indonesia and ZhongDe Group had initial discussions with government bodies and municipalities in Thailand and the Philippines. However, as a result of the significant opportunities in the Chinese market, ZhongDe Group has not placed an emphasis on pursuing these international opportunities.
- ***Focus on Large Scale Incinerators in Partnership with Foreign Firms.*** ZhongDe Group is also considering entering the market for large scale incinerators. The construction of large waste incineration plants in China today is almost entirely undertaken by foreign firms who operate internationally. As a Chinese operating company, ZhongDe Group sees the opportunity to enter the large scale segment either based on its own technology or for plants with a capacity beyond 1,000 t/day through a partnership with an international competitor which does not have expertise in the particularities of the Chinese market and thus may have need for operational know-how in the Chinese market.

Business Segments

With regard to the financial years 2004, 2005 and 2006 ZhongDe Group's business can be divided into two business segments: the medical waste incinerator business and the municipal waste incinerator business.

Medical Waste Incinerator Business

ZhongDe Group is currently one of the leading manufacturers of medical waste incinerators in China with a market share of approximately 35% as of the end of 2006 based on its internal estimates. The medical waste incinerator business represents ZhongDe Group's primary business segment, which accounted for 81.8% of total revenues in financial year 2006 and 52.5% of total revenues for the first quarter of 2007.

Medical waste consists largely of infectious waste, pathological waste, shards, pharmaceutical waste and usually contains a high content of heavy metals and hazardous substances. ZhongDe Group had designed and manufactured 78 medical waste incinerators for the disposal of medical solid waste with capacities of between 1 and 32 t/day by the end of the first quarter of 2007. The main product model is the LFRY series, which was awarded third place at the State Environmental Protection Administration of China Awards for Environmental Protection in 2005. That product was the only incineration system to receive such a distinction. The medical waste incinerator installed by ZhongDe Group for the Nangong Medical Waste Disposal Center, Beijing in 2004 has a capacity of 32 t/day, which management believes is the largest medical waste incinerator in China.

An awareness of the need for proper treatment of medical waste has grown significantly over the past few years. As a reaction to outbreaks of avian influenza and the SARS epidemic, for example, the Chinese government has required hospitals to collect medical waste at a central location and dispose of that waste properly. The Chinese government has provided hospitals with subsidies of 50% of the project costs for the collection and incineration of medical waste

and in western regions of China by as much as 70%. As a result, the demand for medical waste incinerators has also grown significantly over the past few years.

Municipal Waste Incinerator Business

The municipal waste incinerator business represents ZhongDe Group's second business segment, which accounted for 18.2% of total revenues in financial year 2006 and 47.5% of total revenues for the first quarter of 2007.

Municipal solid waste consists of items including refuse from households, non-hazardous waste from industrial, commercial and public entities, market waste, and street sweepings. ZhongDe Group's municipal waste incinerators range from between 5 and 150 t/day in waste disposal capacity. An increase of the disposal capacity can be achieved by adding multiple furnaces. ZhongDe Group's incinerators for municipal solid waste are specifically designed to incinerate waste without pre-sorting. ZhongDe Group's technology is capable of efficiently disposing of municipal solid waste, which is generally characterized by a high degree of humidity and low heat value, by using a rotating feeder through which the waste materials are exposed to heat from all directions. ZhongDe Group's models for the incineration of municipal solid waste are the LFW and LCH series. These incinerators operate with low quantities of fuel and/or auxiliary energy supply. Therefore, a core characteristic of ZhongDe Group's municipal waste incinerators is low operational cost. Additionally, depending on the amount and consistency of the waste, by-products such as steam and hot water can be generated through the incineration process, while bricks and floor tiles can be produced from slag extracted as residue.

Demand for municipal waste incinerators has also increased over the past few years. As a result of the increased urbanization in China and the growing awareness for environmental sound waste treatment methods, the need for municipal waste incinerators is expected to grow significantly over the next several years. ZhongDe Group intends to participate in this growing market by focusing on customized products for smaller Chinese cities with populations ranging between 100,000 and 200,000 persons and for mid-sized Chinese cities with populations ranging between 200,000 and 750,000 persons.

Products and Services

ZhongDe Group designs, manufactures and installs waste incinerators. These incinerators will be operated by the customers of ZhongDe Group. Depending on its target customer groups, ZhongDe Group primarily uses pyrolytic incineration techniques because the indirect burning of waste associated with that technique requires little or no additional fuel and thus results in significantly lower operational costs. However, ZhongDe Group carefully designs its waste incinerators based on the available amount of waste and upon the assessment of the typical consistency and characteristics of the waste (such as degree of humidity, degree of organic substance, heat value, oxygen content, etc.). Incinerators designed by ZhongDe Group are usually capable to generate by-products such as steam, warm water or floor tiles from the incineration process. Those by-products may be additionally sold by the operator of the incinerator. In order to offer tailor-made solutions that ideally suit the standards of specific customers, ZhongDe Group offers various incineration techniques:

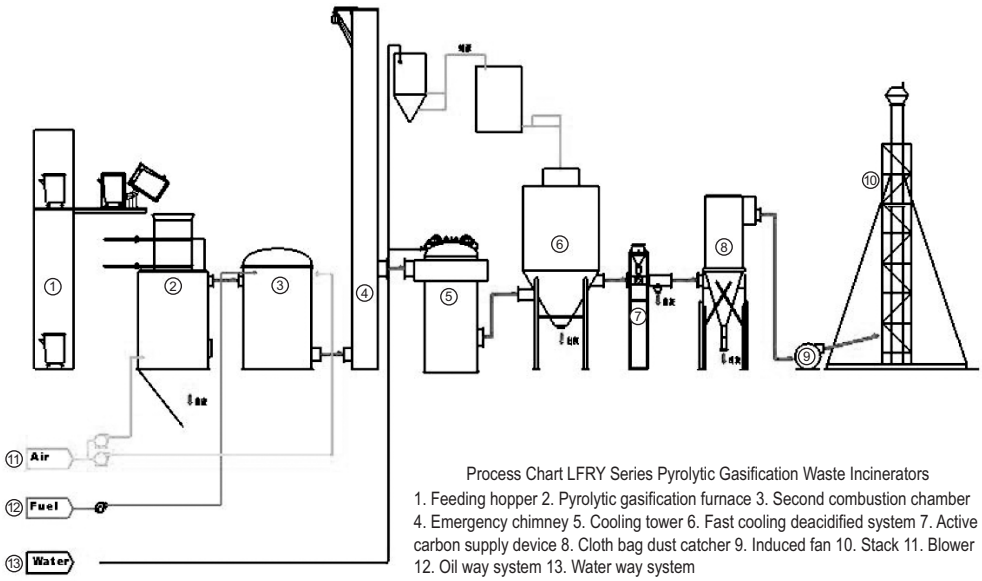
- Pyrolytic incinerators;
- Grate incinerators; and
- Rotary kiln incinerators.

Pyrolytic Incinerators

Regardless of technical variations based on customers' specifications, ZhongDe Group's pyrolytic incinerators consist of a pyrolytic first combustion chamber and a secondary combustion chamber. The process is started by feeding waste into the first combustion chamber (or pyrolytic chamber) where a minimum amount of fuel is used to start the burning process of the waste. In the first combustion chamber, the waste is thermally decomposed through an oxygen-deficient, mid-temperature combustion process at temperatures of 300-700 °C (such

chemical decomposition of a substance by heat in an oxygen deficient environment is called pyrolytic). The slag which remains as residue is disposed of separately and in the case of municipal waste can be used as construction material for the production of floor tiles. The gas which is generated by the first combustion chamber is then transmitted through pipes from the first (pyrolytic) to the secondary combustion chamber where the gas is burned at high temperatures of 850-1100 °C (for at least two seconds) to dissolve poisonous substances.

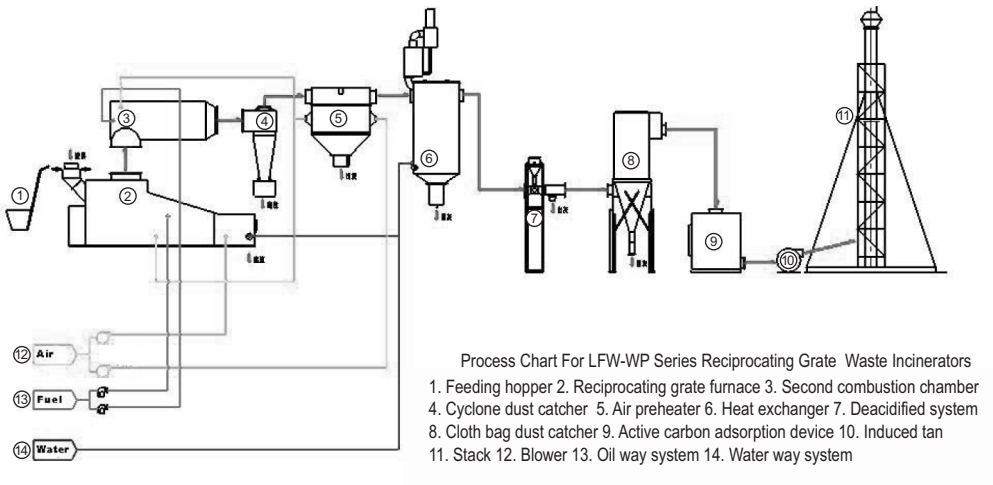
ZhongDe Group's pyrolytic incinerators can be used to dispose of medical waste and solid municipal waste. Medical waste is loaded into the incinerator in a single load. Municipal waste is loaded into the incinerator in consecutive loads and then placed into a rotating heated feeder where the waste is pre-dried and then carried into the first (pyrolytic) combustion chamber.



Process Chart LFRY Series Pyrolytic Gasification Waste Incinerators
1. Feeding hopper 2. Pyrolytic gasification furnace 3. Second combustion chamber 4. Emergency chimney 5. Cooling tower 6. Fast cooling deacidified system 7. Active carbon supply device 8. Cloth bag dust catcher 9. Induced fan 10. Stack 11. Blower 12. Oil way system 13. Water way system

Grate Incinerators

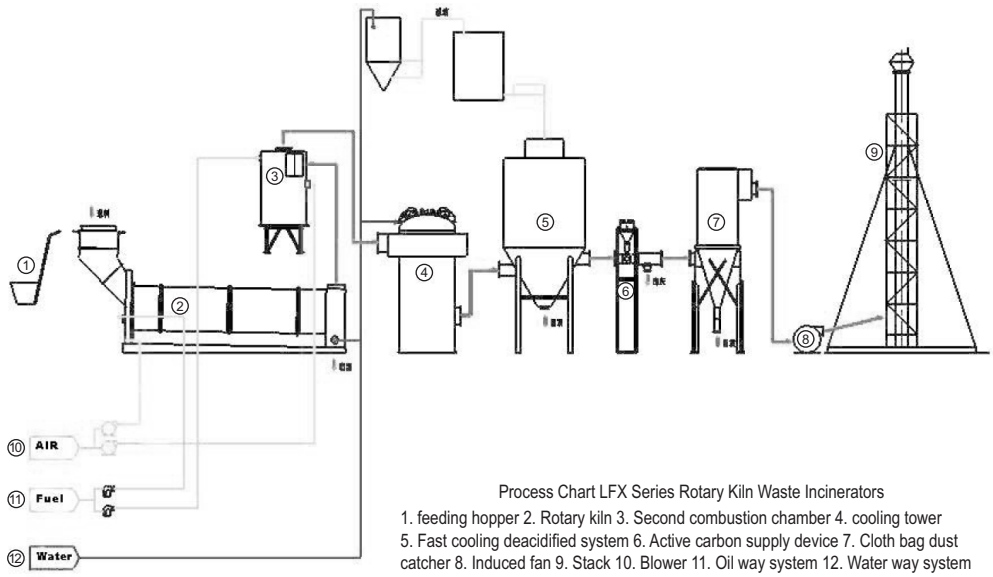
Grate incinerators are used for the incineration of municipal solid waste, which is characterized by a high degree of humidity and a low heat value. The combustion process is initiated and if necessary supported by adding limited amounts of fuel to keep the temperature above 850 °C. Air inflow is primarily based on natural ventilation from the oven mouth to the chimney, assisted by mechanical ventilation. Although the operation of pyrolytic incinerators is more cost-efficient, grate incinerators can still be used for large quantities of waste (above 300 t/day) and are able to generate electricity as a by-product from the incineration of large amounts of waste.



Process Chart For LFW-WP Series Reciprocating Grate Waste Incinerators
1. Feeding hopper 2. Reciprocating grate furnace 3. Second combustion chamber 4. Cyclone dust catcher 5. Air preheater 6. Heat exchanger 7. Deacidified system 8. Cloth bag dust catcher 9. Active carbon adsorption device 10. Induced tan 11. Stack 12. Blower 13. Oil way system 14. Water way system

Rotary Kiln Incinerators

Rotary kiln incinerators designed by ZhongDe Group consist of a rotating oven and a secondary combustion chamber. The axis of a rotary kiln is inclined at a slight angle at a slope (1-5 degree slope). The kiln rotates 0.5 to 5 times per minute and is fed with waste at the top. Ash is removed at the bottom end of the kiln. The gases which have not been burnt-off completely in the kiln are directed into a secondary combustion chamber where they are extinguished by adding fuel to keep the temperature above 850 °C. In China, for the disposal of hazardous waste other than medical waste exclusively rotary kiln incinerators are permitted by law. Rotary kiln incinerators are typically employed for the disposal of industrial hazardous waste, e.g. generated by the chemical industry.

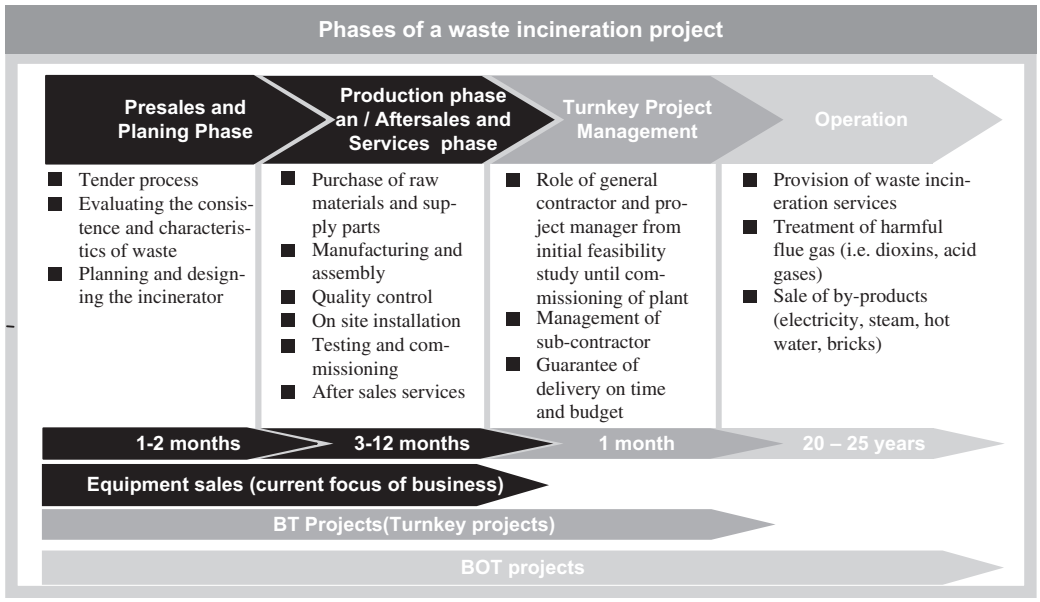


Process Chart LFX Series Rotary Kiln Waste Incinerators
1. feeding hopper 2. Rotary kiln 3. Second combustion chamber 4. cooling tower 5. Fast cooling deacidified system 6. Active carbon supply device 7. Cloth bag dust catcher 8. Induced fan 9. Stack 10. Blower 11. Oil way system 12. Water way system

Value Chain of Waste Incineration

The overview below illustrates the value chain of waste incineration. Currently, the focus of ZhongDe Group is on the design, manufacturing and installation of waste incinerators as illustrated in the graph below under ''Equipment Sales.'' In the future ZhongDe Group plans to expand its business into constructing waste incineration plants (turnkey project

management/BT Projects) and the operation of waste incinerator plants (BOT Projects) as illustrated in the graph below under ''BT Projects (Turnkey Projects)'' and ''BOT Projects''.



Operational Activities

To provide custom-built waste disposal solutions that meet customer requirements, ZhongDe Group offers a wide range of services including research and development, planning and construction, manufacture and installation, and testing and commissioning of incinerators. ZhongDe Group has successfully applied for ISO certification of its quality-management and environment-management systems. ZhongDe Group's quality-management system received ISO9001:2000 certification on 14 March 2007 by China National Accreditation Service for Conformity Assessment, covering the design, manufacture, installation and services related to waste incinerators. At the same time ZhongDe Group also received ISO14001 certification by China National Accreditation Service for Conformity Assessment, which is an environmental management standard and a certification of the management system covering the processes that influences an organization's environmental performance.

The current operational activities of ZhongDe Group can be generally broken down into three phases: the presales and planning phase, the production and installation phase, and the aftersales and services phase.

Presales and Planning Phase

The presales and planning phase starts with an application for a project through a tender process (both public tender and tender by invitation) or by a direct negotiation of an order by customers who contact ZhongDe Group, e.g. after having seen previous projects, through word of mouth or having been contacted by ZhongDe Group's sales staff. Information on tenders is generally available via tender notices in newspapers, industrial publications, announcements issued by government authorities or by invitation. Prior to the final award of the tender, ZhongDe Group establishes a tender team that prepares documents in accordance with requirements specified by the issuer of the tender and drafts the competitive bid for the tender. After the start of the tender process, there is usually one week within which to pose questions about the tender documents. Thereafter, the final proposal for the tender usually has to be submitted within one month. Prior to submission of the final proposal, ZhongDe Group undertakes an assessment of the waste parameters, analysis of the heat value and optimal positioning for the site.

Once ZhongDe Group is awarded the tender, it starts detailed planning and designing the incinerator in accordance with the pre-requisites set out in the contract (e.g. maximum capacity of the incinerator and incineration technique to be used including generation of by-products). For this reason, ZhongDe Group conducts an on-site inspection and prepares site surveys and

studies. Designs and specifications will be checked and approved internally before submission to the respective customer for confirmation. These documents serve as a basis for the construction drawings that are prepared by ZhongDe Group. In the absence of exceptional circumstances, the planning phase should be finished within one or two weeks.

ZhongDe Group's payment terms typically provide for three instalments, i.e. a prepayment, a further instalment within six months after delivery and testing, and a final instalment upon expiration of the one-year warranty term. The amounts of each instalment as well as the payment periods are subject to individual negotiations with the customers. Generally, the prepayments range between 10% and 30%, the payments after delivery amount to up to 80%, and the final instalments after expiration of the warranty term to 10%.

The Production and Installation Phase

The production phase consists of the purchase of raw materials and components to construct the incinerator, the construction of the incinerator and then the transportation, installation and testing of the incinerator at the customer's premises. Based on the requested design, members of ZhongDe Group's purchasing department will submit orders for the relevant materials and components to the respective suppliers. Incinerators for waste disposal consist of various components, most of them are customized. ZhongDe Group manufactures the steel parts (such as steel plates and pipes), while other customized components (such as bag filters, de-acidification systems, electronic equipment or generators) are sourced from suppliers. The manufacturing of the steel parts as well as the assembly of the supplied components are completed at ZhongDe Group's leased plant located in Cangshan Science and Technology Park, Fuzhou, Fujian Province, PRC to ensure high quality standards at each stage of the production chain.

Before they are shipped from ZhongDe Group's plant for on-site installation, all products undergo internal quality-control procedures. ZhongDe Group places great emphasis on quality assurance in its operations. To control the quality of the manufactured products, ZhongDe Group inspects its workflow, procedures and methodology at each stage of the production process. Prior to the production all materials, components and equipment purchased will be inspected by ZhongDe Group to ensure that they are free from defects or damage. ZhongDe Group also conducts tests for each component of the equipment which has been manufactured in order to ensure that these components are in working order before they are transported to the customer's site for installation.

After transporting the incinerator to the customer's site, ZhongDe Group will carry out the on-site installation of the incinerator. The customer is responsible to satisfy the installation requirements for the incinerator in its factory building or plant, which may lead to delays. Any delay caused by the customer is recorded by ZhongDe Group in order to justify re-negotiations or adjustments of the initially agreed terms and conditions.

Upon completion of the construction and installation of the incinerator, ZhongDe Group conducts testing and commissioning of the waste incinerator. An initial visual inspection will be followed by the commencement of testing of individual components. These tests cover mechanical, electrical, and instrument functions as well as the automated controlling and monitoring systems, and process performance. Finally, the performance of the whole plant is tested. Any errors or interferences which are detected through the test will be corrected. Thereafter, the customer and usually the local authority start conducting an operational test at the site to ensure that the waste incineration plant is in compliance with the technical specifications and environmental requirements. Once the customer has confirmed that the incinerator is in working order and complies with the specifications, the project will be handed over with an instruction manual on the operations and maintenance of the product. The customer then operates the incinerator on its own and is personally responsible for the incinerator. Simultaneously with the testing and commissioning, ZhongDe Group provides training free of charge for the customer's staff.

The duration of the production phase depends upon the respective specifications of an individual project. The manufacturing of an incinerator for a typical non-complex project will take

approximately one month, with another 4 - 8 weeks for the installation, testing and commissioning. In a more complex scenario the production phase may extend up to 12 months.

The current production capacity of ZhongDe Group is 3 to 4 incinerator units per month or on average about 40 units per year. ZhongDe Group intends to expand its production capacity by constructing a new plant in Beijing and strengthening its supply structure in the Chinese market. The start of construction of the Beijing plant is scheduled for August 2007 and is expected to be completed by the end of 2008. Once that new site has begun production, ZhongDe Group estimates that it will be able to produce approximately 80 units per year.

Aftersales and Services Phase

Customers are usually provided with a one-year warranty for the maintenance of the incinerator except for damages resulting from improper operation or wilful destruction. During such phase aftersales support is provided. ZhongDe Group operates a service center to ensure a timely and satisfying response to any product malfunction.

BT Projects

At present, ZhongDe Group designs, manufactures and installs waste incinerators, but is not in charge of constructing the plant building or the plant in its entirety. In the future, ZhongDe Group plans to extend its business to the construction of the entire plant, acting as turnkey provider. Such projects are called BT (Build — Transfer) projects.

While commissioning third parties to construct the plant building, ZhongDe Group currently undertakes the planning, engineering, manufacturing, installing and commissioning of the incinerator. ZhongDe Group believes that the exploitation of other parts of the production chain adds value for various reasons. On the one hand, ZhongDe Group can use its longstanding experience and know-how to offer complete solutions and project management superior to that of less experienced customers. In addition, it can exercise direct influence on the construction services of the incineration plant to optimize its design and appearance and ensure the plant is available when waste incinerators are ready to be installed.

BOT Projects

ZhongDe Group plans to extend its current business as a designer and manufacturer of waste incinerators into the operation of waste incineration plants through its participation in BOT projects. In order to generate recurring revenue and to strengthen its market position in the segment for municipal waste disposal, it is a key strategic goal of ZhongDe Group to offer the entire value chain including the operation of incinerators in terms of BOT projects. The typical mode of a BOT project relating to waste incinerators can be described as follows: A government or other municipal authority which is responsible for waste treatment but does not have the capacity to purchase and operate a waste disposal facility on its own issues a tender offer for the building and operation of a waste management project, e.g. a waste incineration plant. The winner of that tender, the company which has submitted the most convincing concept, is required to prove its qualification and experience through a meaningful and sustainable track record, and must provide evidence of its capability to finance the project and the availability of the required personnel for installation and operation by submitting a team list. After accepting a company's tender, land use is granted by the government for a ''concession period''. With regard to BOT projects in the area of waste management, the concession period usually consists of a construction period of two years and an operational period of typically 20 to 25 years. The private company will either establish a project company or it will perform the BOT project by itself. It has to finance the project and is responsible for building the entire plant and its operation.

In return, the government agrees on a fixed minimum amount of waste (t/day) that will be disposed of for a fixed price, taking into account inflation during the term of operation. The project company is also allowed to sell by-products like steam, hot water or bricks that can be generated from the incineration process. Electricity may also be generated, if large amounts of waste disposal volume above 300 t/day are involved. Upon expiration of the concession period, ownership of the plant will be transferred to the local government. In connection with the

process of privatization, BOT has in recent years become more and more popular in China, especially for large projects which local governments are not able to finance. Therefore, BOT is commonly regarded as a viable solution for many mid-sized cities in China (between 300,000 and 750,000 citizens) to install and maintain an efficient waste management system, whereas the operating company achieves a reliable revenue stream that will be generated by the operation of the project.

ZhongDe Group has currently entered into six non-binding letters of intent with Chinese municipalities to participate in tender processes for BOT projects to be offered by these municipalities. However, there can be no assurance that ZhongDe Group will be ultimately successful in any of the tender process involving these BOT projects and that the terms of these BOT projects will be negotiated as planned.

- *Jian'ou, Fujian:* The municipal waste incinerator is estimated to be designed for a disposal capacity of 150 t/day. Warm water and bricks will be generated as by-products from the incineration process. Investment costs for the BOT plant at Jian'ou are expected to be approximately TEUR 3,933. Completion of installation and start of operation is scheduled for July 2008.
- *Wuxiang, Shanxi*: The municipal waste incinerator is estimated to be designed for a disposal capacity of 100 t/day. Warm water and bricks will be generated as by-products from the incineration process. Investment costs for the BOT plant at Wuxiang are expected to be approximately TEUR 2,945. Completion of installation and start of operation are scheduled for May 2008.
- *Guilin, Guangxi*: The municipal waste incinerator is estimated to be designed for a very high disposal capacity of 600 t/day. Steam and bricks will be generated as by-products from the incineration process. Investment costs for the BOT plant at Guilin are expected to be approximately TEUR 8,748. Completion of installation and start of operation are scheduled for August 2008.
- *Changzhi, Shanxi:* The municipal waste incinerator is estimated to be designed for a disposal capacity of 100 t/day. Warm water and bricks will be generated as by-products from the incineration process. Investment costs for the BOT plant at Changzhi are expected to be approximately TEUR 2,897. Completion of installation and start of operation are scheduled for November 2008.
- *Xihua, Henan*: The municipal waste incinerator is estimated to be designed for a disposal capacity of 450 t/day. Its large capacity will enable the heat generated to be converted into electricity. Investment costs for the BOT plant at Xihua are expected to be approximately TEUR 18,435 due to its larger size and the required electricity generating equipment. Completion of installation and start of operation is scheduled for November 2009.
- *Feicheng, Shandong:* The municipal waste incinerator is estimated to be designed for a disposal capacity of 120 t/day. According to ZhongDe Group's planning, the plant will also encompass an environmental and ecological leisure park providing wellness, entertainment and service facilities. Investment costs for the BOT plant at Feicheng are expected to be approximately TEUR 3,914. Completion of installation and start of operation are scheduled for June 2008.

Project		Estimated t/day	Estimated operational period	Estimated timetable for construction	Estimated investment	Estimated Allocation of annual revenues (%) from disposal fees/sale of by-products
1	Jian'ou (Fujian)	150	20 years	10/07 - 07/08	TEUR 3,933	44%/56%
2	Wuxiang (Shanxi)	100	20 years	09/07 - 05/08	TEUR 2,945	46%/54%
3	Guilin (Guangxi)	600	20 years	09/07 - 08/08	TEUR 8,748	64%/36%
4	Changzhi (Shanxi)	100	20 years	04/08 - 11/08	TEUR 2,897	45%/55%
5	Xihua (Henan)	450	25 years	12/07 - 11/09	TEUR 18,435	77%/23%
6	Feicheng (Shandong)	120	12 years	07/07 - 06/08	TEUR 3,914	30%/70%

Additionally, ZhongDe Group plans an acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Co., Ltd.

Aviation Waste Incinerators

ZhongDe Group plans to design and manufacture products especially for the disposal of aviation waste, i.e. waste left by passengers in aircraft or that results from maintenance and overhauling of aircraft at airports. Civil airports in China are required to take responsibility for their own aviation waste disposal. The reason is that through international air traffic various substances of uncertain origin such as hazardous, infectious or toxic waste may be ''imported''. Therefore, airports are required to clean up the waste produced in the course of transportation. By 2005, 142 airports had been certified for civil transportation in China (Source: *General Administration of Civil Aviation of China, Report on Development of China's Air Transport (2005/2006)*) and thus ZhongDe Group estimates a significant demand for efficient aviation waste incinerators. ZhongDe Group plans to invest TEUR 1,477 in research and development to adapt its pyrolytic incinerators for medical waste to the specific demands of aviation waste disposal.

Currently, ZhongDe Group is in an early stage of negotiations to construct one pyrolytic aviation waste incinerator for Beijing International Airport. That waste incinerator will have a capacity of 35 t/day and the operational costs are estimated not to exceed EUR 19.37 per metric ton of disposed waste. The purchase price for that aviation waste incinerator is estimated to be approximately TEUR 2,906.

Customers

ZhongDe Group sells its waste incinerators directly to public entities and private customers.

Public Entities

As waste management is primarily part of the public infrastructure, public entities are the key customers for ZhongDe Group.

In its medical waste incinerator business, ZhongDe Group's principal customers are operators of medical disposal centers in the hospital and healthcare industry. In ZhongDe Group's view, these customers place more emphasis on quick planning, construction and installation of the incinerator rather than on low investment costs as many medical waste incinerators are subject to public funding.

In its municipal waste incinerator business, ZhongDe Group's principal customers for municipal waste incinerators are small and mid-sized cities located in the developed areas of China. For these customers, reasonable initial investment costs and low operating and maintenance costs are more important than timing considerations. However, the key aspect for these customers is the benefit for residents that can be achieved from waste incineration in relation to the required investment costs.

Most of these public entities are typically one-time clients and the installation of an incinerator at the customer's site is a non-recurring business. Nevertheless, ZhongDe Group believes that the successful completion of a waste incinerator with one public entity might be followed by orders

from other entities through ''word of mouth'' advertisement. In addition, ZhongDe Group benefits from the network of Mr. Chen Zefeng, the chairman of the Management Board, who is well-known in the Chinese waste management industry.

Private Companies

ZhongDe Group also sells its incinerators to private companies specialized in project management in the area of environmental protection or in the operation of incineration plants on behalf of public entities (usually BOT projects). These customers normally place top priority on the future profitability of their plants and require incinerators that are fitted to achieve maximum utilization, low operational costs and allow the generation and sale of by-products, i.e. steam and hot water from the heat and bricks and/or floor tiles from the slag. Such private companies are typically not limited to the operation of one single plant, and ZhongDe Group may expect recurring business relationships with those customers.

As ZhongDe Group employs a direct sales approach and has a project-driven business, it is not dependent on any specific customer or vendor for the success of its business and is committed to winning market share in the expanding Chinese market for waste management system on it own. The table below shows that with one exception in 2005, over the last three years, none of ZhongDe Group's customers has accounted for over 15% of its annual revenues on an individual basis.

2006

Customer	Proportion*
Zhu Ji Feng Quan Li Pu Solid Garbage Disposal Co., Ltd.)	12.6%
Shantou Yue Lian Environment Protecting Science and Technology Co., Ltd.	12.0%
Shenzhen Liheng Environment Protection Technical Co., Ltd.	11.3%
Beijing Ge Rui De Si Trade Development Co., Ltd.	9.6%
Beijing Jia De Heng Xin Environment Protection Investment Co., Ltd.	9.1%

* % of revenues

2005

Customer	Proportion*
Beijing Zhong Fu Kang Environment Protecting Science and Technology Co., Ltd.	24.8%
Guangxi Lu Ken Agricultural Facility Engineering Co., Ltd.	9.1%
Sichuan Hai Nuo Er Environment Protection Industry Investment Co., Ltd.	7.5%
Yixing Run Tong Environment Protection Engineering Co., Ltd.	6.2%
Beijing Jia De Heng Xin Environment Protection Investment Co., Ltd.	6.1%

* % of revenues

2004

Customer	Proportion*
Jiangmen Green Power Medical Garbage Disposal Co., Ltd.	11.3%
Sichuan Hai Nuo Er Environment Protection Industry Investment Co., Ltd.	8.9%
Putian Han Jiang Garbage Innocuous Comprehensive Disposal Factory	6.0%
Fuzhou Hong Xin Cleaning Co., Ltd.	5.4%
Zhoushan Dong Fang Environment Protection Science and Technology Co., Ltd.	4.3%

* % of revenues

Sales and Marketing

ZhongDe Group's marketing efforts concentrate primarily on ''word of mouth'' advertising from existing customers who are satisfied with the performance and the quality of their products. Other potential customers are directly approached by members of ZhongDe Group's sales department (sales and aftersales), which consists of 45 employees (as of 30 April 2007). ZhongDe Group also undertakes customer education, e.g. through invitations of customers to ''model incineration plants'' in order to demonstrate the benefits for residents that might be achieved by

the incineration of municipal solid waste in general, and the advantage of ZhongDe Group's waste incinerators in particular. Moreover, ZhongDe Group benefits from the existing network of Mr. Chen Zefeng, who has been with ZhongDe Group for over ten years and has accumulated significant experience in the changing dynamics of the Chinese waste disposal industry during that time. Mr. Chen Zefeng is currently Deputy Director of the China National Association of Environmental Protection Industry (CAEPI) and a representative of the People's Congress of Fujian Province. ZhongDe Group is actively presenting its products and services as well as its know-how in waste management solutions at environmental protection exhibitions and trade shows, industrial and scientific conferences in order to maintain existing and establish new relationships with persons who are responsible for the management of municipal or medical waste disposal.

As Chinese press and media increasingly reports on environmental related issues, ZhongDe Group also pursues its marketing particularly through contacts with journals and media focusing on environmental subjects. ZhongDe Group regularly positions itself and its technologies in press reports and publishes articles in scientific journals.

In addition, ZhongDe Group also benefits from its brand ''Fengquan'' which is commonly known in the industry and serves as an important marketing tool. In January 2005, the brand ''Fengquan'' was awarded the ''Honor Certificate for Top 10 Environment Protection Enterprises''.

Research and Development

ZhongDe Group has formed a research and development department headed by Dr. Jiang Rizhong. As of 30 April 2007, the department consisted of 21 dedicated employees, including six director designers and eleven deputy director designers. Almost all employees of the research and development department hold a Chinese academic degree in engineering. Currently, ZhongDe Group has the exclusive right to use three patented inventions and seven patented utility models registered in China, all of which are legally owned by the chairman of the Management Board and the Company's major shareholder, Mr. Chen Zefeng. Mr. Chen Zefeng has entered into a transfer agreement providing for the transfer of the patent rights to ZhongDe Group and has already filed an application for such transfer. However, the registration of such transfer is still pending. ZhongDe Group has also applied for the registration of the license agreements, but registration is also still pending.

The operation of its research and development is important for ZhongDe Group by fulfilling two key functions:

One part of the activities of ZhongDe Group's research and development department is devoted to short-term research and development resulting from customer demand as well as being pursued proactively. Such short-term activities are aimed at facilitating the incineration process and include:

- Improvement of the pyrolytic incinerators for municipal waste of unstable heat value.
- Adoption of the pyrolytic incinerators for the incineration of aviation waste.
- Increased efficiency of processes in the purification of gas. As waste is composed of different substances, different quantities and qualities of gas are generated through incineration.
- Improvement of consecutive feeding systems such as pre-sorting to eliminate bulky waste materials and achieve more consistent configuration of waste which helps to accelerate the incineration process.
- Enhancement of methods to release slag which supports its use as a by-product.
- Improvement of environmental sustainability and adaptability of ZhongDe Group's products.

As ZhongDe Group always offers tailor-made solutions, ZhongDe Group's research and development department is also responsible for the design of components within the production

process, is involved in presales and aftersales services, and provides technical support for the operation of commissioned incinerators.

Long-term research and development at ZhongDe Group is pursued by a small team of dedicated employees researching methods for the accumulation and purification of gas to extract energy.

Another part of the research and development department's activity is devoted to improving the environmental compatibility of incinerators. ZhongDe Group's products are the result of strict design and repeated experimentation. Each of the ZhongDe Group's products complies with the current national thresholds for emissions. In 2004, according to an on-site examination by the Chinese Academy of Science's Institute of Hydrobiology, the emission of dioxins from ZhongDe Group's pyrolytic incinerator was calibrated at 0.011ngTEQ/m3, which is one-fiftieth of the current national standard, and one-tenth of the standards of the EEA according to Directive 2000/76/EC. This result was regarded by the ZhongDe Group as a breakthrough in scientific and technological innovation in the field of environmental protection.

In 2006, ZhongDe Group's expenditures for research and development amounted to TEUR 203 after TEUR 181 in 2005 and TEUR 177 in 2004. The major part of ZhongDe Group's expenditures for research and development was related to the scientific disposal of solid waste. In the next two years, ZhongDe Group intends significantly to increase its expenditures for research and development and plans to invest approximately EUR 2 million to develop pyrolytic incinerators for aviation waste and the development of a consecutive pyrolytic incineration technology for mid-sized incinerators with daily disposal capacity up to 200 tons per unit.

Suppliers

ZhongDe Group's business depends on receiving necessary materials and components from suppliers to produce its incinerators. ZhongDe Group divides its supplies into three principal categories:

- Raw materials such as flat steel, steel boards, round steel and stainless steel boards. In 2006, the purchase costs for steel amounted to approximately 28% of the total costs of sales.
- Electronic components for automated control systems such as cables, switches, programmable logical controlling systems and other components such as filters, de-acidification systems, electronic equipment or generators. In 2006, the purchase costs for such products amounted to approximately 40% of the total costs of sales.
- Auxiliary materials such as heat-resistant material. In 2006 the purchase of auxiliary materials amounted to approximately 27% of the total costs of sales.

All suppliers and their products are subject to constant quality assessments. ZhongDe Group maintains a supplier network covers about 24 suppliers which are located in mainland China and periodically collects information about other suppliers and adds new ones as well in order to maintain supply stability. There were only a few changes among the top ten suppliers for the financial years 2004, 2005 and 2006, and nearly all suppliers are based in the vicinity of Fuzhou. Regardless of price control factors, the supply network shall ensure that at least two suppliers are available for each of the item categories mentioned above. Therefore, ZhongDe Group estimates the risk of production losses or delays due to the unavailability of a given commodity to be fairly low.

Competition

As the market for waste incinerators develops and grows in China and throughout Asia and the rest of the world, competition is expected to increase. Competitors of ZhongDe Group can be divided into three categories: PRC competitors in the market for incineration of municipal solid waste, PRC competitors in the market for incineration of medical solid waste and international competitors from outside China, mainly engaged in large waste incineration or waste management project. In addition, ZhongDe Group competes with a number of companies which

are using non-incineration based waste treatment technologies for the disposal of municipal waste. In ZhongDe Group's view the competitive landscape can be described as follows:

PRC competitors engaged in the market for incineration of municipal solid waste

- EGUARD Resources Development Co., Ltd., Beijing, is a company listed on the Shenzhen Stock Exchange (China) and is mainly engaged in the construction, operation and manufacturing of equipment for municipal solid and hazardous waste and sewage disposal projects. The company also plans for the mid-term future to manufacture and operate large-sized incinerators with a capacity more than 600 t/day for municipal waste.
- Quanneng Mechanical Equipments, Jiangsu, is engaged in assembling and processing small and mid-sized incinerators for municipal waste including industrial waste.
- Zhonghui Holdings Pte. Ltd is a Singapore based company that is listed at the Singapore stock exchange (Singapore Exchange Limited). Through its Chinese subsidiary, Zhonghui Holdings Pte. Ltd designs waste incineration plants and provides services involving the supply of entire municipal waste management systems comprising technical advisory services, supply, installation, commissioning and aftersales support.
- China Everbright International Ltd., Shenzen, is a public company listed on the Hong Kong Stock Exchange. China Everbright International Ltd. is also engaged in the waste management sector in China. The main focus in the waste incineration sector is on the operation of large scale incinerators for municipal waste.

PRC competitors engaged in the market for incineration of medical solid waste

- Beijing Machinery & Electricity Hi-Tech. Co., Ltd., Beijing, acts as manufacturer and operator of incinerators for medical waste. It is known to be the largest manufacturer of small-sized incinerators in the Chinese domestic market. Since 1978, Beijing Machinery & Electricity Hi-Tech. Co., Ltd. has been engaged in the development and production of solid waste disposal facilities. Currently, the medical waste incinerators produced by Beijing Machinery & Electricity Hi-Tech. Co., Ltd. are based on the rotary kiln technology.
- Shanghai Wangqiang Electric Automatic Equipment Co., Ltd. assembles components for incinerators for medical waste by using blueprints from foreign manufacturers on behalf of third parties and does not possess its own technology. The Company believes that due to the lack of production capability, Shanghai Wangqiang Electric Automatic Equipment Co., Ltd. purchases all components from foreign suppliers which leads to relatively high sales prices.
- Qingdao Chinuclear Yuanhong Environmental Industrial Co., Ltd. is a supplier of incinerators medical waste and for hazardous waste with a capacity mainly ranged between 3 to 10 t/day.
- Beijing Zhong Yi Huan Neng Environmental Technology Co., Ltd. is mainly focused on the production of incinerators for medical, industrial and hazardous waste with a capacity between 1-5 t/day.
- Lo's Enviro-Pro Holdings Ltd., Hong Kong, signed a contract with Tsinghua Daring (HK) Holdings Limited in Beijing for the formation of a joint-venture company to invest in the medical waste treatment market in China and has established a project company in Siping City of Jilin Province to prepare for the construction and operation of the first non-incineration medical waste treatment center in China.

International competitors from outside China

ZhongDe Group believes that international companies will not focus on Chinese market for small and mid-sized waste incinerators due to the significantly lower manufacturing costs of Chinese private companies. Thus, ZhongDe Group does not consider companies from outside China to be primary competitors. However, ZhongDe Group plans to enter the market for large scale incinerators in the mid- to long-term and may encounter additional competition from non-Chinese companies. At present, the Company believes that ONYX, a subsidiary of the French Véolia Environment Services S.A., has the most market presence of any international company in

the waste management sector in China. Other international companies such as SITA, a subsidiary of the French Suez Group, REMONDIS AG & Co. KG, Alstom Holdings S.A., France and Impregilo S.p.A., Italy, may also be regarded as potential competitors in this area. Almost all potential competitors from outside China offer incinerators designed for large quantities of waste.

Property, Plant and Equipment

Property and Plant

ZhongDe Group has concluded three lease agreements:

- ZhongDe Group has rented a factory building from Fujian Fengquan Environmental Protection Group Co., Ltd. located at No. 6 Gaoshi Road, Cangshan Science and Technology Park, Cangshan District, Fuzhou with a building area of 7063.81 square meters. According to the lease agreement, the term of lease is 5 years from 1 April 2003 to 31 March 2008. ZhongDe Group has entered into a new lease agreement with Fujian Fengquan Environmental Protection Group Co., Ltd. providing for the extension of the term for the lease for the above mentioned factory building from 1 April 2008 until 31 March 2023.
- ZhongDe Group has rented certain office premises from Fujian Fengquan Environmental Protection Group Co., Ltd. located at Floor 5 and 6, Research and Development Building, No. 6 Gaoshi Road, Cangshan Science and Technology Park, Cangshan District, Fuzhou with total area of 1400 square meters. According to the lease agreement, the term of lease is 5 years from 1 July 2004 to 30 June 2009. ZhongDe Group has entered into a new lease agreement with Fujian Fengquan Environmental Protection Group Co., Ltd. providing for the extension of the term for the lease of above mentioned office premises from 1 July 2009 until 30 June 2024.
- Furthermore, ZhongDe Group has rented office premises from Mr. Lin Hengzhang located at Room 2506, Jing Xiu Wen Quan, Gulou District, Guzhou, with floor space of 178 square meters. According to the lease agreement, the term of lease is 12 months from 1 September 2006 to 31 August 2007.

Equipment

ZhongDe Group's plant, property and equipment also comprise technical assets and machinery used in the manufacturing process. As of 31 March 2007, these assets amounted to TEUR 293. These assets are not encumbered by mortgages or pledges. As to the date of this Prospectus no material changes with regard to ZhongDe Group property, plant and equipment have occurred. ZhongDe Group plans additions to its intangible fixed assets by establishing a second production facility in Beijing (*see: Business — Strategy*) and by the possible future operation of six BOT projects (s*ee: Business — Products and Services — BOT Projects)*. These additions to the intangible fixed assets of ZhongDe Group shall be financed by the proceeds from the Offering.

Intellectual Property

The technologies used by ZhongDe Group to manufacture its waste incinerators are protected by several patents. Due to cost considerations, such inventions obtained by ZhongDe Group were registered to Mr. Chen Zefeng, the chairman of the Management Board. Currently, pursuant to a license agreement, ZhongDe Group has the exclusive right to use three patented inventions and seven patented utility models registered in China, all of which are legally owned by Mr. Chen Zefeng. Mr. Chen Zefeng has entered into a transfer agreement to transfer the patent rights to ZhongDe Group and has already filed an application for such transfer. However, the registration of such transfer is still pending.

Furthermore, the exclusive patent license agreement between Mr. Chen Zefeng and ZhongDe Group has not been registered with the PRC State Intellectual Property. The registration is not a precondition of the validity of the patent license agreement. However, if Mr. Chen Zefeng grants a second license and this license is registered, the registered license would prevail. Apart from

the pending transfer of the patents to ZhongDe Group, ZhongDe Group has also applied for registration of the license agreement which is also still pending.

ZhongDe Group uses ''Fengquan'' as a device trademark. ZhongDe Group is not the legal owner of the above trademark but is entitled to use that trademark on the basis of a license agreement with Fujian Fengquan Environmental Protection Group Co., Ltd., the owner of the trademark. The license agreement is valid until the expiration of the trademark. However, the license agreement has not yet been registered with the PRC State Trademark Office. Although registration is not a precondition of the validity of the trademark license agreement, only if the license is registered, the licensee can act against counterfeiters in its own name.

Fujian Fengquan Environmental Protection Group Co., Ltd. has entered into a transfer agreement to transfer the trademark right to ZhongDe Group and has already filed an application for such transfer. The registration of such transfer is still pending. The trademark ''Fengquan'' is used by several other companies in different business sectors, which are also controlled by Mr. Chen Zefeng.

Employees

As of 30 April 2007 ZhongDe Group employed 189 employees in the following sectors:

Department	Number of Employees
Administrative, Finance and Human Resources	30
Sales Department (including sales and aftersales)	45
Research and Development Department (including engineering)	21
Production	93

As of the date of this Prospectus no material change in the number of employees has occurred compared to the numbers relating to 30 April 2007. In the previous years, ZhongDe Group employed 182 employees at the end of 2006, 172 employees at the end of 2005 and 169 employees at the end of 2004.

Employment agreements for most employees which were entered into before January 2006 stipulate a term of three years while the duration of employment agreements for the members of the research and development department typically is five years. Employment agreements which were entered into after 1 January 2006 provide for a term of two years. ZhongDe Group places a strong emphasis in keeping its employees equipped with the latest industry knowledge and technical know-how. ZhongDe Group arranges regular internal training sessions for staff, who are also given the opportunity to attend external training sessions. ZhongDe Group pays premiums of the pension, medical insurance, housing funds, unemployment insurance, work-related injury insurance and maternity insurance for the employees. However, ZhongDe Group just started to pay medical insurance contributions and housing funds and it cannot be excluded that additional payments will be requested for the past (*see: Risks — Risk related to ZhongDe Group's business — ZhongDe Group may be required to make additional payments for social insurance contributions and housing funds*).

Investments

No material investments were made by ZhongDe Group since 2004. ZhongDe Group has for internal purposes already made firm commitments to invest approximately EUR 13 million to establish a new production base in Beijing. Construction is scheduled to begin in August 2007 with completion scheduled for the end of 2008 *(see: Business — Strategy).* During the years 2007 - 2009 the Company, among others, has for internal purposes firmly committed itself to invest approximately EUR 41 million in six BOT projects. *(See: Business — Products and Services — BOT Projects*). In addition, ZhongDe Group contemplates to invest about EUR 2.5 million to EUR 3 million for the acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Co., Ltd. The Company firmly committed itself on expenditures for research and development in the next two years that will amount to approximately EUR 2 million *(see: Business — Research and Development)*.

Material Contracts

ZhongDe Group has concluded license agreements with Fengquan Environmental Protection Group Co., Ltd. on the use of the ''FengQuan'' trademark and a patent license agreement with Mr. Chen Zefeng for the use of seven utility model patents and three invention patents and three pending patent applications *(see: Business Intellectual Property)*.

ZhongDe Group has also concluded the following loan agreements.

- FengQuan has been granted a loan from Agricultural Bank of China providing for working capital in the amount of TEUR 389 (subject to the exchange rate on 31 December 2006 of RMB 10.2793 for EUR1.00) at interest rate of 7.605% per annum. This loan agreement has a term of one year and expires on 28 June 2007. The loan is secured by a joint and several guarantee provided by Fujian Fengquan Environmental Protection Group Co. Ltd and Fujian Jinshan Bio-Pharmaceutical Cooperation Ltd.

- FengQuan has been granted a loan from Fujian Xingye Bank of China providing for working capital in the amount of TEUR 292 (subject to the exchange rate on 31 December 2006 of RMB 10.2793 for EUR1.00) at interest rate of 7.254% per annum. This loan agreement has a term of one year and expires on 20 November 2007. The loan is secured by a guarantee provided by Fujian Yatai Construction Material Co. Ltd.

- Fujian Fenquan Environmental Protection Group Co., Ltd. has granted a non-interest bearing loan in the amount of TEUR 2,838 to FengQuan which has to be repaid within 30 days upon the listing of the Company's shares at the Frankfurt stock exchange. However, inter-company loans are not admitted by PRC law. Upon the advise of the Company's Chinese counsel, the loan agreement has been terminated on 29 April 2007 and on the same day a loan agreement which is subject to the same terms and conditions has been concluded between Ms. Chen Qiling and FengQuan. Ms. Chen Qiling is the sister of the Company's major shareholder and chairman of the Management Board.

- Mr. Chen Zesong has granted a non-interest bearing loan in the amount of TEUR 2,004 to FengQuan which has to be repaid within 30 days upon the listing of the Company's shares at the Frankfurt stock exchange.

ZhongDe Group has concluded three lease agreements for premises and offices used by FengQuan (s*ee: Business — Property, Plant and Equipment*).

Insurance

ZhongDe Group carries property insurance for its machinery and equipment with a coverage of TEUR 416 and a term of insurance until 24 March 2008. ZhongDe Group does not carry product liability insurance. ZhongDe Group believes that it has adequate coverage for its property insurance for which it pays fair premiums.

Legal Proceedings

There are no state interventions or judicial or arbitration proceedings that have been instituted, carried on or ended during the last twelve months, or which currently have or have had in the recent past a significant effect on the financial position or profitability of ZhongDe Group. To the Company's knowledge there are also currently no such proceedings imminent.

REGULATORY ENVIRONMENT

Regulations for Solid Waste Management in China

The 2005 PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (**''Solid Waste Law''**) sets out the general legal framework for the prevention and control of environmental pollution by solid waste. According to the Solid Waste Law, entities which produce solid waste are responsible for the prevention and control of the pollution it may cause. The State Environmental Protection Administration (**''SEPA''**) is in charge of prevention and control of solid waste pollution on a national level. The Environmental Protection Bureaus (**''EPBs''**) at county level and above are responsible for the prevention and control of solid waste pollution within their jurisdictions.

Separate legislation covers the management of different types of solid waste. Generally speaking, legislation distinguishes between industrial solid waste, municipal waste, hazardous waste and medical waste.

As to industrial solid waste, the entities which discharge industrial solid waste are to adopt measures for the prevention and control of environmental pollution. To the extent possible, enterprises should use the industrial solid waste they produce. For that which they cannot use, they should set up facilities and sites for safe and harmless storage and disposal.

As to municipal waste, SEPA and the sanitation departments at county level and above are in charge of the cleaning, collection, transportation and disposal of such waste. For this purpose, they may choose qualified entities through tender or other means to clean, collect, transport and dispose of such municipal waste. The construction of facilities and sites for disposal of municipal waste should comply with the environmental protection standards and municipal environmental sanitary standards formulated by SEPA and the Ministry of Construction. Under the Solid Waste Law an entity which engages in public transportation must collect and clear away the municipal waste produced in the course of transportation . Further, entities in charge of the operation and management of public facilities such as airports must maintain municipal waste collection equipment.

As to hazardous waste, entities which produce hazardous waste must provide information on the types, amounts, storage and disposal of the hazardous waste they produce to the EPB at county level or above in the place where they are located. Engagement in collection, storage and disposal of hazardous waste is subject to an Operation License issued by the competent EPB at county level or above. For the utilization of hazardous waste, an Operation License must be obtained from the provincial or national Environmental Protection Administration. China is a signatory to the Basel Convention on the Transboundary Movement of Hazardous Wastes and their Disposal, which obliges parties to ensure that such wastes are managed and disposed of in an environmentally friendly manner.

In the PRC, medical waste is subject to special laws and regulations. The 2003 Regulations on the Administration of Medical Waste regulate the collection, transportation, storage, disposal, and handling of medical waste. The People's Governments at county level or above are responsible for arranging the construction of centralized disposal facilities for medical waste.

Pollutants/Thresholds for Waste Incineration

Regulations for Pollutants and Standards for Waste Incineration

The PRC has two special standards for waste incineration, the 2001 Standard for Pollution Control of Municipal Solid Waste Incineration No. GB 18485-2001 (**''Solid Waste Incineraton Standard''**) and the 2001 Standard for Pollution Control of Hazardous Waste Incineration No. GB18484-2001 (**''Hazardous Waste Incineration Standard''**).

Regulatory Authorities

In the PRC, the SEPA and the General Administration of Quality Supervision and Inspection of Quarantine (**''AQSIQ''**) have responsibility for PRC general standards with regard to pollutant treatments and emissions.

Standard for Pollution Control of Municipal Solid Waste Incineration

This Solid Waste Incineration Standard applies to pollution control and supervision during the process of municipal waste incineration. It covers the following:

— rules on the location of municipal waste incineration plants;

— requirements for selection of municipal wastes, to ensure that hazardous waste does not enter the plant;

— technical requirements on storage of municipal waste;

— technical performance requirements for incinerators and requirements on the height of incinerator chimneys;

— limits on the emission of air pollutants from incinerators;

— collection, storage and transport of incineration slag and incineration fly ash collected from the dust collector shall be collected, stored and transported separately. Incineration slag shall be treated as general solid waste. Incineration fly ash shall be treated as hazardous waste;

— limits on the noise control of municipal waste incineration plants.

— limits on the emission of ammonia, HS, methanethiol and concentration of malodor at the boundary of the municipal waste incineration plant, which must comply with the Standards on the Emissions of Malodorous Pollutants No. GB 14554-93; and

— standard for treatment of industrial waste water from municipal waste incineration factories, which must be treated by the waste water treatment system where the maximum allowable emission concentration of pollutants in the waste water shall be in conformance with the Standard on Integrated Waste Water Discharge No. GB 8978.

Standard for Pollution Control of Hazardous Waste Incineration

The Hazardous Waste Incineration Standard applies to pollution control during hazardous waste incineration. Hazardous waste includes the waste listed in the PRC Catalogue of Hazardous Waste and other waste as the government may determine is hazardous. The standard covers the following:

— rules on the location of incineration plants:

— requirements of the waste, to ensure, e.g., that explosive and radioactive waste shall not be incinerated;

— height of incinerator chimneys;

— technical performance index for incinerators;

— storage of hazardous waste;

— limits on the emission of air pollutants from incinerators;

— limits on the maximum allowable concentration of pollutants in waste water discharged from hazardous waste incineration plants, which shall comply with GB 8978;

— treatment of residue after incineration as hazardous waste; and

— limits on the noise from hazardous waste incineration plants.

Currently, there is no standard for pollution control of medical waste. Formerly, GB 19218-2003 provided technical standards for medical waste incinerators. However, this standard was experimental and was allowed to lapse. In the absence of a current standard, GB 19218-2003 is still considered as a reference for standards for medical waste incinerators. In 2005, SEPA issued Technical Specifications for Centralized Incineration Facility Construction on Medical Waste, which sets out requirements for the construction of medical waste disposal facilities.

The PRC does not have any special standards on pollution control in aviation waste incineration.

Licenses for Environmental Equipment Producers

Licenses for Project Operations

According to the 2004 Measures for the License Administration of Qualification for Operation of Environmental Pollution Control Facilities (**"Measures"**) a company must obtain a special License for Operation of Environmental Pollution Control Facilities in order to operate environmental pollution control facilities, except for those facilities for disposal of pollutants caused by the company itself.

There are different qualifications for operation of environmental control facilities for different types of waste, such as sewage and household wastewater, industrial waste water, industrial solid waste excluding hazardous waste, municipal waste, etc. Further, there are two levels of qualification for a certificate, Level A and Level B. The qualification requirements for the two levels of qualification certificates are provided in the Standards for Classification and Rating of Qualification for Operation of Environmental Pollution Control Facilities.

Generally, an entity which applies for a qualification certificate must meet the following conditions:

— have the status of an independent enterprise legal person or an institutional legal person under enterprise management;

— have full-time operators to maintain the normal operation of the facilities;

— have undertaken the operation of environmental pollution control facilities for more than one year consecutively, and the pollutants discharged in the operating pollution control facilities are in compliance with the national and local environmental standards; and

— other conditions as stipulated under the Standards for Classification and Rating of Qualification for Operation of Environmental Pollution Control Facilities.

Any entity which has no previous operational experience or has engaged in the operation of environmental pollution control facilities for less than one year consecutively, but satisfies the other conditions, may apply for a temporary qualification certificate. Such a temporary qualification certificate has a validity term of one year.

The application for the License for Operation of Environmental Pollution Control Facilities first shall be submitted to the provincial level EPA which, if it approves the application, shall forward it to SEPA for its approval. The license has a three year term.

Licenses for BOT Projects

The 2004 Measures for the Administration on the Franchise of Municipal Public Utilities (**"Public Utilities Franchise Measures"**) govern the franchise for public utilities, such as municipal water supply, gas supply and waste disposal. The measures do not require the establishment of an independent project company for a BOT project. However, the Public Utilities Franchise Measures allow provincial governments to set out franchise procedures, and some local regulations require the establishment of an independent project company for a BOT project. For example, the Beijing Municipality Measures for the Franchising Operation of Urban Infrastructure of Beijing Municipality require a franchise operator to establish a project company which is responsible for the implementation of the franchising project.

Where local regulations require the establishment of an independent project company for a BOT project, this project company must be established locally. In such a case, a relevant Business License shall be issued to this newly established project company. Further, since a License for Operation of Environmental Pollution Control Facilities is required for operating environmental pollution control facilities, the local project company must also obtain such License from the competent environmental protection administration authorities in order to lawfully operate the environmental pollution control facilities.

Laws and Regulations for Safe Working Conditions

The 2002 PRC Production Safety Law regulates safety for companies engaged in production and business operations.

All entities must fulfil the requirements on safe working conditions, including:

— setting up an administrative body for the maintenance of production safety;

— incorporating safety facilities in newly built, rebuilt or expanded construction projects;

— stipulating regulations and rules for safe production;

— offering education and training programs to employees regarding production safety; and,

— providing employees with work-related injury insurance.

Further, those companies engaged in certain dangerous activities, for example mining, construction or production of hazardous chemicals, must obtain a Safety Working Permit.

Regulatory Authorities

The State Administration of Work Safety monitors and supervises workplace safety.

Patent and Trademark Protection

Patents

Patent prosecution

The Chinese patent system adopts the principle of ''first to file''. This means that, where more than one person files a patent application for the same invention, a patent will be granted to the person who first filed the application. In addition, the PRC requires absolute novelty in order for an invention to be patentable. Pursuant to this requirement, any prior written or oral publication, demonstration or use before filing the patent application prevents an invention from being patented in the PRC. Patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, which each have independent patent systems. A PRC invention patent is valid for 20 years from the initial date on which the patent application was filed. A patent for utility model is valid for 10 years from the initial date on which the patent application was filed. Patent applications must be filed at the State Intellectual Property Office (**''SIPO''**) in Beijing.

Patent enforcement

A patent holder who believes the patent is being infringed may either file a civil legal suit or file an administrative complaint with a provincial or municipal office of SIPO. A PRC court may issue a preliminary injunction upon the patent holder's or an interested party's request before instituting any legal proceedings or during the proceedings. Damages for infringement are calculated as either the loss suffered by the patent holder arising from the infringement or the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined in the range of from one to three times of the license fee under a contractual license. If damages cannot still be determined, statutory damages from RMB5,000 to 500,000 may be requested. As in other jurisdictions, with one notable exception, the patent holder in the PRC has the burden of proving that the patent is being infringed. However, if a the holder of a manufacturing process patent alleges infringement of such patent, the alleged infringing party has the burden of proving that there has been no infringement.

Compulsory license

Under the Patent Law, where a person possesses the means to utilize a patented technology, but such person cannot obtain a license from the patent holder on reasonable terms and in a reasonable period of time, SIPO is authorized to grant a compulsory license. A compulsory license can also be granted where a national emergency or any extraordinary state of affairs

occurs or where the public interest so requires. ZhoneDe Group does not believe a compulsory license has yet been granted by the SIPO.

International patent treaties

The PRC is also a signatory to all major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights, or **''TRIPs''**. Although patent rights are national rights, there is also a large degree of international co-operation under the Patent Cooperation Treaty, or the **''PCT''**, to which China is a signatory. Under the PCT, applicants in one country can seek patent protection for an invention simultaneously in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

Trademarks

The PRC Trademark Law was promulgated in 1982, followed by the PRC Trademark Implementing Regulations in 1988, and was amended on 27 October 2001. As noted above, the PRC is a signatory to the Madrid Agreement and the Madrid Protocol. These agreements provide a mechanism whereby an international registration has the same effect as an application for registration of the mark made in each of the countries designated by the applicant.

The PRC Trademark Office is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a ''first-to-file'' principle with respect to trademarks.

PRC law provides that the following acts constitute infringement of the exclusive right to use a registered trademark:

- use of a trademark that is identical with or similar to a registered trademark in respect of the same or similar commodities without the authorization of the trademark registrant;
- sale of commodities infringing upon the exclusive right to use the trademark;
- counterfeiting or making, without authorization, representations of a registered trademark of another person, or sale of such representations of a registered trademark as were counterfeited, or made without authorization;
- changing a registered trademark and putting commodities on which the changed registered trademark is used into the market without the consent of the trademark registrant; and
- otherwise infringing upon the exclusive right of another person to use a registered trademark.

In the PRC, a trademark owner who believes the trademark is being infringed has three options:

- The trademark owner can provide his trademark registration certificate and other relevant evidence to the State or local Administration for Industry and Commerce (the **''AIC''**) which can, at its discretion, launch an investigation. The AIC may take such actions as: order the infringer to immediately cease the infringing behavior, seize and destroy the representations of the trademark in question and impose a fine. If the trademark owner is dissatisfied with the AIC's decision, he may apply to have the decision reconsidered.
- The trademark owner may institute civil proceedings directly with the court. Civil redress for trademark infringement includes:
    - injunctions;
    - requiring the infringer to take steps to mitigate the damage (i.e., print notices in newspapers);

- damages (i.e. compensation for the economic loss and injury to reputation as a result of trademark infringement suffered by the trademark holder);
- the amount of compensation is calculated according to either the gains acquired by the infringer from the infringement during the infringement, or the loss suffered by the trademark owner, including expenses incurred by the trademark holder to deter such infringement. If it is difficult to determine the gains acquired by the infringer from the infringement, or the loss suffered by the trademark owner, the court may elect to award compensation of not more than RMB500,000; and
- if the case is so serious as to constitute a crime, the trademark owner may lodge a complaint with the relevant public security organ.

Other National and Provincial Level Laws and Regulations

ZhongDe Group is subject to changing regulations under many other laws and regulations administered by government authorities at the national, provincial and municipal levels, some of which are or may become applicable to their business.

ZhongDe Group is also subject to numerous additional state and local laws relating to matters such as manufacturing practices and fire hazard control.

Company Law

On 27 October 2005, the Standing Committee of the PRC National People's Congress adopted amendments to the Company Law. The amendments brought about substantial changes, including enhanced corporate governance, greater protection of shareholders and an easing of restrictions on the management and operation of companies registered in the PRC.

The new PRC Company Law applies not only to domestically owned companies, but also to foreign-invested enterprises, such as FengQuan. According to the PRC Company Law, directors, supervisors and senior management shall be loyal and diligent towards the company. In the event a director, supervisor or senior manager violates laws, administrative regulations or the company's Articles of Association in the course of performing his or her duties, thereby causing losses to the company, he or she shall be liable for damages. In terms of the provisions on the shareholder's protection, the shareholder may institute legal proceedings against the unlawful acts of a director, supervisor, senior manager or third party that have harmed the interests of the company or the shareholder.

In addition, the new PRC Company Law has lifted a restriction which limited the amount of equity investments a company could make to 50% of that company's net assets. Since ZhongDe Group intends to commence several BOT projects and each BOT project may require a project company to be established by ZhongDe Group, the elimination of the above restriction enables ZhongDe Group to establish sufficient project companies to satisfy the needs of the BOT projects. Moreover, the new PRC Company Law allows the establishment of a limited liability company by a single shareholder. With such permission, ZhongDe Group may act as the sole shareholder of any limited liabilities company in the PRC.

FIE Regulations

In the PRC, the establishment of a foreign-invested enterprise is subject to approval by the Ministry of Commerce (**"MOFCOM"**) or its local counterpart depending on the industry of such foreign-invested enterprise and its total amount of investment. After the establishment, any material corporate changes in the foreign-invested enterprise, such as capital increase or reduction, change of business scope, share transfer, etc, are also subject to approval by the MOFCOM or its local counterpart. In addition, as is the case with all companies registered in the PRC, the establishment of a foreign-invested enterprise as well as certain major corporate changes must be registered with the competent registration authority, i.e. the State Administration for Industry and Commerce or its local counterparts, in order to be valid.

Regulation of Foreign Exchange

Foreign currency exchange regulation in China is primarily governed by the following rules:

- the Foreign Currency Administration Rules (1996), as amended, or the **''Exchange Rules''**; and
- the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996), or the ''**Administration Rules**''.

Under the Exchange Rules, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loans, investment in securities and repatriation of investment, however, is still subject to the approval of the SAFE.

Under the Administration Rules, foreign-invested enterprises in China, may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from the SAFE. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the SAFE and other relevant government authorities.

Regulation of foreign exchange in certain onshore and offshore transactions

On 21 October 2005, the SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or **''Notice No. 75''**, which became effective as of 1 November 2005.

Pursuant to Notice No. 75, prior to establishing or assuming control of an offshore company for the purpose of financing that offshore company with assets or equity interests in an onshore enterprise in the PRC, each PRC resident or passport holder who is an ultimate controller, whether an individual or a legal entity, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. An amendment to the registration with the local SAFE branch is required to be filed by any PRC resident that directly or indirectly holds interests in that offshore company upon either the injection of equity interests or assets of an onshore enterprise to the offshore company, or the completion of any overseas fundraising by such offshore company. An amendment to the registration with the local SAFE branch is also required to be filed by such PRC resident when there is any material change involving a change in the capital of the offshore company, such as (a) an increase or decrease in its capital, (b) a transfer or swap of shares, (c) a merger or division, (d) a long-term equity or debt investment or (e) the provision of a guarantee to third parties.

Under Notice No. 75, failure to comply with the registration procedures set forth in Notice 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations.

Dividend Distribution

The principal regulations governing distribution of dividends paid by wholly foreign owned enterprises include:

- the Wholly Foreign Owned Enterprise Law (1986), as amended in 2000; and
- the Wholly Foreign Owned Enterprise Law Implementation Rules (1990), as amended in 2001.

Under these regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in China are required to set aside certain

amounts out of their accumulated profits each year, if any, to fund certain reserve funds, bonus and welfare funds. These funds are not distributable as cash dividends.

Regulations on Overseas Listing

On 8 August 2006, six PRC regulatory agencies, including the Ministry of Commerce, or the MOFCOM, and the CSRC, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the New M&A Rule, which became effective on 8 September 2006. The New M&A Rule, among other things, purports to require an offshore special purpose vehicle, or SPV, formed for the purpose of listing the SPV's securities on an offshore securities exchange and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to such offshore listing and trading. On 21 September 2006 the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. However, substantial uncertainty remains regarding the scope and applicability of the New M&A Rule to overseas listings of offshore SPVs.

SHAREHOLDER STRUCTURE

The following table provides an overview of the shareholding structure and the participation of the shareholders in the share capital of the Company prior to the offering and upon completion of the offering assuming the placement of all of the Offer Shares.

	Before the Offering		Shareholdings Following the completion of the offering (without exercise of the Greenshoe Option)		Following the completion of the offering (with full exercise of the Greenshoe Option)	
Name of shareholder	**Ordinary bearer shares**	**in %**	**Ordinary bearer shares**	**in %**	**Ordinary bearer shares**	**in %**
Mr. Chen Zefeng[1]	6,803,200	68.03	6,803,200	52.33	6.603.200	50.79
9998 Holding Ltd.[2]	1,550,000	15.50	1,240,000	9.54	1.072.284	8.25
Delotte Group Ltd.[3]	300,000	3.00	240,000	1.85	207,539	1.60
Dragonup Enterprises Ltd.[4]	450,000	4.50	360,000	2.77	311,309	2.39
Linch Investments Ltd.[5]	496,800	4.97	397,440	3.06	343,685	2.64
Synergy Investment Group Ltd.[6]	400,000	4.00	320,000	2.46	276,716	2.13
Free Float	0	0.00	3,639,360	28.00	4,185,264	32.19
Total[(1)]	**10,000,000**	**100.00**	**13,000,000**	**100.00**	**13,000,000**	**100.00**

(1) The figures have been rounded and, therefore, may not add up exactly to the totals shown.

1 Mr. Chen Zefeng has granted an option to Delotte Group Ltd. that entitles Delotte Group Ltd. to buy up to 300,000 shares from the holdings of Mr. Chen for a purchase price per share which equals the offer price for one Offer Share. The option is exercisable at the earliest 12 months after the Company's shares have been admitted to listing on the Frankfurt Stock Exchange. The option ceases to exist 18 months after the Company's shares have been admitted to listing on the Frankfurt Stock Exchange.

2 9998 Holding Ltd. is an investment vehicle of Hao Capital China Fund LP.

3 Delotte Group Ltd. is an investment vehicle of the shareholders of Shanghai Rieman Investment Advisory Ltd. acting as financial advisors to Mr.Chen Zefeng and ZhongDe Group in connection with the corporate restructuring and the offering.

4 Linch Investments Ltd. is an investment vehicle owned by a private PRC investor.

5 Dragonup Enterprises Ltd. is an investment vehicle owned by a Japanese private investor.

6 Synergy Investment Group Ltd. is an investment vehicle of a private Canadian investor.

GENERAL INFORMATION ON THE COMPANY

Formation, Business Name, Registered Office, Financial Year and Term of the Company

The Company has been formed by means of a notarial deed of incorporation (Gründungsurkunde) dated 4 May 2007 (Roll of Deeds No. 1797/2007 of the notary public Dr. Jan Christoph Wolters, Hamburg, Germany). The business name (*Firma*) of the Company is ''ZhongDe Waste Technology AG''. The formation of the Company became legally effective by registration in the commercial register (*Handelsregister*) with the local court (*Amtsgericht*) of Hamburg on 14 June 2007, where the Company is registered under the registration number HRB 101376. The legal domicile (*Sitz*) of the Company is Hamburg, Germany, and the Company has its business address at Stadthausbrücke 1-3, 20355 Hamburg, Germany (telephone number: +49 40 376 30-0). The Company's financial year (*Geschäftsjahr*) is the calendar year (i.e. 1 January through 31 December); the first financial year of the Company is a short financial year (*Rumpfgeschäftsjahr*). The duration of the Company (*Dauer der Gesellschaft*) is unlimited.

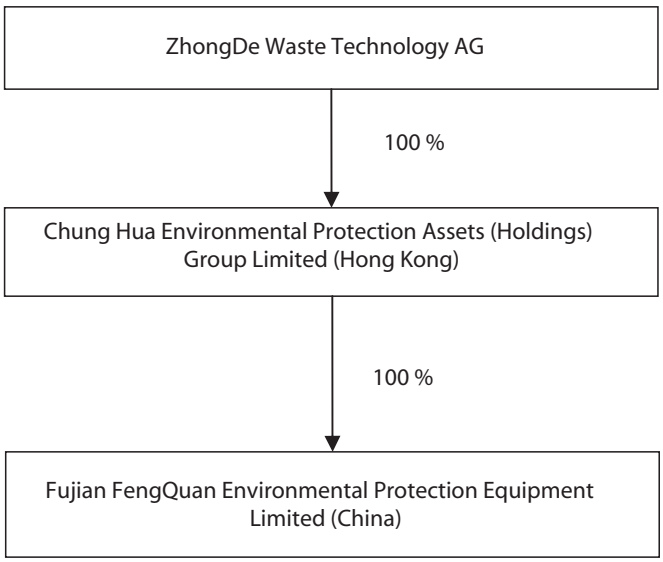
Business Purpose of the Company

The Company's business purpose (*Unternehmensgegenstand*) as set forth in Section 2, para. 1 of the Articles of Association (*Satzung*) is the holding and administration and the 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 and 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.

Group Structure and Recent Corporate Restructuring of the ZhongDe Group

The operational business of ZhongDe Group is exclusively carried out by Fujian FengQuan Environmental Protection Equipment Ltd. (**''FengQuan''**), a limited liability company formed under the laws of the PRC with its business address at Cangshan Science and Technology Park, Gaoshi Road, Cangshan District, Fuzhou, Fujian Province, PRC and being registered under the registration number Qi Du Min Zong Fu Zi No. 004021. FengQuan is registered as a wholly foreign-owned enterprise. The sole shareholder of FengQuan is Chung Hua Environmental Protection Assets (Holdings) Group Ltd., a limited liability company being formed under the laws of Hong Kong (**''Chung Hua Holding''**) which is a wholly-owned subsidiary of ZhongDe Waste

Technology AG (the **"Company"**). The current corporate structure of ZhongDe Group is shown in the chart below:



FengQuan was established in 1996 under the laws of People's Republic of China. The registered and fully paid up share capital of FengQuan amounts to RMB 29,000,000. All shares in FengQuan are held by Chung Hua Holding, a limited liability company, formed under the laws of Hong Kong on 25 February 2004 and registered with the Registrar of Companies in Hong Kong under the registration number 884757. The authorised share capital of Chung Hua Holding amounts to HKD 10,000. The issued share capital of Chung Hua Holding amounts to HKD 4,200 and is divided into 42,000,000 shares with a nominal value of HKD 0.0001 each. The issued share capital of HKD 4,200 is fully paid-up.

On 28 June 2006, Chung Hua Holding entered into a share purchase agreement to purchase all shares in FengQuan with Fujian Fengquan Environmental Protection Group Co., Ltd. and Mr. Chen Zesong as selling shareholders. The respective transfers of shares were approved by the competent PRC authorities on 19 July 2006 and became effective on such date. The purchase price for all shares in FengQuan to be paid to the selling shareholders amounted to TEUR 4.069. Payment of the purchase price was financed by Chung Hua Holding by issuing 4,200,000 new preferred shares series A against a cash consideration of TEUR 4.069, which were subscribed by 9998 Holding Ltd.

In April 2007, immediately before the sale of certain shares held by Mr Chen Zefeng as described below, the share capital of Chung Hua Holding amounted to HKD 4,200 divided into 35,490,000 ordinary bearer shares and 4,200,000 preferred shares series A and 2,310,000 preferred shares series B. Mr. Chen Zefeng held 35,490,000 ordinary shares and 2,310,000 preferred shares series B and 9998 Holding Ltd. held 4,200,000 preferred shares series A.

In April 2007 Mr. Chen Zefeng sold and transferred certain of his shares in Chung Hua Holding as follows:

(i) 2,310,000 preferred shares series B to 9998 Holding Ltd. against a consideration in the amount of HKD 60,000,000;

(ii) 2,085,600 ordinary shares to Linch Investments Ltd. for advisory services rendered to Mr. Chen Zefeng in connection with this offering;

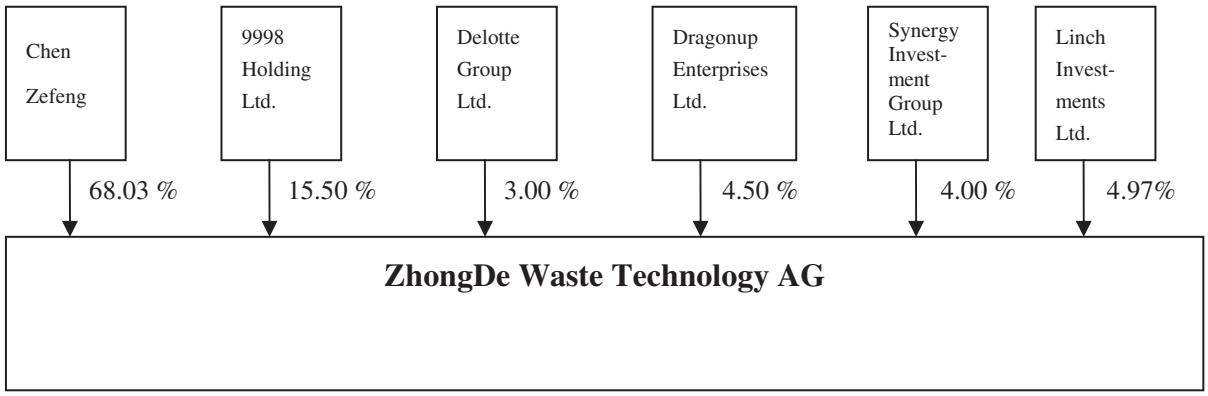
(iii) 1,260,000 ordinary shares to Delotte Group Ltd. for advisory services rendered to Mr. Chen Zefeng in connection with this offering;

(iv) 1,680,000 ordinary shares to Synergy Investment Group Ltd. against a consideration in the amount of RMB 48,000,000; and

(v) 1,890,000 ordinary shares to Dragonup Enterprises Ltd. without consideration.

Upon formation of the Company, all shares in Chung Hua Holding were transferred to the Company by means of a share contribution agreement (*Einbringungsvertrag*) dated 30 May 2007

as a contribution in kind (*Sacheinlage*). After the corporate restructuring and immediately prior to the offering, the shareholder structure of ZhongDe Group is as follows:



The Existing Shareholders and the Company have entered into a shareholders' agreement which will automatically cease to exist, immediately once application for the admission of the Company's shares to trading on the regulated market (*Geregelter Markt*) (*Prime Standard*) of the Frankfurt Stock Exchange has been made.

The Existing Shareholders and the Company have, inter alia, agreed that the Company shall, through FengQuan, its PRC operating subsidiary, carry on the primary business of the manufacturing, processing and sale of self-manufactured environmental equipment and accessories, development and research of environmental equipment and operation of environmental projects. The main subjects of this agreement are the continuing and further obligations of the Existing Shareholders in relation to the Company, their rights to appoint board members, special rights related to the shareholdings of the Existing Shareholders and provisions related to the transfer and/or sale of their shares, an anti dilution agreement and a non-competition undertaking.

Notices, Paying and Depositary Agent

In accordance with its Articles of Association (*Satzung*), notices of the Company will be made in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*). Publications required by stock exchange laws will be made in a national journal designated for such purposes by the Frankfurt Stock Exchange.

Notices in connection with the approval of the Prospectus or regarding amendments to the Prospectus will be made in accordance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and will be published in the form intended for prospectuses, i.e., on the Internet website of ZhongDe Waste Technology AG with a printed version available at the offices of ZhongDe Waste Technology AG and the Global Coordinator, as well as through subsequent notice with publication in the *Frankfurter Allgemeine Zeitung*.

The paying agent in Germany and depositary agent is Sal. Oppenheim. The paying agent in Luxembourg is Bank Sal. Oppenheim jr. & Cie. (Luxembourg) S.A., 4, Rue Jean Monet, L-2180 Luxembourg. As of 1 July 2007 Bank Sal. Oppenheim jr. & Cie. (Luxembourg) S.A. will operate under the name Sal. Oppenheim jr. & Cie. S.C.A.

INFORMATION ON THE SHARE CAPITAL OF ZHONGDE WASTE TECHNOLOGY AG AND APPLICABLE PROVISIONS

Share Capital and Shares

The registered share capital of the Company *(gezeichnetes Grundkapital*) amounts to EUR 10,000,000 and is divided into 10,000,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) with a notional amount of the share capital of EUR 1.00 each.

Authorized Share Capital

According to Section 4 para. 4 of the Company's Articles of Association (*Satzung*), the Management Board (*Vorstand*) of the Company is, upon consent of the Supervisory Board (*Aufsichtsrat*), authorized to increase the Company's share capital one time or several times by an amount up to EUR 5,000,000 in the aggregate against contributions in cash or in kind in return of up to 5,000,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) with a notional amount of the share capital of EUR 1.00 each (*genehmigtes Kapital*). The Management Board is, upon consent of the Supervisory Board, also entitled to exclude the pre-emptive rights (*Bezugsrechte*) of the shareholders existing at the time of the resolution on the capital increase for the following reasons:

— if the new shares are issued to acquire enterprises, shares in enterprises or parts of an enterprise;

— for fractional amounts;

— to list shares of the Company or certificates representing shares in the Company on domestic or foreign stock exchanges, where shares in the Company or certificates representing such shares in the Company are not yet listed;

— for granting shares to employees and members of the management of the Company or of an affiliated enterprise in connection with employees' participation programmes;

— if the shares are issued in consideration of contributions in cash at an issue price which is not substantially below the stock exchange price and the exclusion of the pre-emptive rights is only applied to new shares that represent not more than 10% of the share capital. For the calculation of the 10% limitation any other exclusion of the pre-emptive rights according to Sec. 186 para. 3 sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) has to be taken into account;

— as far as required to grant holders of convertible bonds (*Wandelschuldverschreibungen*) or participation rights granting conversion rights (*Wandelgenussrechte*) or option rights (*Optionsrechte*) pre-emptive rights as provided for by the convertible bonds, participation rights or option rights.

Development of the Share Capital

The Company has been formed by means of contribution in kind (*Sachgründung*) where the founders have contributed all their shares in Chung Hua Holding against the issuance of 10,000,000 bearer shares non par value (*Stückaktien*) with a notional amount of the share capital of EUR 1.00 each. The Company's share capital is fully paid in.

On 4 July 2007, the Management Board (*Vorstand*) is expected, with approval of the Supervisory Board (*Aufsichtsrat*) by resolution which is expected on the same day, to exercise its authorization to increase the share capital (*genehmigtes Kapital*) as set forth in Section 4 para. 4 of the Company's Articles of Association (*Satzung*) and to resolve on the increase of the Company's share capital from EUR 10,000,000 by up to EUR 3,000,000 to up to EUR 13,000,000 against contributions in cash (*Bareinlagen*) in return of the issuance of up to 3,000,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) with a notional amount of the share capital of EUR 1.00 each. The pre-emptive rights (*Bezugsrechte*) of the Existing Shareholders will be excluded. The application for registration of the resolution on that capital increase and its execution is expected to be made with the commercial register of the local court (*Amtsgericht*) of

Hamburg on 4 July 2007. It is expected that registration and effectiveness of that capital increase will take place on 5 July 2007.

General Provisions Relating to Profit Allocation and Dividend Payments

Under German law, the participation of the Company's shareholders in profits is determined on the basis of their respective interests in the share capital, unless the Articles of Association (*Satzung*) provide for another profit allocation.

The adoption of resolutions regarding the distribution of dividends on the Company's shares for a given financial year is the responsibility of the General Shareholders' Meeting (*Hauptversammlung*) held during the following financial year, which resolves on the utilization of the Company's distributable profits on the basis of the non-binding proposal of the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*). If the Selling Shareholders hold an effective or, depending on their presence at the General Shareholders' Meeting of the Company, a factual majority of the voting rights present or represented at the General Shareholders' Meeting, they may exercise further influence on the utilization of the Company's profits and/or the dividends' policy *(see: Risk Factors — Risks Related to the Offering — Conflicts of Interest with the Major Shareholders)*.

Under German law a resolution concerning dividends and the utilization of distributable profits may be adopted only on the basis of a balance sheet profit (*Bilanzgewinn*) shown in the Company's adopted annual individual financial statement (*festgestellter Jahresabschluss*) to be prepared in accordance with generally accepted German accounting principles, i.e. the accounting provisions of the German Commercial Code (Handelsgesetzbuch (*Handelsgesetzbuch/HGB*). In determining the balance sheet profit available for distribution, the annual net income (*Jahresüberschuss*) or annual net loss (*Jahresfehlbetrag*) of the respective year must be adjusted for profits and losses carried forward from the previous year and for deposits into or withdrawals from reserves. Certain reserves are to be created by law and must be deducted, where applicable, when calculating the balance sheet profits available for distribution. In a resolution regarding the utilization of balance sheet profits, the General Shareholders' Meeting can include further amounts in retained earnings or carry them forward as profit.

In the event that the Company's (individual) annual financial statement (*Jahresabschluss*) accounts for a balance sheet profit (*Bilanzgewinn*) in the future, the Company's Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*) intend to propose for a profit distribution among the shareholders of 10% where the remaining profits shall be booked into retained earnings and to be used to finance the further development of its business and its internal growth. Subject to the decision of the General Shareholders' Meeting (*Hauptversammlung*) regarding the use of such profits, the Company assumes that dividends of at most 10% of the respective balance sheet profit, if applicable, will be distributed in the foreseeable future.

Future dividend distributions will depend on the results of operations of the Company, its financial situation, its need for cash and the legal, tax and regulatory environment as well as other factors.

Dividends resolved by the Company's General Shareholders' Meeting are paid annually, shortly after the General Shareholders' Meeting, in compliance with the rules of the respective clearing system. Dividend claims are subject to a three-year statute of limitations. Notifications concerning the distribution and payment of dividends will be published in the electronic version of the Federal Gazette (*elektronischer Bundesanzeiger*) and in at least one official national publication for statutory stock market notices approved by the Frankfurt Stock Exchange.

General Provisions Relating to a Liquidation of the Company

Apart from liquidation as a result of insolvency proceedings and other reasons as set forth in the German Stock Corporation Act (*Akiengesetz*), the Company may be liquidated only upon resolution of the General Shareholders' Meeting (*Hauptversammlung*) to be adopted with a majority of at least 75% of the share capital represented at the General Shareholders' Meeting at which such resolution is adopted. In such a case, the assets remaining following fulfilment of all

of the Company's liabilities will be distributed among the shareholders according to their respective shares in the share capital and in accordance with the German Stock Corporation Act.

General Provisions Governing Changes in Share Capital

Under the German Stock Corporation Act (*Aktiengesetz*), the share capital of a German stock corporation (*Aktiengesellschaft*) may be increased in return for contributions (*Kapitalerhöhungen gegen Einlagen*) on the basis of a resolution by the General Shareholders' Meeting passed with a majority of at least three-quarters of the share capital represented at the time the resolution is adopted. Each shareholder generally has pre-emptive rights (*Bezugsrechte*), which may be excluded in certain circumstances *(see: Information on Share Capital of ZhongDe Waste Technology AG and Applicable Provisions — General Provisions Relating to Subscription Rights)*.

In addition to the capital increase against contributions, the shareholders may also create authorized capital (*genehmigtes Kapital*) or conditional capital (*bedingtes Kapital*). In the case of authorized capital, the Management Board (*Vorstand*) is authorized by the means of a respective provision in the articles of association or a resolution of the General Shareholders' Meeting, upon the consent of the Supervisory Board (*Aufsichtsrat*) to increase the share capital one time or several times up to an amount of not more than 50% of the issued share capital at the time the authorization is granted against contributions in cash by issuing new shares within a period of no more than five years. The shareholders' resolution creating the authorized capital requires a majority of three-quarters of the share capital represented at the time the resolution is adopted. The General Shareholders' Meeting may also create conditional capital (*bedingtes Kapital*) for the purpose of issuing (i) shares to holders of convertible bonds or other securities conferring subscription rights to company shares, (ii) shares that serve as consideration in the event of a merger with another company, or (iii) shares offered to senior managers and employees. The resolution of approval to be adopted by the General Shareholders' Meeting requires a majority of three-quarters of the share capital represented at the time of the resolution. The nominal amount of the conditional capital may not exceed 50% of the share capital or, if the conditional capital is created for the purpose of issuing shares to senior managers and employees, 10% of the existing share capital at the time the resolution is adopted.

A resolution to decrease the amount of the share capital requires a majority of three-quarters of the share capital represented at the time of the resolution.

General Provisions Relating to Pre-Emptive Rights

The German Stock Corporation Act provides that, in the case of a capital increase — with the exception of a conditional capital increase — shareholders are, in principle, entitled by law to pre-emptive rights regarding new shares to be issued in the course of a capital increase in accordance with their current equity quota (*gesetzliches Bezugsrecht*). The same applies to the issue of convertible bonds, income bonds, profit participation rights or bonds with warrants as well as in respect of the sale of treasury shares. Subscription rights are freely transferable and the Company may determine that the subscription rights may be traded on a German stock exchange during a fixed period prior to the expiry of the subscription period.

The General Shareholders' Meeting (*Hauptversammlung*) may partially or completely exclude the pre-emptive rights by means of a resolution passed with a majority of at least three-quarters of the share capital represented at the time the resolution is adopted. The Management Board (*Vorstand*) must present a written report to the shareholders' meeting justifying the exclusion of the subscription rights. An exclusion of subscription rights is permissible if the Company's interest in excluding the subscription rights outweighs the shareholders' interest in the conferral of the subscription rights. In the absence of such justification, pre-emptive rights may only be excluded in the case of a capital increase if such capital increase has been effected in return for cash contributions, the amount of the capital increase does not exceed 10% of the existing share capital, and the issue price of the new shares is not substantially below the stock exchange price of the shares already trading on the stock exchange.

Squeeze-Out of Minority Shareholders and Integration

Pursuant to the provisions governing a so-called squeeze-out according to stock corporation law, the shareholders' meeting of a stock corporation can, at the request of a shareholder holding 95% of the share capital (**''Principal Shareholder''**), resolve to transfer the shares of the remaining minority shareholders to the Principal Shareholder in return for payment of a suitable cash settlement. The amount of the cash settlement to be paid to the minority shareholders must reflect ''the company's situation'' at the time the resolution is passed by the shareholders' meeting. The amount of the cash settlement is based on the full value of the Company, which is determined using the capitalized earnings value calculation (*Ertragswertberechnung*). Upon registration of the resolution of the General Shareholders' Meeting on the squeeze out with the commercial register, the shares of the minority shareholders are automatically transferred to the Principal Shareholder.

With the Takeover Directive Implementation Act (*Übernahmerichtlinie-Umsetzungsgesetz*), which came into force in large part in the summer of 2006, the possibility of a squeeze-out according to the takeover law was implemented as another alternative to the squeeze-out according to stock corporation law. According to this provision, a bidder that holds 95% of the voting share capital of a target company within the meaning of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) after a public takeover or mandatory bid may file an application with the local court in Frankfurt within a period of three months following the expiration of the acceptance period to issue a court order that transfers to it the remaining voting shares against an adequate compensation. A resolution by the General Shareholders' Meeting is not required. The consideration offered has to correspond to the consideration offered in connection with the takeover or mandatory bid. In any event a cash consideration has to be offered alternatively. At the same time shareholders have the right to request acquisition of their shares. During the takeover law squeeze-out procedure initiated by the bidder, the provisions relating to the stock corporation law squeeze-out do not apply. These may only be applicable again after a binding court ruling with respect to the squeeze-out proceedings has been issued.

The General Shareholders' Meeting of a stock corporation may resolve on the integration (*Eingliederung*) of a corporation if at least 95% of the shares of the company to be integrated are held by the future principal company. The former shareholders of the integrated company can claim a suitable settlement that generally must be granted in the form of shares of the principal company. The amount of the settlement is calculated using a ''merger value ratio'' (*Verschmelzungswertrelation*) between the two companies, i.e., the exchange ratio that would be deemed to be appropriate in the event of a merger of the two companies.

Reporting and Notification Requirements in Relation to Share Ownerships

Upon the admission of its shares to the official market of the Frankfurt Stock Exchange *(see: The Offering — General and Specific Information on the Shares — Admission to Trading and Listing of Shares)* the Company, as a publicly listed company, is subject to the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*, **''WpHG''**). The WpHG requires that every shareholder who reaches, exceeds or falls below, through purchase, sale or any other manner, 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights in a listed company must, without undue delay but within four trading days at the latest, submit written notifications to the relevant company and to the German Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) stating that it has reached, exceeded, or fallen below the aforementioned thresholds and indicating its share of the voting rights. Upon receipt of a notification submitted in this manner, the Company must publish this notification without undue delay, but within three trading days at the latest, in a national journal designated for such purposes by a stock exchange and without undue delay, but not before publication notification, transfer this notification to the enterprise register (*Unternehmensregister*).

In connection with this requirement, the WpHG contains various rules that aim to ensure that share ownership is attributed to the party that actually controls the voting rights attached to the shares. For example, shares belonging to a third company are attributed to a first company if the latter controls the former; similarly, shares held by a company for the account of another

company or a company it controls are also attributed. If the respective notification is not made, the shareholder is excluded from exercising all rights related to the shares (including voting rights and the receipt of dividends) for the duration of the non-compliance. In addition, in the event of non-compliance with the notification obligation a fine may be imposed.

Public Takeovers Bids

Pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), the Company as stock corporation (*Aktiengesellschaft*) being listed on an organised market within the meaning of Article 4 para. 1 No. 14 of the EU-Directive 2004/39/EC, is considered as a so-called target company (*Zielgesellschaft*) in the event of a publicly launched offer on the acquisition of a part or all of the Company's shares (**"Public Takeover Bid"**) (*öffentliches Erwerbs- oder Übernahmeangebot*). In the event of a Public Takeover Bid being launched in relation to the Company's shares, the Management Board (*Vorstand*) of the target company must not take any actions that could result in the Takeover Bid being frustrated. In addition, the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*) of the target company are obliged to prepare and announce a detailed statement (*Stellungnahme*) on the Takeover Bid.

According to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), any party whose share of the voting rights reaches or exceeds 30% of the voting shares of the Company after admission to listing is required to publish this fact, including the percentage of the voting rights held, within seven calendar days via Internet and by means of an electronic system for the dissemination of financial information, and subsequently, unless an exemption from this requirement is granted, to submit a mandatory public tender offer to all shareholders of the Company.

CORPORATE BODIES AND MANAGEMENT

The corporate bodies of the Company are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the General Shareholders' Meeting (*Hauptversammlung*). The powers of these governing bodies are determined by the provisions of the German Stock Corporation Act (Aktiengesetz/*AktG*), the Company's Articles of Association (*Satzung*), and the respective by-laws of the Management Board and the Supervisory Board (*Geschäftsordnungen für den Vorstand und den Aufsichtsrat*).

The Management Board conducts the Company's business in accordance with the relevant statutes, the Company's Articles of Association and the Management Board's respective by-laws. It represents the Company in dealings with third parties.

The Management Board is responsible for ensuring that appropriate risk management and risk monitoring systems are in place to provide early warning of any developments that might jeopardise the Company's continuing existence. The Management Board also has an obligation to report regularly on at least a quarterly basis to the Supervisory Board on the status of business, in particular any developments affecting revenues, and on the situation of the Company and its subsidiaries. In the last Supervisory Board meeting of each financial year the Management Board must report on business policy and other key issues relating to corporate planning and present the budget for the following financial year, as well present its mid-term strategy. The Management Board is also required to report to the Supervisory Board in a timely fashion on any transactions that may be significant with respect to the Company's profitability or liquidity, in order to give the Supervisory Board the opportunity to express its opinion on such transactions prior to their implementation. The Management Board must furthermore report any important matters to the Chairman of the Supervisory Board (*Vorsitzender des Aufsichtsrats*), including any matter involving subsidiaries and/or affiliates that could have a material effect on the Company's position. In the case of stock corporations, under German law no member of the Management Board may serve concurrently on the Supervisory Board. By way of exception, a concurrent membership limited to no more than one year is possible by delegating a member of the Supervisory Board to the Management Board. During such period of time, the delegated member cannot engage in any activities in the Supervisory Board.

The Supervisory Board appoints the members of the Management Board and is entitled to dismiss them for good cause. The Supervisory Board advises the Management Board on managing the Company and supervises its management activities. Pursuant to the German Stock Corporation Act, the Supervisory Board may not engage in management. However, under the Articles of Association or the Management Board's respective by-laws, the Management Board must obtain the Supervisory Board's consent for certain transactions, usually prior to the implementation of such measures or transactions.

Members of the Management Board and Supervisory Boards owe a duty of care and loyalty to the Company. In all their actions, members of these governing bodies must consider a wide number of interests, including those of the Company, its shareholders, its employees and its creditors. The Management Board must also take into consideration the right of shareholders to equal treatment and equal information. Should the members of the Management or Supervisory Boards breach these duties, they are being jointly and severally liable to the Company liable for compensation.

Under currently applicable German law, a shareholder has no possibility of taking direct action against members of the Management Board or the Supervisory Board if it believes he or she holds the opinion that they have breached their fiduciary duties and that as a result the Company has suffered damages. Under normal circumstances only the Company itself is entitled to claim compensatory damages against the members of the Management Board or the Supervisory Board. The Company will be represented by the Management Board in the case of claims against members of the Supervisory Board and by the Supervisory Board in the case of claims against members of the Management Board. Based on a decision by the German Supreme Court, the Supervisory Board is obligated to pursue enforceable claims for compensatory damages expected to be enforceable against the Management Board, unless significant reasons related to the Company's welfare make the enforcement of a claim unadvisable and these reasons outweigh or are at least on balance with the reasons supporting the pursuit of a claim.

If the respective governing body entitled to represent decides not to pursue a claim, the Act on Business Integrity and Modernisation of Shareholder Actions (*Gesetz zur Unternehmensintegrität und Modernisierung des Anfechtungsrechts/UMAG*), which entered into force on 1 November 2005, requires that claims for compensatory damages of the Company must be enforced against members of governing bodies if the General Shareholders' Meeting so resolves with a simple majority. Shareholders whose aggregate shareholdings equal or exceed 10% of the share capital or a notional value of the share capital of EUR 1,000,000 may request that a representative be appointed to enforce claims for compensatory damages. Furthermore, shareholders whose aggregate shareholdings at the time of the request equal or exceed 1% of the share capital or a notional value of the share capital of EUR 100,000 may request in their own name that a law suit be admitted before the Regional Court (*Landgericht*) at the Company's registered domicile for enforcement of claims for compensation brought by the Company. Among other things, a prerequisite for admission of the action is that the shareholders of the Company have unsuccessfully requested to bring an action, after setting an appropriate deadline, and facts exist that justify the suspicion that the Company has incurred damages due to impropriety or gross violation of the law or the Company's Articles of Association (*Satzung*). The Company is entitled at any time to enforce its claim for compensatory damages itself; the bringing of an action by the Company makes a pending approval procedure or action by the shareholders inadmissible.

The Company may not waive or settle any such claim until three years have elapsed since the vesting of such claims, and then only if the General Shareholders' Meeting (*Hauptversammlung*) so resolves by simple majority, provided further that no minority of shareholders, holding in the aggregate 10% or more of the registered share capital, raises a written objection in the minutes of the meeting.

Under German law, neither shareholders nor any other individual may attempt to influence members of the Management or Supervisory Boards to act in a manner that would harm the Company. Shareholders who have a controlling influence may not use such influence to cause the Company to act against its interest, unless the resulting damage is compensated for. Any person who uses his influence to cause a member of the Management or Supervisory Board, a commercial attorney in fact (*Prokurist*) or any person holding a commercial power of attorney to act in a manner that harms the Company or its shareholders may be obliged to compensate the Company and its shareholders for the resulting damage. In addition, the members of the respective Supervisory and Management Boards may be jointly and severally liable for breach of their duties.

Management Board

The Management Board (*Vorstand*) of the Company currently comprises two members. The Supervisory Board (*Aufsichtsrat*) determines the size of the Management Board which, under the Company's Articles of Association (*Satzung*), must have at least one member. The Supervisory Board may appoint one Management Board member as chairman or spokesman and another member as deputy chairman or spokesman. Furthermore, the Supervisory Board may appoint deputy members of the Management Board.

Members of the Management Board are appointed by the Supervisory Board for a maximum term of five years. Reappointment or extension of the term, for a maximum of five years in each case, is permissible upon a resolution of the Supervisory Board that may be adopted not earlier than one year prior to the expiration of the current term of office. The Supervisory Board may revoke the appointment of a Management Board member prior to the expiration of its term for good cause, such as for gross breach of fiduciary duties or if the General Shareholders' Meeting adopts a no-confidence resolution in relation to the Management Board member in question.

The Supervisory Board is in general entitled to issue by-laws for the Management Board (*Geschäftsordnung des Vorstands*); however, the Company's Articles of Association authorise the Management Board to issue its own respective by-laws with the consent of the Supervisory Board. For specific types of transactions of the Company or controlled and affiliated companies, in particular those that fundamentally change the Company's earnings prospects or its risk exposure, the respective by-laws must specify that such transactions require the prior consent of

the Supervisory Board. If the Management Board issues its own respective by-laws, the Supervisory Board may consent to them only if they contain a corresponding catalogue of transactions requiring consent. Furthermore, the Supervisory Board can decide that additional transactions shall require its consent.

Respective by-laws for the Management Board were passed by means of a resolution of the Supervisory Board on 20 June 2007. The respective by-laws specify transactions (for example, capital expenditure projects above a specific amount, as well as the acquisition and disposal of companies and of real property above a specific amount) for which the consent of the Supervisory Board is required.

According to its Articles of Association (*Satzung*), the Company is legally represented by the members of the Management Board acting jointly or by one member of the Management Board acting jointly with one commercial attorney in fact (*Prokurist*). If only one person is appointed to the Management Board, that person is entitled to represent the Company solely. The Supervisory Board can grant individual power of representation to individual members or to all members of the Management Board and exempt individual members or all members of the Management Board from the prohibition against multiple representation (Section 181, second alternative, German Civil Code), Section 112 of the German Stock Corporation Act not being hereby affected. The Supervisory Board has granted Mr. Chen Zefeng sole power of representation and exemption from the restrictions of Section 181 second alternative of the German Civil Code by means of a resolution dated 8 May 2007. The resolutions of the Management Board are adopted by a simple majority of its members unless other majorities are prescribed by law, the Company's Articles of Association or the Management Board's respective by-laws.

The Management Board of ZhongDe Waste Technology AG consists of Mr. Chen Zefeng and Mrs. Lin Na. The employment of Mr. Chen Zefeng and Mrs. Lin Na with ZhongDe Group is based on employment agreements concluded with FengQuan. These employment agreements were concluded on 1 January 2006 with a duration until 31 December 2008 and are subject to confidentiality agreements which stipulate that Mr. Chen Zefeng and Mrs. Lin Na shall not work for, or support in any other way, any enterprise, business or trade which is, directly or indirectly, competing with FengQuan for a confidentiality period of 3 years after the termination of the employment agreement with FengQuan.

The table below shows the responsibilities of the members of the Management Board.

Name	Age	Initially appointed in	Term expires in	Responsibility
Mr. Chen Zefeng	38	2007	2012	Chief Executive Officer
Mrs. Lin Na	37	2007	2010	Chief Financial Officer

Mr. Chen Zefeng

Mr. Chen Zefeng is the Company's chief executive officer (CEO) and responsible for sales, strategic planning and ZhongDe Group's overall management.

Mr. Chen Zefeng is a senior economist. After completing his business education at Tianjing University, PRC in June 1993, Mr. Chen Zefeng started his career as operation manager for the Xiamen Branch of Fujian Village and Town Enterprise. In September 1994 he became vice general manager of Xiamen Huiliang Enterprise Co., Ltd. In September 1996, Mr. Chen Zefeng founded Fujian Fengquan Environmental Protection Group Co., Ltd. and was appointed as chairman of the company. At the same time he founded FengQuan. He is also lecturer of the master degree class in engineering in Fuzhou.

Over the last five years, Mr. Chen Zefeng has been a member of the following administrative, management and supervisory bodies of the following companies:

- Mr. Chen Zefeng is director and chairman of the board of Chung Hua Holding.
- Mr. Chen Zefeng is chairman of the board and non-executive director of Fujian Fengquan Environmental Protection Group Co. Ltd. which is mainly engaged in the research and

development, manufacture and sale of environmental protection facilities other than waste incinerators, especially on the sewage sector.

- Mr. Chen Zefeng is non-executive director and chairman of the board of Zhuji Fengquan Lipugu Solid Waste Disposal Co., Ltd. which is a project company operating a waste incineration plant for the disposal of municipal solid waste with a daily capacity of 100 t/day in Zhuji, Zhejiang Province.
- From June 2006 until May 2007 Mr. Chen Zefeng was non-executive director and chairman of the board of Fujian Development Zone Kaijie Environmental Protection Equipments Installation Co., Ltd., a company which is focused on the installation of equipment.

Mr. Chen Zefeng holds the following additional mandates:

- deputy director of the China National Association of Environmental Protection Industry (CAEPI);
- representative of the People's Congress of Fujian Province;
- deputy director of Fujian Association of Environmental Protection Industry;
- deputy director of Fujian Environmental and Science Association;
- director of Fuzhou Association of Environmental Protection Industry; and
- member of the National Expert Committee of Solid Waste Management.

Mrs. Lin Na

Mrs. Lin Na is the Company's chief financial officer and responsible for the management of ZhongDe Group's finance and audit department, personnel and compliance relating to accounting, tax and capital markets requirements.

Mrs. Lin Na studied finance at the Zhonghua Profession University, PRC from 1990 to 1993, and became a Manager of the financial department Fuzhou Chuangxin Computer Co., Ltd. From 1997 - 1998 she served at Fuzhou Jinshan Department Co., Ltd., PRC as vice general manager. Thereafter she served until 2003 at Fujian Shi Steel Co., Ltd, PRC as Chief Financial Officer. In 2004, she joined FengQuan as chief financial officer.

Mrs. Lin Na does not carry out any principal activities outside her position as chief financial officer of FengQuan and the Company. Except as described above, Ms. Lin Na has not held and does not hold any additional mandates on administrative, management and supervisory bodies outside ZhongDe Group.

Compensation

The compensation of Mr. Chen Zefeng is paid by FengQuan in accordance with the employment agreement as of 1 January 2006. In 2006 he received and is further-on entitled to receive a gross annual remuneration of EUR 13,950 plus monthly social security payments of EUR 348.75.

The compensation of Mrs. Lin is paid by FengQuan in accordance with the employment agreement as of 1 January 2006. In 2006 she received and is further-on entitled to receive a gross annual remuneration of EUR 10,700 plus monthly security payments of EUR 348.75.

Shareholding and Options

Mr. Chen Zefeng holds 6,803,200 of the Company's shares. None of the members of the Management Board holds any options entitling them to subscribe for shares of the Company.

Conflicts of Interest

The German Stock Corporation Act (*Aktiengesetz*) requires the members of the Management Board of a German Stock Corporation (*Aktiengesellschaft*) to devote all their entrepreneurial

activity to the company and to always act in accordance with the company's interest. According to Section 88 of the German Stock Corporation Act, members of the Management Board may neither engage in any other commercial nor enter into any transaction in the company's business line on their own behalf or on behalf of others, without the prior consent (*Einwilligung*) of the Supervisory Board (*Aufsichtsrat*). Absent such prior consent, they may neither be a member of the Management Board nor a manager or general partner of another commercial enterprise.

Other than his position as the Company's major shareholder and Chairman of the Management Board (*Vorstand*), Mr. Chen Zefeng is also major shareholder and non-executive chairman of the board of Fujian Fengquan Environmental Protection Group Co., Ltd., a limited liability company under the laws of the People's Republic of China. Fujian Fengquan Environmental Protection Group Co., Ltd. is mainly engaged in research and development, manufacture and sale of environmental protection equipment for the cleaning of sewage and sewage disposal as well as sales of construction material, machinery, computers and fittings. In contrast to ZhongDe Group, Fujian Fengquan Environmental Protection Group Co., Ltd. is not engaged in the waste incineration business, except for its stake in the Zhuji Fengquan Lipu Solid Waste Disposal Co., Ltd. and its relation to Beijing Zhongfukang Environmental Protection Technology Ltd. which are described below.

Fujian Fengquan Environmental Protection Group Co., Ltd. holds stakes in several companies:

- a stake of 80% in Quanzhou Qingmeng Fengquan Waste Water Treatment Co., Ltd. which is focused on sewage treatment in Quanzhou City, Fujian Province, China;
- a stake of 80% in Fujian Fengquan Environmental Protection Investment Holdings Ltd., that undertakes investments in the environmental protection industry and holds a stake of 25% in Fujian Development Zone Kaijie Environmental Protection Equipments Installation Ltd., which is focused on the installation of environmental equipment;
- a stake of 60% in Zhuji Fengquan Lipu Solid Waste Disposal Co., Ltd. which is a BOT project company operating a waste incineration plant for the disposal of municipal solid waste with a daily capacity of 100 t/day in Zhuji City, Zhejiang Province, China. The incinerator was purchased by ZhongDe Group and ZhongDe Group contemplates to acquire the stake of Zhuji Fengquan Lipu Solid Waste Disposal Co., Ltd. from Fujian Fengquan Environmental Protection Group Co., Ltd. (*see Business — Investments*); and
- a stake of 40% in Xinjiang Miquan Fengquan Sewage Treatment Co., Ltd., which is focused on sewage treatment in Miquan city, Xinjiang Province, China.

ZhongDe Group has concluded a non-compete agreement with Fujian Fengquan Environmental Protection Group Co., Ltd. and Mr. Chen Zefeng (*see Related Party Transactions — Non-compete Agreement*).

The Company's first Supervisory Board has granted its approval to Mr. Chen Zefeng to remain major shareholder and non-executive director of Fujian Fengquan Environmental Protection Group Co., Ltd. by means of a resolution which has been adopted on 4 June 2007 (*see: Risk Factors — Risks related to ZhongDe Group's Business — ZhongDe Group may have a conflict of interest with its chairman of the Management Board and the Company's major shareholder*).

Potential conflicts of interests between any duties of Mrs. Lin Na as member of the Management Board and her private interests and or other duties do not exist.

Supervisory Board

Pursuant to the Company's Articles of Association (*Satzung*) and Sections 95 and 96 of the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board (*Aufsichtsrat*) is composed of three members who are appointed by the General Shareholders' Meeting (*Hauptversammlung*). Unless otherwise determined by the shareholders, the term of a Supervisory Board member expires at the end of the Annual General Shareholders' Meeting that formally ratifies the actions of the Supervisory Board members for the fourth financial year following commencement of the member's term of office, not including the financial year in which the term commences. Re-election is possible.

Any Supervisory Board member may be removed by means of a resolution of the General Shareholders' Meeting (*Hauptversammlung*) with simple majority of the votes cast by the shareholders in the General Shareholders' Meeting. In addition, according to the Articles of Association (*Satzung*), any Supervisory Board member as well as any substitute member (*Ersatzmitglied*) may resign for any reason by serving at least one month's prior written notice to the Chairman of the Supervisory Board and to the Management Board. With the consent of the Chairman of the Supervisory Board, this notice period can be waived. At any rate, the resignation may take immediate effect if good cause is present.

When electing a member of the Supervisory Board, the General Shareholders' Meeting may simultaneously elect substitute members who become members of the Supervisory Board if the appointed member resigns before the end of its term in office. The term of the substitute member expires if a successor is elected for the resigning member of the Supervisory Board, but no later than the expiration of the term in office of the departing member of the Supervisory Board.

The Supervisory Board appoints a Chairman and a Deputy Chairman from among its members. The Chairman or, if unable to attend, the Deputy Chairman, is obligated to convene and conduct the meetings of the Supervisory Board. If the Chairman or the Deputy Chairman resigns before the end of its term in office, the Supervisory Board must promptly call a new election for the remaining term in office of the person leaving office.

By means of the deed of incorporation (*Gründungsurkunde*) the founders of the Company have elected the following persons as members of the first Supervisory Board: Mr. Simon James Eckersley, Mr. Liao Kaizhan, and Mrs. Lu Li.

Mr. Simon James Eckersley is senior executive of Hao Capital, Beijing, People's Republic of China. Hao Capital is the sole shareholder of 9998 Holding Ltd. Mr. Simon James Eckersley has not held and does not hold any additional mandates on administrative, management and supervisory bodies.

Mr. Liao Kaizhan is lawyer and partner with Trend Associates, Fuzhou, People's Republic of China. Trend Associates is the legal Chinese counsel to ZhongDe Group. Mr. Liao Kaizhan has not held and does not hold any additional mandates on administrative, management and supervisory bodies.

Mrs. Lu Li is employee of Shanghai Rieman Investment Advisory, Shanghai, People's Republic of China. Shanghai Rieman Investment Advisory is the financial advisor to ZhongDe Group. Mrs. Lu Li has not held and does not hold any additional mandates on administrative, management and supervisory bodies.

The aforesaid members of the first Supervisory Board who had been appointed until the expiration of the General Shareholders' Meeting ratifying the Management Board and the Supervisory Board for the financial year 2007, all resigned from their offices by submitting resignation letters with effect as of the expiration of 17 June 2007.

On 18 June 2007, the General Shareholders' Meeting elected the following members of the Supervisory Board for an office period until the expiration of the General Shareholders' Meeting ratifying the Management Board and the Supervisory Board for the financial year 2007:

Mr. Hans-Joachim Zwarg (Chairman),

Mr. Joachim Ronge (Deputy Chairman),

Mr. Quan Hao.

The following table shows the names of the members of the Supervisory Board and the date of their appointment:

Name	Age	Initially appointed on	Term expires on*
Mr. Hans-Joachim Zwarg (Chairman)	58	18 June 2007	2011
Mr. Joachim Ronge (Deputy Chairman)	55	18 June 2007	2011
Mr. Quan Hao	67	18 June 2007	2011

* Term of office expires at the end of the General Shareholders' Meeting in the year specified, ratifying the activities of the financial year ending on the preceding 31 December.

Hans-Joachim Zwarg

After receiving a degree in business administration from the Georg-August University, Göttingen in 1975, Mr. Zwarg was employed with Fischer und Partner, Taxes and Auditing, Hamburg from 1975 to 1980. In 1980 he joined Beiersdorf AG, Hamburg where he served as deputy head of internal auditing and director of Tesa-France, Paris until 1981 and from 1981 to 1983 as director for technical coordination. During his employment with Beiersdorf AG, Mr. Zwarg was managing director of Medical-Latex SDN BHD, Malaysia from 1983 to 1986 and served as managing director for Varitex GmbH, Emmerich from 1986 to 1990. In 1990 he was appointed as director of Beiersdorf AG and served as director for group controlling until 1991 and from 1991 to 1992 as director for business development medical. In 1992, Mr. Zwarg joined Phoenix AG, Hamburg as member of the board and chief financial officer (CFO) and stayed in this position until the take-over of Phoenix Group by Contitech AG in 2005.

Over the last five years, Mr. Zwarg held additional mandates in the following administrative and supervisory bodies:

- Until 31 December 2005 Mr. Zwarg was member of the advisory committee of the Gerling Gruppe.
- Mr. Zwarg is member of the north-regional advisory committee (*Landesbeirat Nord*) of Commerzbank AG.
- Mr. Zwarg is deputy chairman of the supervisory board of Hanse Yachts AG.

Joachim Ronge

After receiving his degree in business from the Westphalian Wilhelms University, Münster in 1979, Mr. Ronge was employed with Ruhrkohle AG, Essen from 1980 to 1989, where he served as staff member for the public relations and media department and afterwards as assistant to the chairman of the board and as managing director for Ruhrkohle Umwelttechnik GmbH, Essen. From 1989 to 1996, Mr. Ronge served in various positions for Buchen Group, Köln. From 1989 to 1991 he was authorized representative at Buchen UmweltService GmbH, Köln. From 1989 to 1996 he was managing director of Buchen-Industrial Catalyst Services GmbH, Köln. From 1991 to 1996 he was managing director of ISE-Umweltservice GmbH Ludwigshafen and from 1992 to 1996 he was also managing director of Buchen UmweltService GmbH, Köln. From 1996 to 2000, Mr. Ronge served in various positions for RAG UmweltService GmbH / Edelhoff AG & Co. From 1996 to 1998, he was chairman of the executive management of RAG UmweltService GmbH, Bottrop. From 1998 to 2000 he was member of the board of directors of Edelhoff AG & Co, Iserlohn, where he served as chairman of the board during the year 2000. In 2001, Mr. Ronge joined RWE Umwelt AG, Essen where he served until 2003 as a member of the board of directors. From 2004 to 2006 Mr. Ronge served as deputy chairman of the board for Eckelmann Group and also as managing director of Carl Robert Eckelmann Cleaning u. Service GmbH and managing director of R.B.S. Kirchweyhe GmbH, Hamburg.

Over the last five years, Mr. Ronge held additional mandates in the following administrative and supervisory bodies:

- Until 2003, Mr. Ronge was member of the supervisory board of Buchen UmweltService GmbH, Köln.

- Until 2003, Mr. Ronge was member of the supervisory board of WPO, Breslau Municipal Waste Disposal, Poland.
- Until 2003, Mr. Ronge was non-executive chairman of the board of directors of Thames-Waste-Management Ltd., London, Great Britain.
- Until 2005, Mr. Ronge was chairman of the advisory board of Jonasson GmbH, Castrop-Rauxel.

Quan Hao

From 1960 to 1965, Mr. Quan Hao studied bio-chemistry at the department of chemistry, Jilin University, Chuangchun City, China. From 1965 to 1975 he was employed as engineer with the Beijing Blood center, China and from 1976 to 1989 he served as engineer, senior engineer, vice chief engineer and vice director for the Beijing Environmental Monitoring Center. From 1979 to 1981 and during his employment with Beijing Environmental Monitoring Center he studied at the Saitama University, Japan and became Doctor of Environmental Science. From 1990 to 1999 Mr. Quan Hao served as vice chief engineer and chief engineer for the Sino-Japan Friendship Center for Environmental Protection of the PRC Environmental Protection Administration. From 1995 to 2003 he was director of the PRC national Research Center for Environmental Analysis and Measurements. From 2000 to 2003 he was general director of the Sandstorm Project of the PRC Environmental Protection Administration. From 2001 to 2003 he was also supervisor for doctoral candidates at the Department of Environmental Engineering at Quinghua University, China and from 2002 to 2003 he had also been nominated as the Chinese expert for prevention and control of dust and sand storms in northeast Asia. Since 2003, Mr. Quan Hao serves as standing director for the Chinese Society for Environmental Sciences and as director of the PRC Solid Waste Specialty Committee.

On 20 June 2007, the Supervisory Board issued by-laws for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*). According to the provisions of the Company's Articles of Association and the respective by-laws for the Supervisory Board, the Supervisory Board has a quorum if at least one-half of its members participate in a resolution, but in any event at least three members of the Supervisory Board are required to take part in the adoption of the resolutions. Unless required otherwise by law or by the Company's Articles of Association, resolutions of the Supervisory Board are passed by a simple majority of votes cast. Resolutions are adopted in meetings. Other than in, resolutions passed by letter, by telegram, by telex, by fax or by telephone or by e-mail are permissible if so determined by the Chairman in individual cases.

Compensation

Pursuant to the Articles of Association, compensation for the members of the Supervisory Board shall be determined by the General Shareholders' Meeting. If a member is on the Supervisory Board for only part of the financial year, compensation is determined for a proportionate period of time. The fixed compensation is due and payable at the end of the financial year. The general shareholders' meeting of 18 June 2007 resolved that the members of the Supervisory Board should receive a fixed compensation in the amount of EUR 12,500 per annum and an additional attendance fee of EUR 2,500 for each meeting of the Supervisory Board, with the Chairman receiving four times the amount and the Deputy Chairman receiving twice the amount of the fixed compensation. Furthermore, Supervisory Board members are reimbursed any of their expenses and the amount of value-added tax which may be due on their remuneration, provided that they are entitled to charge the Company value-added tax and that they exercise this right.

The Company has entered into directors' and officers' insurance in its name, covering the members of the Management Board and Supervisory Board, based on prevailing market conditions.

Every member of the Supervisory Board is reimbursed for expenses incurred in performing the duties of its office. Furthermore, the members of the Supervisory Board are reimbursed for any value-added tax incurred on the reimbursement of expenses or on the Supervisory Board

compensation, provided they are entitled to charge the Company for the value-added tax separately and if they exercise this right.

Shareholding and Options

None of the members of the Supervisory Board holds directly or indirectly shares in the Company.

Conflicts of Interest

There are no potential conflicts of interests between any duties of the members of the Supervisory Board to the Company and their private interests and or other duties.

Senior Management

The Senior Management of ZhongDe Group consists of Dr. Richard Jiang, Mr. Lei Wang and Mr. Ling Zhang, all of them with business addresses at Cangshan Science and Technology Park, Gaoshi Road, Cangshan District, Fuzhou, Fujian Province, PRC.

Dr. Richard Jiang

Since May 2004, Dr. Richard Jiang has been Chief Technical Officer of FengQuan and is head of ZhongDe Group's research and development department. He graduated from ''Ecole Polytechnique Fédérale de Lausanne'', Switzerland with a PhD degree in Physical Oceanography and Limnology. Dr. Jiang is 49 years old.

From August 2000 until October 2003, Dr. Richard Jiang was employed as senior scientist and software developer with JASCO Research Ltd. in Canada. From November 2003 until May 2004, Dr. Richard Jiang was employed as chief scientist with Fujian Newland Entech Co. Ltd., Fujian Province in China. From May 2004 until December 2004, Dr. Richard Jiang was chief engineer with Fujian Fengquan Environmental Protection Group Co. Ltd.

Dr. Richard Jiang does neither hold any additional mandates on administrative, management and supervisory bodies nor has he held such mandates within the past five years.

Mr. Lei Wang

Since 2006, Mr. Lei Wang has been vice chief executive officer of FengQuan and responsible for marketing, the management of the administration department and the human resources department and for internal control of FengQuan. Mr. Lei Wang is 50 years old.

From December 2004 until December 2005 Mr. Lei Wang was vice chief executive officer of Fujian Fengquan Environmental Protection Group Co. Ltd.

Mr. Lei Wang does neither hold any additional mandates on administrative, management and supervisory bodies nor has he held such mandates within the past five years.

Mr. Ling Zhang

Since 2004, Mr. Ling Zhang has been the vice chief executive officer of FengQuan responsible for the management of FengQuan's production and after sales department. From 2000 to 2003, Mr. Ling Zhang was assistant to the chief executive officer of FengQuan. Mr Luig Zhang is 41 years old.

Except his position as non-executive director of Zhuji Fengquan Lipu Solid Waste Disposal Group Co. Ltd., which is a BOT project company that is under the control of Fujian FengQuan Environmental Protection Group Co., Ltd., Mr. Luig Zhang does neither hold any additional mandates on administrative, management and supervisory bodies nor has he held such mandates within the past five years.

Compensation

In 2006, the annual gross salaries paid by ZhongDe Group to Dr. Richard Jiang were EUR 26,640, to Mr. Lei Wang EUR 10,890 plus social security contributions of EUR 348.75; and to Mr. Ling Zhang EUR 8,140 plus social security contributions of EUR 325.50.

Conflict of interest

There are no potential conflicts of interests between the duties of any members of the Senior Management to the Company and their private interests and or other duties.

Certain Information on the Members of the Supervisory Board and the Management Board and the Senior Management

No sanctions have been imposed on the members of the Management Board, Supervisory Board and the Senior Management over the last five-year period relating to any violations of the provisions of any German and/or foreign securities laws, in particular no guilty verdicts have been handed down in relation to fraudulent offences, in respect of criminal law and/or the law relating to capital markets. In their function as Management Board member, Supervisory Board member or member of another administrative, management or supervisory body, the members of the Management Board, Supervisory Board and the Senior Management were not involved in any insolvency, liquidation or similar proceedings. No member of the Management Board, Supervisory Board and the Senior Management are currently the subject of official investigative proceedings or enquiries. No public accusations and/or official sanctions (including those made by specific professional associations) have been raised against or imposed on the member of the Management Board, Supervisory Boards and the Senior Management in the past five years, nor has a court deemed them to be incompetent for membership in an administrative, management or supervisory body of a company or for their activity in the management or conduct of the business of a company. The members of the Management Board, Supervisory Board and the Senior Management have no family relationships with one another or with other members of the Management Board, Supervisory Board and/or the Senior Management.

At present, the Company has not granted sureties or loans to members of the Management Board, Supervisory Board and the Senior Management nor has it assumed any guarantees for them. With the exception of the mandates held by Mr. Chen Zefeng as more specifically referred to above (*see Corporate Bodies and Management — Management Board*), no members of the Management Board, Supervisory Board and the Senior Management have been or are presently involved in any business activities outside the Company, or in any other Company transaction of unusual type or nature.

Members of the Management Board, Supervisory Board and the Senior Management may be reached at the Company's business address.

No member of the Management Board, Supervisory Board and the Senior Management has a claim to any benefits on termination of the employment relationship.

General Shareholders' Meeting

A General Shareholders' Meeting may, at the election of the governing body initiating the meeting, be held at the Company's registered office or at the seat of a German stock exchange. The General Shareholders' Meeting must be convened at least 30 days before the end of the day on which the shareholders must register their attendance at the meeting. Shareholders of the Company who have registered for the General Shareholders' Meeting in due time and have proven their eligibility to attend are entitled to attend and exercise their voting right in the General Shareholders' Meeting. Registration must be received by the Management Board at the Company's registered offices, or at another location announced in the convocation, in the form of a letter, telex, fax or by other electronic means to be specified by the Company in greater detail in the invitation, no later than the seventh calendar day before the meeting. The shareholders document their eligibility to participate in the General Shareholders' Meeting by certification of their shareholding, prepared in text format by the depository institution

(Section 126b German Civil Code) in German and referring to the start of the 21st day before the day of the General Shareholders' Meeting; this certification must be received at the place announced in the invitation at the Company's registered offices by no later than seven days before the day of the Annual General Shareholders' Meeting. Further details concerning registration, proof of eligibility for participation and the issue of the admission tickets must be announced in the convocation. Each no par value share confers one vote at the General Shareholders' Meeting. A voting right may be exercised by a proxy.

Provided that, the Company's Articles of Association (*Satzung*) or legal (even non-mandatory) provisions do not conflict therewith, the resolutions of the General Shareholders Meeting are adopted by a simple majority of the votes cast and, insofar as the law requires a majority of the share capital as well as a voting majority, by a simple majority of the share capital represented at the time the resolution is adopted.

According to the German Stock Corporation Act (*Aktiengesetz*) currently in force, certain resolutions of fundamental importance require not only a vote of the majority of shareholders present, but also one that represents no less than three-quarters of the registered capital represented at the meeting. Such resolutions include the following:

- amendments to the Company's Articles of Association;
- capital increases;
- capital reductions;
- the creation of authorised or conditional capital;
- the transfer of the company's entire assets (*Übertragung des ganzen Gesellschaftsvermögens*) and any reorganizations as set forth in the German Transformation Act (*Umwandlungsgesetz*) such as mergers (*Verschmelzungen*), spin-offs (*Spaltungen*), transfer of the company's assets (*Vermögensübertragungen*) and type-changing transformations (Formwechsel);
- the conclusion of enterprise agreements (such as domination and profit-and-loss-transfer agreements); and
- the dissolution of the Company.

The convening of a (extraordinary) General Shareholders' Meeting can be initiated by the Management Board, the Supervisory Board or, under certain circumstances, by shareholders holding an aggregate of 5% of the registered share capital. The Supervisory Board must call a General Shareholders' Meeting whenever the interests of the Company require. The Annual Ordinary General Shareholders' Meeting must be held during the first eight months of each financial year.

According to the Stock Corporation Act currently in force, the Company is obliged to publish the invitation to the General Shareholders' Meeting at least 30 days before the day of the meeting or 30 days before notice of attendance has to be given in the electronic version of the Federal Gazette (*elektronischer Bundesanzeiger*). To take part in the General Shareholders' Meeting shareholders must give due notice of their attendance. The deadline for giving the notice of attendance for the General Shareholders' Meeting is published with the invitation but must expire earlier than 7 days prior to the General Shareholders' Meeting.

Corporate Governance

The German Corporate Governance Code adopted in February 2002, in the current version of 12 June 2006, contains recommendations and suggestions for managing and supervising listed companies in Germany, with reference to shareholders and the General Shareholders' Meeting, the Management Board, the Supervisory Board, and to transparency, accounting policies and auditing. There is no obligation to comply with the recommendations and suggestions of the Code. The German Stock Corporation Act merely requires the Management Board and Supervisory Board of a listed company to make an annual declaration of which recommendations were not or are not being implemented. However, it is possible to depart from the suggestions contained in the Code without disclosure.

The Company intends to largely comply with the obligation, which arises upon commencement of its stock exchange listing, to issue and publish a declaration in compliance with Section 161 German Stock Corporation Act, and to make it continuously available to the shareholders. The Management Board and Supervisory Board of the Company identify with the goals of the Code to foster responsible and transparent corporate management and control, oriented to a sustained increase in company value. The Company, therefore, intends to document in its declaration pursuant to Section 161 German Stock Corporation Act that it is largely following the recommendations and suggestions of the Code. Details will be agreed between the Management Board and the Supervisory Board. However, the Company does not intend to follow the non-competition obligation for the members of the Management Board stated in No. 4.3.1 of the Code Supervisory Board. In accordance with Section 88 para. 1 of German Stock Corporation Act (*Aktiengesetz*) the Supervisory Board has granted its approval to Mr. Chen Zefeng to remain with his position as chairman and non-executive director of Fujian Fengquan Environmental Protection Group Co., Ltd. and as major shareholder of Fujian Fengquan Environmental Protection Group Co., Ltd.

Since the Senior Management and most of the directors of ZhongDe Group reside in China it may be difficult for them to act in compliance with German standards for corporate governance (*see: Risk factors — Risks related to ZhongDe Group's Business — ZhongDe faces risks associated with the management of its current and future growth and has no experience in complying with German legal requirements*). The Management Board of the Company believes to be fully aware of its duties arising from the Corporate Governance Code and of its duties vis-à-vis the Supervisory Board arising from the German Stock Corporation Act (*Aktiengesetz*). The members of the Management Board participated in a comprehensive corporate governance training to comply with such obligations.

The Supervisory Board of the Company is aware that as a result of the fact that none of the members of the Management Board speaks English or German and the geographical distance it may be more difficult to execute its supervisory duties arising from the German Stock Corporation Act, e.g. with regard to the duties stated in Section 111 of the German Stock Corporation Act. The additional efforts that may be necessary to properly fulfil the duties are reflected by the comparably high remuneration that the members of the Supervisory Board will receive for their services.

RELATED PARTY TRANSACTIONS

General

Related parties to the Company include members of the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*), including their close family members and companies over which members of the Management Board or Supervisory Board of the Company or their family members could exercise considerable influence or hold a substantial amount of the voting rights. In addition, related parties include companies which are consolidated within the Company or in which the Company holds an investment, which enables the Company to exercise considerable influence over the business policies of the company in which it holds such investment, as well as the major shareholders of the Company, including their affiliates.

ZhongDe Group has concluded several related party transactions with Fujian Fengquan Environmental Protection Group Co., Ltd., which are described below. Fujian Fengquan Environmental Protection Group Co., Ltd. is mainly engaged in the research and development, manufacture and sale of environmental protection facilities other than waste incinerators, especially on the sewage sector. The major shareholder and non-executive member of the board of directors of Fujian Fengquan Environmental Protection Group Co., Ltd. is the Company's Chairman of the Management Board, Mr. Chen Zefeng (*see: Corporate Bodies and Management — Management Board — Conflict of Interest and Risk Factors — Risks related to ZhongDe Group's Business — ZhongDe Group may have a conflict of interest with its chairman of the Management Board and the Company's major shareholder*).

To the Company's best knowledge, any of the related party transactions described below have been entered into current market conditions and, thus, have been carried out at arm's length pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002.

License Agreements

ZhongDe Group concluded license agreements with Fujian Fengquan Environmental Protection Group Co., Ltd. on the use of the Fengquan trademark and a patent lincense agreement with Mr. Chen Zefeng for the use of seven utility model patents and three invention patents (*see: Business — Intellectual Property*).

Loan Agreements

Fujian Fenquan Environmental Protection Group Co., Ltd has granted a non-interest bearing loan in the amount of TEUR 2,838 to FengQuan which has to be repaid within 30 days upon the listing of the Company's shares at the Frankfurt stock exchange. However, inter-company loans are not permitted by PRC law. Upon the advise of ZhongDe Group's Chinese counsel, the loan agreement had been terminated on 29 April 2007 and on the same day a loan agreement subject to the same terms and conditions, was concluded between Ms. Chen Qiling and FengQuan. Ms. Chen Qiling is the sister of the Company's major shareholder and chairman of the Management Board.

FengQuan received a TEUR 387 working capital loan from Agricultural Bank of China, Fuzhou, PRC. A joint and several guarantee for the loan has been provided by Fujian Fengquan Environmental Protection Group Co., Ltd. and Fujian Jinshan Bio-Pharmaceutical Corporation Ltd.

Mr. Chen Zesong has granted a non-interest bearing loan in the amount of TEUR 2,004 to FengQuan which must be repaid within 30 days upon the listing of the Company's shares on the Frankfurt stock exchange.

9998 Holding Ltd. has granted a non-interest bearing loan in the amount of TEUR 768 to Chung Hua Holding. Mr. Chen Zefeng has undertaken to assume all liabilities relating to such loan with full discharge of Chung Hua Holding's liability (*mit schuldbefreiender Wirkung*). Chung Hua Holding has not granted any consideration to Mr. Chen Zefeng for the assumption of debt.

In 2004 and 2005 ZhongDe Group has granted loans to Fujian Fengquan Environmental Protection Group Co., Ltd. which amounted to TEUR 3,666 in 2004 and TEUR 5,009 in 2005 which have been fully repaid in 2006.

Lease Agreements

ZhongDe Group has concluded two lease agreements with Fujian Fengquan Environmental Protection Group Co., Ltd. ZhongDe Group has rented a factory building from Fujian Fengquan Environmental Protection Group Co., Ltd. located at No. 6 Gaoshi Road, Cangshan Science and Technology Park, Cangshan District, Fuzhou with a building area of 7063.81 square meters. ZhongDe Group has rented certain office premises from Fujian Fengquan Environmental Protection Group Co., Ltd. located at Floor 5 and 6, Research and Development Building, *No. 6* Gaoshi Road, Cangshan Science and Technology Park, Cangshan District, Fuzhou with total area of 1400 square meters (*see: Business — Property, Plant and Equipment*). ZhongDe Group paid overall rental fees to Fujian Fengquan Environmental Protection Group Co., Ltd., which amounted to TEUR 84 in 2004, TEUR 95 in 2005 and TEUR 96 in 2006.

Non-Compete Agreement

ZhongDe Group has concluded a non-compete agreement with Fujian Fengquan Environmental Protection Group Co., Ltd. and Mr. Chen Zefeng. Fujian Fengquan Environmental Protection Group Co., Ltd. agreed not to invest, operate or to get involved in any business, which is same as, similar with or in competition with the current or future business activities of ZhongDe Group. Furthermore, as long as Mr. Chen Zefeng holds any share of ZhongDe Group, he has agreed not to invest, operate or to get involved in any business, which is same as, similar with or in competition with the current or future business activities of ZhongDe Group.

Other Transactions

In the years 2004 to 2006, ZhongDe Group sold finished goods to Fujian Fengquan Environmental Protection Group Co., Ltd. These sales were based on the market price and amounted to TEUR 179 in 2004, TEUR 2,832 in 2005 and TEUR 2,398 in 2006. These sales include two incinerators. One of them has been delivered for the BOT project in Zhuji City, Zhejiang Province, China which is operated by Zhuji Fengquan Lipu Solid Waste Disposal Co., Ltd. And the other has been delivered for the Nangong medical waste incineration plant which is operated by Beijing Zhongfukang Environmental Protection Technology Ltd. **("Zhongfukang").** Zhongfukang operates the Beijing Nangong medical waste incineration plant with a daily disposal capacity of 32 t/day. Mr. Chen Yonglu, a manager in sales department of FengQuan, holds 50% of the shares and Mr. Wu Jila, a manager in marketing department of FengQuan, holds the remaining 50% of the shares in Zhongfukang.

ZhongDe Group plans to invest approximately EUR 2.5 to 3.0 million for an acquisition of 60% of the shares in the BOT project company Zhuji Fengquan Lipu Municipal Waste Disposal Center from Fujian Fengquan Environmental Protection Group Co., Ltd. and has recently entered into negotiations with Fujian Fengquan Environmental Protection Group Co., Ltd.

TAXATION IN GERMANY

The following section describes certain material German tax principles that may become relevant when acquiring, holding or transferring shares. This section is not a comprehensive or complete description of all German tax aspects that may be relevant for shareholders. It is based on the German tax laws applicable as of the date of this Prospectus and on the provisions of double taxation treaties entered into between Germany and other countries as of this date. In both areas the law may change, possibly also with retroactive effect.

Potential purchasers of the Company's shares should consult their tax advisors with respect to the tax consequences of acquiring, holding and transferring shares and with respect to the procedure to be complied with to obtain a refund of German withholding tax paid (Kapitalertragsteuer). The specific tax situation of each shareholder can only be addressed adequately by means of individual tax advice.

Taxation of the Company

In Germany, corporations are generally subject to corporate income tax at a rate of 25% plus a 5.5% solidarity surcharge (Solidaritätszuschlag) thereon (in total, 26.375%).

Dividend income that the Company receives from corporations domiciled outside Germany such as Chung Hua Holding is generally exempt from corporate income tax. However, 5% of the tax exempt dividend income is deemed to be a non-deductible business expense for tax purposes, and as a result is subject to corporate income tax (plus solidarity surcharge).

In addition, German corporations are subject to trade tax (Gewerbesteuer) with their income from permanent establishments in Germany subject to certain adjustments for trade tax purposes, the trade taxable income (Gewerbeertrag). The trade tax depends on the municipalities in which the corporation maintains permanent establishments. As a general rule, the effective trade tax rate varies between 15% and 20% of the trade taxable income depending in each case on the trade tax rate of the relevant municipality. The trade tax levied is deducted as a business expense when determining the taxable income for corporate income tax and trade tax purposes.

Dividend income of the Company derived from its shares in Chung Hua Holding will be exempt from trade tax only, if specific preconditions are fulfilled (sec. 9 no. 7 Trade Tax Act). However, also in this case 5% of the exempt dividend income is deemed to be a non-deductible business expense and as a result subject to trade tax.

In general, the trade tax exemption requires that the Company has continuously held a share of at least 10% of the nominal capital of Chung Hua Holding since the beginning of the assessment period and Chung Hua Holding generates its gross income exclusively or almost exclusively from trade or business in the meaning of sec. 8 (1) no. 1 — 6 Foreign Tax Act and from direct participations, such as FengQuan, which amount to at least to 25%. At present, Chung Hua Holding does not generate income from an active business in the meaning of the Foreign Tax Act and Chung Hua Holding only owns one foreign subsidiary. Nevertheless, dividend income from Chung Hua Holding may be exempt from trade tax upon application by the Company if the Company owns a participation of at least 10% in a foreign subsidiary via Chung Hua Holding, Chung Hua Holding and the foreign subsidiary distribute their dividends within the same business year and the following additional requirements are met: The foreign subsidiary exclusively or almost exclusively generates its gross profits from active business in the meaning of the Foreign Tax Act and Chung Hua Holding has held a participation of at least 10% in the foreign subsidiaries' share capital without interruption since the beginning of the assessment period. The additional requirements shall be met with respect to dividend distributions from FengQuan. However, if Chung Hua Holding realizes other profits than profit distributions from FengQuan within one business year, the trade tax exemption applies only to the profit distributions of Chung Hua Holding which correspond to the ratio between the profit distributions received from the foreign subsidiary and the sum of the profit distributions received and the other profits. In any case the trade tax exemption is limited to the amount of the profit distributions received by Chung Hua Holding from the foreign subsidiary.

Since 1 January 2004, losses incurred by the Company in one year may be carried back to the immediately preceding assessment period up to an amount of TEUR 511.5. Any remaining losses may only be offset within certain restrictions against profits from future years (so-called ''minimum taxation''). Up to an amount of TEUR 1,000 taxable profits may be offset against existing tax loss carry forwards without limitation. Taxable profits in excess of TEUR 1,000 may be offset against existing tax loss carry forwards for corporate income and trade tax purposes only by 60%. Unused tax loss carry forwards may be carried forward indefinitely and may reduce future taxable income subject to the 60% limitation referred to above.

Taxation of Shareholders

Shareholders are subject to tax in particular in connection with the holding of shares (taxation of dividends), the disposal of shares (taxation of capital gains) and the gratuitous transfer of shares (inheritance and gift tax).

Taxation of Dividends

Withholding Tax

Generally, the Company must withhold tax on its dividend distributions at a rate of 20% plus a 5.5% solidarity surcharge thereon (in total, 21.1%).

Such withholding tax is levied and withheld irrespective of whether and to what extent the dividend distribution is taxable at the level of the shareholder and whether the shareholder resides inside or outside Germany. Certain exceptions may apply to corporations in another EU Member State to which the EU Parent/Subsidiary Directive (90/435/EEC of 23 July 1990, as amended) applies.

For shareholders resident in Germany (i.e., shareholders whose residence, habitual abode, management, or domicile is located in Germany) as well as for shareholders residing outside Germany (foreign shareholders) holding their shares in a permanent establishment or a fixed base in Germany, or in business assets for which a permanent representative has been appointed in Germany, the tax withheld is credited against the shareholders' personal income tax or corporate income tax liability. Any tax withheld in excess of the shareholder's personal tax liability is refunded. The same principles apply to the solidarity surcharge.

A reduced withholding tax rate (normally 15%) may apply to dividend distributions to shareholders residing outside Germany if Germany and the country in which the shareholder resides have entered into a double taxation treaty and the shareholder does not hold the shares in a permanent establishment or fixed base in Germany, or in business assets for which a permanent representative has been appointed in Germany. The reduction is granted by way of a refund of the excess tax withheld (including solidarity surcharge) over the tax liability based on the applicable treaty rate (normally 15%) upon application with the German Federal Central Tax Office (Bundeszentralamt für Steuern), An der Küppe 1, 53225 Bonn, Germany. Refund application forms may be obtained from the German Federal Central Tax Office (www.bzst.bund.de) as well as from German embassies and consulates.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Private Assets.

For individual shareholders resident in Germany holding their shares as private assets only half of the dividend income is subject to income tax (**''half income system''**) (Halbeinkünfteverfahren). The taxable portion is subject to the (progressively increasing) personal income tax rate of the individual shareholder (plus solidarity surcharge thereon). Correspondingly, only half of the expenses related to the dividends (Werbungskosten) is tax deductible.

Individual shareholders holding shares as private assets are entitled to a so-called annual savers' allowance for investment income (Sparerfreibetrag) in the amount of EUR 750 or EUR 1,500 (for married couples filing jointly). In addition, an annual lump-sum deduction for expenses related to investment income (Werbungskostenpauschale) in the amount of EUR 51 or EUR 102 (for married couples filing jointly) is available unless proof of higher expenses is furnished. In

essence, dividend income received is taxed only to the extent its taxable portion and all other investment income reduced by (for dividends half of) the expenses related to investment income or the lump-sum deduction exceeds the savers' allowance for investment income.

Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets

If shares are held as business assets of a shareholder, the taxation depends on whether the shareholder is a corporation, a sole proprietor, or a partnership (Mitunternehmerschaft):

Corporations. Dividend distributions to corporate shareholders are generally exempt from corporate income tax. However, 5% of the tax-exempt dividend income is deemed to be a non-deductible business expense for tax purposes and is therefore subject to corporate income tax (plus solidarity surcharge) and trade tax. Business expenses actually incurred in connection with the shares are entirely tax deductible. 95% of dividend income must be added back when determining the trade taxable income and is therefore subject to trade tax unless the investor holds at least 10% of the share capital of the Company at the beginning of the relevant assessment period.

Sole Proprietors. For sole proprietors holding their shares as business assets, generally half of the dividend distributions are taxable. Correspondingly, only half of the business expenses related to the dividend income is deductible for tax purposes (subject to any other restrictions on deductibility). In addition, dividends are entirely subject to trade tax if the shareholder is liable to trade tax and does not hold at least 10% of the share capital of the Company at the beginning of the relevant assessment period. The trade tax levied depending on the municipal trade tax rate and the individual tax situation is partly or entirely credited against the shareholder's personal income tax liability.

Partnerships. If shares are held by a partnership, personal income tax or corporate income tax is levied only at the level of the partners. If a partner is subject to corporate income tax, dividends are generally tax-exempt to 95% *(see: Taxation of Shareholders — Taxation of Dividend Income by Investors Resident in Germany Holding their Shares as Business Assets — Corporations)*. If the partner is subject to personal income tax, only half of the dividends is taxable *(see: Taxation of Shareholders — Taxation of Dividend Income by Investors Resident in Germany Holding their Shares as Business Assets — Sole Proprietors) (see: Taxation of Shareholders — Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets — Corporations for information on the deductibility of business expenses for partners who are subject to corporate income tax) (see: Taxation of Shareholders — Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets — Sole Proprietor for information on the deductibility of business expenses for partners who are subject to personal income tax)*. At the level of a partnership which is liable to trade tax, half of the dividends are subject to trade tax if the partners are natural persons and 5% of the dividends are subject to trade tax if the partners are corporations and the partnership holds at least 10% of the share capital of the Company at the beginning of the relevant assessment period. In all other cases, dividends are entirely subject to trade tax. However, depending on the applicable municipal trade tax rate and individual circumstances, the trade tax paid at the level of a partnership is partly or entirely credited against the personal income tax liability of the partners if the partners are natural persons.

Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds

Taxation of Dividend Income of Investors not Resident in Germany

For foreign shareholders who do not hold their shares in a permanent establishment or a fixed base in Germany, or in business assets for which a permanent representative has been appointed in Germany, the German tax liability is satisfied upon deduction of withholding tax (possibly reduced by way of a refund under a double taxation treaty). However, shareholders who hold shares in a permanent establishment or a fixed base in Germany, or in business assets for which a permanent representative has been appointed in Germany, are subject to the same rules described above for shareholders resident in Germany.

Taxation of Capital Gains

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Private Assets

Half of the capital gains realized upon disposal of shares held as private assets is subject to personal income tax at the applicable income tax rate plus a 5.5% solidarity surcharge thereon, if the disposal takes place within one year after the acquisition of the shares sold. For shares entrusted to a custodian for collective custody in accordance with Section 5 of the German Custody Act (Depotgesetz), it is assumed that in the case of multiple sales and purchases of shares, the shares acquired first are sold first. If the shareholder's aggregate capital gains from private sales transactions in the relevant calendar year is less than EUR 512, such capital gains are not taxed. A capital loss may only be offset by capital gains generated in the same calendar year, or, if this is not possible due to a lack of such gains, may be deducted under certain conditions from positive income resulting from private sales transactions of the previous year or the following years.

After expiry of the one-year period mentioned above, half of the capital gains realized upon disposal of shares is taxed only if the seller of the shares or, in case of a gratuitous transfer, its legal predecessor, has held, directly or indirectly, at least 1% of the share capital of the Company at any time during the five years prior to the disposal.

Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets

If shares are held as business assets of a shareholder, the taxation of capital gains realized upon disposal depends on whether the shareholder is a corporation, a sole proprietor, or a partnership:

Corporations. Capital gains realized by a corporate shareholder upon disposal of shares are generally exempt from corporate income tax and trade tax. Capital gain for this purpose is the amount by which the selling price or the equivalent value after deduction of selling costs exceeds the tax base at the time of disposal. However, 5% of the capital gain is deemed to be a non-deductible business expense and is therefore subject to tax. Business expenses actually incurred in connection with the shares may be deducted entirely provided they do not constitute costs of the disposal. Losses incurred upon the disposal of shares or other impairments of the shares' value are not tax deductible.

Sole Proprietors. If the shares are held by sole proprietors, half of the capital gains realized upon disposal is taxed. Correspondingly, only half of the business expenses related to such capital gains and half of any losses incurred upon disposal of shares are tax deductible. In addition, half of the capital gains is subject to trade tax if the sole proprietor is subject to trade tax. However, trade tax is partly or entirely credited against the shareholder's personal income tax liability depending on the applicable municipal trade tax rate and individual circumstances.

Partnerships. If the shareholder is a partnership, taxation depends on whether the partners are subject to personal income tax or corporate income tax: If the partners are subject to corporate income tax, any capital gains are generally tax exempt *(see: Taxation of Shareholders — Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets — Corporations)*. If the partners are subject to personal income tax, half of the capital gains is taxable *(see: Taxation of Shareholders — Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets — Sole Proprietors)*. For information on the deductibility of business expenses relating to capital gains and disposal losses for partners who are subject to corporate income tax see also *Taxation of Shareholders — Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets — Corporations* and see above *Taxation of Shareholders — Taxation of Capital Gains of Investors Resident in Germany Holding Their Shares as Business Assets — Sole Proprietors for information with respect to partners who are subject to personal income tax*. In addition, half of the capital gains is subject to trade tax at the level of a partnership if the partnership is liable to trade tax if the partners are natural persons and 5% of the capital gains is subject to trade tax if partners are corporations. However, the trade tax paid at the level of a partnership is partly or entirely credited — depending on the applicable municipal trade tax rate and individual

circumstances — against the personal income tax liability of the partners who are natural persons.

Special rules for banks, financial services institutions, financial enterprises, life and health insurance companies, and pension funds, are described below.

Taxation of Capital Gains of Shareholders Resident Outside Germany

Capital gains realized upon disposal of shares by a shareholder resident outside Germany who do not hold their shares in a permanent establishment or a fixed base in Germany or in business assets for which a permanent representative has been appointed in Germany are subject to German taxation only if the Selling Shareholders or, in case of a gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the Company at any time during five years prior to the disposal. In this case:

— 5% of the capital gain is subject to corporate income tax and solidarity surcharge, if the shareholder is a corporation; and

— half of the capital gain is taxed in all other cases.

However, some of the German double taxation treaties provide for a complete exemption from German taxation in such cases and assign the right to tax to the shareholder's state of residence.

Capital gains realized upon disposal of shares held in a permanent establishment or through a fixed base in Germany, or held as business assets for which a permanent representative has been appointed in Germany, are subject to the same rules as described above for shareholders resident in Germany.

Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds

To the extent banks and financial services institutions hold shares that are attributable to their trading book pursuant to Section 1 para. 12 of the German Banking Act (Kreditwesengesetz) neither the standard tax exemption for corporations nor the half-income system applies to dividend income received or to capital gains or losses realized upon the disposal of shares, i.e. dividend income and capital gains are fully subject to corporate income tax or personal income tax and, if applicable, to trade tax. The same applies to shares that were acquired by financial institutions within the meaning of the German Banking Act in order to realize short-term proprietary trading gains. Furthermore, this applies to banks, financial services institutions and financial institutions domiciled in another Member State of the European Community or another contracting party to the EEA Agreement. The standard tax exemption for corporations neither applies to dividends received nor to capital gains or losses if the shares are attributable to the capital investments (Kapitalanlagen) of life and health insurance companies or pension funds. Certain exceptions may apply to corporations if the EU Parent/Subsidiary Directive (90/435/EEC of 23 July 1990, as amended) applies to the Company's dividends.

Inheritance and Gift Tax

The transfer of shares by way of gift or succession is subject to German inheritance and gift tax only if one of the following criteria is met:

(i) The testator, donor, heir, donee, or any other beneficiary has his or her residence or habitual abode, registered domicile or place of management in Germany at the time of the transfer or is a German citizen who has not stayed abroad for more than five years without having a residence in Germany;

(ii) Irrespective of these personal circumstances, the shares are held as business assets for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(iii) At the time of succession or donation, the testator or donor held, either alone or with other closely related persons, directly or indirectly, at least 10% of the registered share capital of the Company.

The few double taxation treaties on inheritance and gift tax which Germany has entered into generally provide that German inheritance or gift tax is levied only in case (i) and, with certain restrictions, in case (ii). Special provisions apply to certain German expatriates and former German citizens.

Other Taxes

No German capital transfer tax, value-added tax, stamp duty, or similar tax is levied on the acquisition, sale, or other forms of transferring shares. However, an entrepreneur may opt for value-added tax being levied on a transaction that is normally tax-exempt if the transaction is executed for the enterprise of another entrepreneur. Net wealth tax (Vermögenssteuer) is currently not levied in Germany.

Proposed Changes under the Business Tax Reform 2008

The German cabinet (Bundeskabinett) approved a draft of the Business Tax Reform Act 2008 (Unternehmenssteuerreformgesetz 2008) on 14 March 2007 which, should it enter into force, provides for substantial changes to the tax considerations described above.

With respect to the taxation of the Company, the reduction of the corporate income tax rate from currently 25% to 15% is proposed. In return, the deductibility of trade tax as a business expense when determining the tax base shall be abolished and the deductibility of interest shall be restricted. This part of the tax reform shall become effective as of 1 January 2008.

Dividend income and capital gains of private investors shall be taxed at a flat tax rate of 25% plus a 5.5% solidarity surcharge and church tax if applicable. The tax exemption for capital gains resulting from the sale of shares after the one-year holding period shall be abolished to the extent the shares were acquired before 1 January 2009. Furthermore, for private investors, the deductibility of expenses relating to dividends and capital gains, such as escrow costs and financing expenses, shall be excluded. With respect to shares held as business assets of a private investor, the 50% tax exemption for dividends and capital gains shall be reduced to a 40% exemption. For corporate investors holding shares as business assets, the rules described above shall generally continue to apply. However, the withholding tax rate for dividends shall be increased to 25% plus a 5.5% solidarity surcharge. This part of the tax reform shall become effective as of 1 January 2009.

TAXATION IN THE GRAND DUCHY OF LUXEMBOURG

The following information is of a general nature only and is based on the laws in force in Luxembourg as of the date of this Prospectus. It does not purport to be a comprehensive description of all of tax considerations that might be relevant to an investment decision. It is included herein solely for preliminary information purposes. It is not intended to be, nor should it be construed to be, legal or tax advice. It is a description of the essential material Luxembourg tax consequences with respect to the shares and may not include tax considerations that arise from rules of general application or that are generally assumed to be known to shareholders. This summary is based on the laws in force in Luxembourg law on the date of this Prospectus and is subject to any change in law that may take effect after such date. Prospective investors in the shares should consult their professional advisors with respect to particular circumstances, the effects of state, local or foreign laws to which they may be subject and as to their tax position.

Please be aware that the residence concept used under the respective headings applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (impôt sur le revenu des collectivités), municipal business tax (impôt commercial communal), a solidarity surcharge (contribution au fonds de chômage), as well as personal income tax (impôt sur le revenu) generally. Corporate shareholders may further be subject to net wealth tax (impôt sur la fortune) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayer's resident of Luxembourg for tax purposes. Individual tax payers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

Taxation of Income Derived from and Capital Gains Realized on the Shares by Luxembourg Residents

Individual Holders of Shares

Dividends and other payments derived from the shares by resident individuals shareholders, who act in the course of the management of either their private wealth or their professional / business activity, are subject to income tax at the progressive ordinary rate (with a top effective marginal rate of currently 38.95%). A tax credit is granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax. Under current Luxembourg tax laws, 50% of the gross amount of dividends received from EU resident companies covered by Article 2 of the Parent-Subsidiary Directive 90/435/EEC or from non-resident capital companies resident in a State having concluded a double tax treaty with Luxembourg and fully liable to a tax which corresponds to Luxembourg's corporate income tax by resident individuals is exempt from income tax.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. Capital gains are deemed to be speculative gains and are subject to income tax at ordinary rates if the shares are disposed of within 6 months after their acquisition or if their disposal precedes their acquisition. A participation is deemed to be substantial where a resident individual shareholder holds, either alone or together with his spouse and/or minor children, directly or indirectly at any time within the 5 years preceding the disposal, more than 10% of the share capital of the Company. Capital gains realized on a substantial participation more than 6 months after the acquisition thereof are subject to income tax according to the half-global rate method, (i.e. the average rate applicable to the total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation). A disposal may include a sale, an exchange, a contribution or any other kind of alienation of the shares.

Capital gains realized on the disposal of the shares by resident individual shareholders, who act in the course of their professional / business activity, are subject to income tax at ordinary rates. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Luxembourg Resident Corporate Holders of Shares

Dividends and other payments derived from the shares by a Luxembourg fully-taxable resident company are subject to income tax, unless the conditions of the participation exemption regime, as described below, are satisfied. Under current Luxembourg tax laws, 50% of the gross amount of dividends received by a Luxembourg fully-taxable resident company is exempt from income tax. A tax credit is further granted for foreign withholding taxes, provided it does not exceed the corresponding Luxembourg tax.

Under the participation exemption regime, dividends derived from the shares by a Luxembourg fully-taxable resident company may be exempt from income tax if cumulatively (i) it has held or commits itself to hold the shares for an uninterrupted period of 12 months, (ii) during this uninterrupted period of 12 months the shares represent a participation of at least 10% in the share capital of the Company or a participation of an acquisition price of at least EUR 1,200,000. Liquidation proceeds are assimilated to a received dividend and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable resident company on the shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied. Taxable gains are determined as being the difference between the price for which the shares have been disposed of and the lower of their cost or book value.

Under the participation exemption regime, capital gains realized on the shares by a Luxembourg fully-taxable resident company may be exempt from income tax if cumulatively (i) it has held or commits itself to hold the shares for an uninterrupted period of 12 months and (ii) during this uninterrupted period of 12 months the shares represent a participation of at least 10% in the share capital of the Company or a participation of an acquisition price of at least EUR 6,000,000. Shares held through a fiscally transparent entity are considered as being a direct participation proportionally to the percentage held in the net assets of the transparent entity.

Tax Exempt Holders of Shares

Holders of Shares who are holding companies subject to the amended law of 31 July 1929, private asset holding companies governed by the law of 11 May 2007, undertakings for collective investment subject to the law of 30 March 1988 and/or the law of 20 December 2002 or specialized investment funds governed by the law of 13 February 2007 are exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the shares are thus not subject to income tax in their hands.

Taxation of Income Derived from and Capital Gains Realized on the Shares by Luxembourg Non-residents

Individual shareholders, who are non-residents of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg to which or whom the shares are attributable, are generally not liable to any Luxembourg income tax.

Non-resident corporate shareholders which have a permanent establishment or a permanent representative in Luxembourg, to which the shares are attributable, must include any income received, as well as any gain realized on the sale, disposal or redemption of shares, in their taxable income for Luxembourg tax assessment purposes. The same inclusion applies to individuals, acting in the course of the management of a professional or business undertaking, who have a permanent establishment or a permanent representative in Luxembourg, to which the shares are attributable. Taxable gains are determined as being the difference between the

sale, repurchase or redemption price and the lower of the cost or book value of the shares sold or redeemed.

Other Taxes

Net Wealth Tax

The shares held by a Luxembourg fully-taxable resident company are subject to Luxembourg net wealth tax, unless the conditions of the participation exemption are satisfied.

Companies which benefit from a special tax regime, such as, for example, holding companies subject to the amended law of 31 July 1929, private asset holding companies governed by the law of 11 May 2007, undertakings for collective investment subject to the amended laws of 30 March 1988 and/or of 20 December 2002 or specialized investment funds governed by the law of 13 February 2007 are exempt from net wealth tax.

Registration Taxes and Stamp Duties

Neither the issuance of the shares, nor the disposal of the shares is subject to a Luxembourg registration tax or stamp duty.

Inheritance Tax and Gift Tax

Under Luxembourg tax law, where an individual holder of shares is a resident of Luxembourg for tax purposes at the time of his/her death, the shares are included in his or her taxable basis for inheritance tax purposes. Gift tax may be due on a gift or donation of the shares, if the gift is recorded in a Luxembourg notarial deed.

UNDERWRITING

Underwriting Agreement

Subject to the fulfilment of certain terms and conditions set out in the underwriting agreement entered into on or about 20 June 2007 (the **''Underwriting Agreement''**) among the Company, the Selling Shareholders and the Underwriters, the Company has agreed to offer for subscription under exclusion of the pre-emptive rights (*Bezugsrechte*) at the notional value of up to EUR 3,000,000 and the Selling Shareholders have agreed to offer for sale, to Sal. Oppenheim in its own name but for the account of the Underwriters, and the Underwriters have severally agreed to procure purchasers for the Offer Shares. The Underwriters will pay the difference between the offer price of the New Shares and their notional value (less agreed commissions and expenses) to the Company and the placement price for the Existing Offered Shares (less agreed commissions) to the Selling Shareholders at the time of delivery of the Existing Offered Shares.

The following table shows the underwriting commitment of each Underwriter in connection with the offering in accordance with the Underwriting Agreement, and subject to the fulfilment and occurrence of certain conditions precedent:

Underwriters	Underwriting Commitments as a Percentage
Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien, Unter Sachsenhausen 4, 50667 Cologne	52.5
BOCI Asia Limited, 26th Floor, Bank of China Tower 1, Garden Road, Hong Kong	30.0
CLSA Limited, Level 19, One Pacific Place, Queensway, Hong Kong	17.5

Selling Agents

BayernLB, Brienner Straße 18, 80333 Munich
comdirect bank AG, Pascalkehre 15, 25451 Quickborn
DAB bank AG, Landsberger Straße 428, 81241 Munich

Commissions

The Company and the Existing Shareholders will pay the Underwriters a commission of 3.75% of the gross proceeds from the offering (including the proceeds from the exercise of the Greenshoe Option for the Greenshoe Shares), i.e. the number of Offer Shares actually sold multiplied by the offer price. In addition, the Company and the Existing Shareholders may at their discretion pay the Global Coordinator an incentive fee of up to 0.75% of the gross proceeds from the offering.

In addition, the Company will pay to the Global Coordinator a corporate finance remuneration of EUR 150,000 for the services rendered in connection with the listing of the Company's shares.

Greenshoe Option and Securities Loan

With regard to a potential over-allotment, 545,904 no par value ordinary bearer shares (*Inhaber-Stückaktien*) of the Existing Shareholders will be made available to Sal. Oppenheim, for the account of the Underwriters by way of a securities loan. Existing Shareholders have further granted Sal. Oppenheim, for the account of the Underwriters, an option to acquire these shares at the offer price less agreed commission. This option expires 30 calendar days after the commencement of trading of the shares.

Termination/Indemnity

The Underwriting Agreement provides that the Underwriters may terminate the Underwriting Agreement under certain circumstances, even after the shares have been allocated and listed, up to delivery and settlement. Such circumstances include in particular an adverse change or prospective adverse change in the assets, financial condition or results of operations or an impairment of the business of the Company or one of its subsidiaries, a material change in the

management structure of the Company a complete or partial suspension of trading on the Frankfurt, London or New York Stock Exchanges or an adverse change in the national or international financial, political, industrial, economic or legal conditions or capital markets conditions or currency exchange rates or an outbreak or escalation of hostilities or terrorist activities.

If the Underwriting Agreement is terminated, the offering will not take place. In such case, shares which have already been allocated to investors will be invalidated and investors will have no claim for delivery. Claims relating to any subscription fees paid and costs incurred by any investor in connection with the subscription are governed solely by the legal relationship between the investor and the institution to which the investor submitted its purchase order. Investors who have engaged in short sales of shares will bear the risk of not being able to fulfil their delivery obligations in connection with such sale.

The Company has agreed in the Underwriting Agreement to indemnify and hold harmless each Underwriter and its directors, officers, partners and employees, any affiliate of such Underwriter and each person who may be deemed to control such Underwriter (each an **''Indemnified Person''**) against any losses, claims, damages, liabilities, charges, expenses or demands (or actions in respect thereof) (**''Losses''**) to which such Indemnified Person may become subject and which arise out of, or in relation to, or in connection with (i) any breach by the Company of its representations and warranties pursuant to the Underwriting Agreement or (ii) any untrue statement of a material fact contained in the Prospectus or any omission to state therein a material fact required to be stated therein necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In each such case, the Company will in addition reimburse each Indemnified Person for any properly documented legal or other expenses (together with any amount equal to VAT, if applicable) incurred by such Indemnified Person in connection with investigation or defending any such action or claim including with respect to an alleged breach, alleged untrue statements, or an alleged omission as such expenses are incurred. The Existing Shareholders have also severally and not jointly agreed under the Underwriting Agreement to indemnify and hold harmless the Underwriters under certain circumstances.

Other Relationships

Some of the Underwriters or their affiliates may, from time to time, engage in transactions or perform services for ZhongDe Group in the ordinary course of business.

Selling and Transfer Restrictions

General

The offering consists of public offerings in Germany and Luxembourg and private placements outside Germany, Luxembourg and the United States to institutional investors. The shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the ''**Securities Act**''), and are only being offered outside the United States in reliance on Regulation S under the Securities Act. This Prospectus does not constitute an offer, solicitation or invitation to subscribe for shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of, any jurisdiction, except for the filing and/or registration of this Prospectus in Germany and Luxembourg in order to permit a public offering of the shares and the public distribution of this Prospectus in Germany and Luxembourg. The distribution of this Prospectus and the offering of the shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by the Company and the Underwriters to inform themselves about, and to observe and comply with, any such restrictions at their own expense and without liability to the Company or the Underwriters. Persons to whom a copy of this Prospectus has been issued shall not circulate the same to any other person or reproduce or otherwise distribute this Prospectus or any information herein for any purpose whatsoever nor permit or cause the same to occur.

European Economic Area

Each of the Underwriters has represented and warranted, severally and not jointly, to the Company and the Selling Shareholders that with respect to each member state of the EEA that has implemented the Prospectus Directive (each a ''**Relevant Member State**'') the shares which are the subject of the offering described in this Prospectus have not been and will not be publicly offered in such Relevant Member State other than in connection with a public offering in Germany and Luxembourg once the Prospectus has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, **''BaFin''**), published in compliance with the German Securities Prospectus Act and notified to the Luxembourg Commission for the Supervision of the Financial Sector. The Offer Shares may, however, be publicly offered at any time in each Relevant Member State pursuant to the following exceptions set forth in the Prospectus Directive, provided that these exceptions have been implemented in the Relevant Member State:

- offerings to legal entities which are authorized or regulated to operate in the financial markets or whose sole corporate purpose is to invest in securities;
- offerings to any legal entity, which in accordance with its last financial statements or consolidated financial statements, meet at least two of the following criteria: (i) an average of at least 250 employees in the last financial year, (ii) a balance sheet total exceeding TEUR 43,000 and (iii) an annual net turnover exceeding TEUR 50,000;
- offerings to fewer than 100 natural or legal persons (other than qualified investors within the meaning of the Prospectus Directive) subject to obtaining the prior consent of the Global Coordinator for any such offer; or
- in all other circumstances falling within Article 3(2) of the Prospectus Directive

The foregoing exceptions apply only on the condition that such offer for the sale of shares does not require the publication of a prospectus by the Company or any Underwriter pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the term ''public offering'' of the shares offered in any Relevant Member State means a communication to the public in any form and by any means presenting sufficient information on the terms and conditions of the offering and the shares to be offered so as to enable an investor to decide to purchase any shares. With respect to the interpretation of this definition, the measures taken to implement the Prospectus Directive in the Member State in which the Offer Shares are being offered shall prevail. ''Prospectus Directive'' means Directive 2003/71/EC including any relevant implementing measures in each Relevant Member State.

United Kingdom

In addition, each of the Underwriters has represented and warranted that (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated invitations or inducements to engage in investment activities within the meaning of Article 21 of the Financial Services and Markets Act (**''FSMA''**) in connection with the offer or sale of the Offer Shares under circumstances in which Article 21 of the FSMA does not apply to the Company and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to all of its activities in connection with the Offer Shares in, from or otherwise involving, the United Kingdom.

Hong Kong

The Underwriters (i) have not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any shares other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Chapter 32) of Hong Kong, and (ii) except as permitted under the securities laws of Hong Kong, have not issued, and will not issue, in Hong Kong any document, invitation or advertisement relating to the shares other than with respect to shares which are intended to be disposed of to persons outside Hong

Kong or only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Japan

The shares have not been and will not be registered under the Securities and Exchange Law of Japan and may not be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to, or for the account or benefit of, any person for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan and (ii) in compliance with any other relevant laws and regulations of Japan.

Singapore

This Prospectus has not been registered as a prospectus or information memorandum with the Monetary Authority of Singapore. Accordingly, no advertisement may be made offering or calling attention to an offer or intended offer of the shares to the public in Singapore. The underwriters will not offer or sell shares, and will not make shares the subject of an invitation for subscription or purchase, and will not circulate or distribute this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of shares, whether directly or indirectly, to the public or any member of the public in Singapore other than:

- to an institutional investor or other person specified in Section 274 of the Securities and Futures Act 2001 of Singapore, or the
- Securities and Futures Act,
- to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act, or
- otherwise pursuant to, and in accordance with the conditions of, any
- other applicable provision of the Securities and Futures Act.

People's Republic of China

The underwriters have not circulated and will not circulate or distribute this prospectus in the PRC and the underwriters have not offered or sold, and will not offer or sell to any person for re-offering or resale, directly or indirectly, any shares to any resident of the PRC except pursuant to applicable laws and regulations of the PRC. For the purposes of this paragraph, PRC does not include Hong Kong, Macau and Taiwan.

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RECENT DEVELOPMENTS AND OUTLOOK

The Company believes that in the course of 2007 the demand for waste incinerators in China will continue to grow. The Company assumes an ongoing demand for medical waste incinerators in China, as the government's target to create 300 medical waste disposal centers has not been fulfilled yet. Until year end 2006 only about 150 of these medical waste disposal centers have been established and the Company expects that demand for medical waste incinerators actually exceeds the government's target. The Company assumes a further growth of the market for municipal waste incinerators due to the rising awareness for environmental protection in China which, inter alia, is associated with a further increase of public budgets for the municipal waste management in the small and mid-sized cities of China.

Given that demand has been strong to date, the Company assumes that it will be able to increase its sales in 2007 significantly. A first indication for this assumption is given by the revenues generated in the first quarter of 2007 which amounted to TEUR 7,359 compared to TEUR 18,995 for the entire year 2006. Revenues in the medical waste incinerator segment were TEUR 3,864 in the first quarter of 2007. In total 8 units with a daily capacity between 3 t/day and 8 t/day were sold whereas model LFRY-5T with 4 units sold again contributed nearly half of the revenues generated in this business segment. Total revenues of TEUR 3,495 were generated in the municipal waste incinerator segment in the first quarter of 2007 from the construction of 2 units with a capacity of 150 t/day. The municipal waste incinerators with a 150 t/day capacity are the largest models that have ever been sold. The price of each of these units was approximately TEUR 1,744.

As of 31 May 2007 ZhongDe Group's order book consists of contracted orders with a total value of about TEUR 8,229 (subject to the exchange rate on 31 May 2007 of RMB 10.2885 for EUR 1.00). The order backlog includes six orders for municipal waste incinerators with a capacity between 100 t/day and 300 t/day which underlines the Company's strategy to focus on mid-sized incinerators for municipal waste. Finally, the results in 2007 will also reflect expenses in connection with the corporate restructuring, the preparation of this offering and being a listed company.

Since 31 March 2007 and the date of this Prospectus no material changes with regard to the financial conditions and the trading- and market position of ZhongDe Group have occurred.

The Company expects to achieve further production and revenue growth over the coming years by the implementation of its growth strategy that is associated with the completion of a new production plant in Beijing which is scheduled for the end of 2008, the development of the aviation waste incineration business as well as the expansion of its business to the operation of several BOT projects.

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FINANCIAL SECTION

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ZhongDe Waste Technology AG, Hamburg

Combined consolidated financial statements for the years ending December 31, 2006, 2005 and 2004

ZhongDe Waste Technology AG, Hamburg

Combined consolidated balance sheets
for the years ending December 31, 2006, 2005 and 2004

ZhongDe Waste Technology AG, Hamburg

Combined consolidated balance sheets for the years ending December 31, 2006, 2005 and 2004

	Notes	2006	2005	2004
		EUR	EUR	EUR
ASSETS				
Non-current assets				
Equipment	7	306,254	256,356	240,878
Intangible assets	8	3,145	3,795	—
Deferred tax assets	14	122,879	78,090	37,337
		432,278	338,241	278,215
Current assets				
Inventories	9	770,029	568,613	900,166
Trade receivables	10	4,923,209	3,600,105	1,547,338
Other receivables and prepayments	10	77,193	38,750	30,734
Amounts due from related parties	10, 19	1,415,544	5,628,777	3,670,565
Cash and cash equivalents	11	9,198,384	3,568	26,191
		16,384,359	9,839,813	6,174,994
Total assets		16,816,637	10,178,054	6,453,209
LIABILITIES				
Current liabilities				
Short-term loans	12	680,980	420,150	798,290
Trade payable	13	443,566	368,411	243,425
Other payables and accruals	13	734,718	458,387	733,310
Provisions	13	209,879	27,165	25,949
Amounts due to related parties	13, 19	5,115,013	6,532	326,636
Income tax payable	13	809,823	952,289	266,311
		7,993,979	2,232,934	2,393,921
Non-current liabilities				
Long-term loan		—	—	—
		—	—	—
Total liabilities		7,993,979	2,232,934	2,393,921
CAPITAL AND RESERVES				
Share capital	1	2,774,525	2,774,084	2,774,084
Statutory reserves	15	1,765,356	971,545	237,921
Retained earnings	15	4,272,133	3,726,563	1,393,823
Foreign exchange difference		10,644	472,928	(346,540)
Total equity		8,822,658	7,945,120	4,059,288
Total liabilities and equity		16,816,637	10,178,054	6,453,209

ZhongDe Waste Technology AG, Hamburg

Combined consolidated statement of Income and Expenses for the years ending December 31, 2006, 2005 and 2004

ZhongDe Waste Technology AG, Hamburg

Combined consolidated statement of Income and Expenses for the years ending December 31, 2006, 2005 and 2004

	Notes	2006	2005	2004
		EUR	EUR	EUR
Sales	3	18,994,565	11,397,636	6,162,023
Cost of sales		(5,611,216)	(3,508,227)	(2,270,979)
Gross Profit		13,383,349	7,889,409	3,891,044
Other operating income	3	14	—	—
Selling and distribution expenses		(734,766)	(419,639)	(353,312)
Administrative expenses		(377,224)	(366,744)	(264,468)
Research and development expenses		(203,461)	(180,859)	(176,513)
Other operating expense		(165,323)	(141,586)	(47,315)
Profit from operations		11,902,589	6,780,581	3,049,436
Finance income	3	16,231	10,113	7,300
Finance costs	3	(50,318)	(58,060)	(56,350)
Profit before income tax		11,868,502	6,732,634	3,000,386
Income tax	14	(3,846,620)	(2,380,136)	(1,134,883)
Profit for the year		8,021,882	4,352,498	1,865,503
Earnings per share		0.8022*	0.4352*	0.1866*

* Computed for comparable purposes taking the shares of the parent holding company (10,000,000 shares paid in).

ZhongDe Waste Technology AG, Hamburg

Combined consolidated statement of Cash flow
for the years ending December 31, 2006, 2005 and 2004

ZhongDe Waste Technology AG, Hamburg

Combined consolidated statement of Cash flow for the years ending December 31, 2006, 2005 and 2004

	2006	2005	2004
	EUR	EUR	EUR
Profit before income tax	11,868,502	6,732,634	3,000,386
Adjustments for:			
Amortization of intangible assets	380	142	—
Allowance for doubtful trade debts	138,570	121,221	29,170
Provision for warranty	162,149	(25,366)	28,413
Depreciation of property, plant and equipment	39,164	37,473	35,078
Interest income	(16,231)	(10,113)	(7,300)
Interest expense	50,318	58,061	56,351
Operating cash flows before working capital changes	12,242,853	6,914,050	3,142,098
Working capital changes:			
(Increase)/decrease in:			
Inventories	(201,416)	331,553	(567,125)
Trade receivables	(1,461,674)	(2,173,988)	(463,681)
Other receivables and prepayments	(38,442)	(8,016)	8,751
Amounts due from related parties	(551,047)	(1,334,777)	—
Increase/(decrease) in:			
Trade payables	75,155	124,986	124,241
Other payables, provisions and accruals	296,896	(248,341)	276,906
Amounts due to related parties	(33,167)	(320,103)	357,641
Cash generated from/(used in) operations	10,329,158	3,285,364	2,878,831
Interest received	16,231	10,113	7,300
Income tax paid	(3,972,640)	(1,817,018)	(1,024,471)
Net cash generated from operating activities	6,372,749	1,478,459	1,861,660
Cash flow from investing activities			
Purchase of property, plant and equipment	(109,844)	(10,494)	(7,674)
Purchase of intangible assets	—	(3,685)	—
Cash flow used in investing activities	(109,844)	(14,179)	(7,674)
Cash flow from financing activities			
Capital injection	441	—	971,185
Capital injection (share premium), eliminated due to reverse consolidation	4,104,921	—	—
Purchase of subsidiary, eliminated due to reverse consolidation	(4,104,921)	—	—
Increase in short-term bank loans	260,830	(378,139)	(339,915)
Loans from related parties	5,141,648	—	—
Loans given to related parties	4,764,280	(623,435)	(2,662,406)
Interest paid	(50,318)	(58,061)	(56,351)
Dividends paid to shareholders	(6,518,742)	(1,422,196)	—
Cash flow from financing activities	3,598,139	(2,481,831)	(2,087,487)
Net increase in cash and cash equivalents	9,861,044	(1,017,551)	(233,501)
Cash at beginning of year	3,568	26,192	258,953
Foreign exchange differences	(666,228)	994,926	740
Cash at end of year	9,198,384	3,568	26,192

ZhongDe Waste Technology AG, Hamburg

Combined consolidated statement of changes in equity for the years ending December 31, 2006, 2005 and 2004

ZhongDe Waste Technology AG, Hamburg

Combined consolidated statement of changes in equity for the years ending December 31, 2006, 2005 and 2004

	Share capital Parent	Share capital Subsidiary	Welfare reserves	Statutory reserves	Retained earnings	Foreign exchange difference	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2004	—	1,817,504	—	—	(233,759)	—	1,583,744
Capital injection	—	956,581	—	—	—	—	956,581
Net profit for the financial year	—	—	—	—	1,865,503	—	1,865,503
Transfers	—	—	79,307	158,614	(237,921)	—	0
Foreign exchange difference	—	—	—	—	—	(346,540)	(346,540)
Balance as at 31 December 2004	—	2,774,084	79,307	158,614	1,393,823	(346,540)	4,059,288
Net profit for the financial year	—	—	—	—	4,352,498	—	4,352,498
Transfers	—	—	244,542	489,082	(733,624)	—	—
Dividend paid to shareholders	—	—	—	—	(1,286,134)	—	(1,286,134)
Foreign exchange difference	—	—	—	—	—	819,468	819,468
Balance as at 31 December 2005	—	2,774,084	323,849	647,696	3,726,563	472,928	7,945,120
Capital injection	441	—	—	—	—	—	441
Dividend paid for the year 2005	—	—	—	—	(3,350,700)[1]	—	(3,350,700)
Transfers	—	—	(323,849)	1,117,660	(793,811)	—	0
Net profit for the financial year	—	—	—	—	8,021,882	—	8,021,882
Advance dividend paid for the year 2006	—	—	—	—	(3,331,801)[2]	—	(3,331,801)
Foreign exchange difference	—	—	—	—	—	(462,284)	(462,284)
Balance as at 31 December 2006	441	2,774,084	0	1,765,356	4,272,133	10,644	8,822,658

1 RMB 31,900,000 (translated at 9.5204).

2 RMB 33,350,000 (translated at 10.0096).

ZhongDe Waste Technology AG, Hamburg

Notes to the combined consolidated financial statements for the years ending December 31, 2006, 2005 and 2004

ZhongDe Waste Technology AG, Hamburg

Notes to the combined consolidated financial statements for the years ending December 31, 2006, 2005 and 2004

1. Background and Basis of Preparation

1.1 The Company

ZhongDe Waste Technology AG has been established on May 4, 2007, now acting as the new holding company for the group companies. The share capital of the new holding amounts to EUR 10,000,000. Because of this registration date after December 31, 2006, the parent itself does not have any historical data except for the balance sheet (opening balance) as of May 4, 2007, reflecting the contribution in kind of the subsidiary Chung Hua Environmental Protection Assets (Holdings) Group Limited, Hong Kong, and Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC).

The combined consolidated financial information 2004 to 2006 has been presented as if ZhongDe Waste Technology AG (the company) already existed as of January 1, 2004. Doing this the acquisitions of the sub ''Business Combination'' of ZhongDe Waste Technology have been accounted for in accordance with the principals of reverse acquisition accounting, in accordance with IFRS 3 ''Business Combination'', on the basis that the former majority shareholders of the subsidiaries retain effective control of the Group. Consolidation measures are essentially related to equity elements in the balance sheet and do not materially effect the equity total. No goodwill arose in respect of the acquisition.

The combined consolidated financial statements for the years ending December 31, 2006, 2005 and 2004 are prepared in accordance with the aforementioned accounting principle as if the restructuring exercise (note 1.2) had been completed since January 1, 2004, and the comparative combined consolidated net assets and results represent mainly those of Fujian Fengquan Environmental Protection Equipment Co., Ltd.

The business is more or less totally driven by the ultimate subsidiary Fujian Fengquan Environmental Protection Equipment Co., Ltd. whereas ZhongDe Waste Technology and Chung Hua Environmental Protection Assets (Holdings) Group Limited assume holding functions.

The share capital of Fujian Fengquan Environmental Protection Equipment Co., Ltd. amounts to RMB 29,000,000 (= EUR 2,774,084), the issued and paid-in share capital of Chung Hua Environmental Protection Assets (Holdings) Group Limited amounts to RMB 4,200 (= EUR 441).

1.2 The Restructuring Exercise

ZhongDe Waste Technology AG, Hamburg, (the Company) is a holding company for the Group (the Group), comprising the following entities:

Company	Country of incorporation	Date of incorporation	Business type	Ownership and voting interest
Chung Hua Environmental Protection Assets (Holdings) Group Ltd.	HongKong	February 25, 2004	Holding	100%
Fujian Fengquan Environmental Protection Equipment Co., Ltd.	China (PRC)	September 9, 1996	Manufacturing	100%

The legal and tax restructuring process to form the Group started in mid 2006 and was finalized May 4, 2007. As consideration for the above subsidiaries, the Company issued ordinary 10.000.000 shares with a par value of EUR 1.00 each against the contribution in kind of the subsidiaries by their shareholders effective May 4, 2007.

1.3 Basis of Preparation

The present separate financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and/or International Accounting Standards (IAS) as adopted by the International Standards Board (IASB) and by the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) under consideration of aforementioned scope of consolidated financial statements.

IFRS 1, First-time adoption of International Financial Reporting Standards, is used in preparing separate financial statements for the first time. The statutory financial statements of the combined entities are prepared in accordance with their respective generally accepted accounting practices. The financial information is based on these statutory records, with adjustments and reclassifications recorded for the purpose of the fair presentation in accordance with IFRS.

The main adjustments on local commercial books related to warranty reserves and allowance for doubtful accounts and the relating deferred taxes thereon. The effect was immaterial.

The standards, as revised in connection with the IASB Improvement Project, were published by IASB in December 2003, and their application is binding for financial years starting on or after January 1, 2005. Earlier adoption is recommended. In line with IFRS 1, the current standards and interpretations are applied with retroactive effect. The following standards relevant to the Company are already applied in their revised version as of the 2004 financial year:

IAS 1 Presentation of financial statements

IAS 2 Inventories

IAS 8 Accounting policies: changes in accounting estimates and errors

IAS 10 Events after the balance sheet date

IAS 16 Property, plant and equipment

IAS 17 Leases

IAS 21 The effects of changes in foreign exchange rates

IAS 24 Related party disclosures

IAS 27 Consolidated and separate financial statements

Moreover, the new revised standards published by the IASB in 2004 — IFRS 3, Business Combinations, IAS 32, Financial Instruments: Disclosure and Presentation, IAS 36, Impairment of assets, IAS 38, Intangible assets, and IAS 39, Financial Instruments: Recognition and Measurement — were applied as of the 2004 financial year.

2. Significant Accounting Policies

2.1 Basis of Consolidation

A subsidiary is a company controlled by the Company. Control is achieved when the Company has the power, directly or indirectly, to govern its financial and operating policies of the company so as to acquire benefit from its activities. Investment in subsidiary, if any, is stated in the Company's balance sheet at cost less any impairment losses.

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The consolidation is based on the assumption that the Company were existent over all reporting periods as parent company.

The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All inter-group balances, transactions, income, expenses, profits and losses resulting from inter-group transactions that are recognized as assets, are fully eliminated.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

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

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities represents goodwill.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the income statement on the date of acquisition.

2.2 Significant Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in the process of applying the Group's accounting policies and 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 financial statements and the reported amount of revenue and expenses during the reporting period.

The following estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below:

a) Allowance for trade receivables

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

Management uses judgement to determine the allowance for doubtful receivables which are supported by historical write-off credit history of the customers and repayment records. The Group reviews its allowance for doubtful receivables monthly or more frequently. Accounts balances are charged off 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.

b) Depreciation of equipment

The cost of equipment used for the manufacture process is depreciated on a straight line basis over its estimated useful life. The management estimates the useful life of these plant and equipment to be within 5 to 10 years. These are common life expectancies applied in machine manufacturing industry. The carrying amount of the Group's equipment at December 31, 2006, 2005 and 2004 were TEUR 306, TEUR 256 and TEUR 241. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual value of these assets, therefore, future depreciation charge could be revised.

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

c) Provision for warranty

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based an the one-year warranty period for all product sold. It is expected most of these costs will be incurred after one year from the balance sheet date.

2.3 Functional and Presentation Currency

a) Functional currency

The directors have determined the currency of the primary economic environment in which the Group operates, to be Renminbi (''RMB''). Sales and major costs of the providing goods and services including major operating expenses are primarily influenced by fluctuations in RMB.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the combined entities and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognized in the income statement except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognized initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognized in the consolidated income statement on disposal of the subsidiary.

c) Foreign currency translation

The presentation currency of the Group is EUR. The results and financial position of the combined entities which are in measurement currency other than EUR are translated from RMB respective HK$ into EUR as follows:

	2006	2005	2004	2003
year end	10,2793	9,5204	11,2741	10,4539
average	10,0096	10,1955	10,2967	

HK$ 1 = RMB 1,00467

The results and financial position of foreign operations are translated using the following procedures:

Assets and liabilities for each balance sheet are presented at the closing rate ruling at the balance sheet date and income and expenses for income statements are translated at average exchange rates for the year, which approximates to the exchange rates at the date of transactions.

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

2.4 Equipment

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

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

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

Machinery equipment — 10 years

Electronic equipment, furniture and fixtures — 5 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 on 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 recognized in profit or loss.

2.5 Intangible Assets

a) Financial Software

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

Financial software is stated at cost less accumulated amortization and any impairment losses. The costs are amortized using a straight line method over its estimated useful life of 10 years.

b) Research and Development Costs

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

The carrying amount of the development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arising during the reporting period. Upon completion, the development costs are amortized over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

2.6 Impairment of Non-financial Assets

The Group assesses at each reporting date 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 recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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 recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount can not exceed the carrying amount that would have been

determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Reverse of an impairment loss is recognized in the income statement. After such a reversal, the depreciation charge is adjusted for future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic base over its remaining useful life.

2.7 Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, bank deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant rise of changes in value.

2.8 Trade and Other Receivables

Trade and other receivables are recognized and carried at original amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made as following: The basis to charge allowance is its outstanding balance by deducting any subsequently collections from its book balance, the principal of the doubtful debt is 5% for debts aging less than one year, 50% for debts aging between one year and three years, 100% for debts aging more than three years. If there is no significant indication for an insolvency of debtors, the outstanding balances due from related parties non trade are not subject to allowance.

Bad debts are written off when identified.

2.9 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing the inventories to their present location and condition is accounted for as follows:

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

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

2.10 Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade and other payables.

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and service received. Gains and losses are recognized in the income statement when the payment of the liabilities is identified to be needless.

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

2.11 Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

2.12 Operating Lease

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

2.13 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

a) Sales of goods

Revenue is recognized upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) Rendering service

Revenue from rendering service is recognized when the services are rendered and relative revenue can be measured reliably.

c) Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

2.14 Employee Benefits

The Group participates in national pension schemes as defined by the laws of the country in which it has operations. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

2.15 Interest Bearing Loans

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

2.16 Derecognition of Financial Assets and Liabilities

a) Financial assets, if any

A financial asset is derecognized where:

— The contractual rights to receive cash flows from the assets have expired;

— The Group retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

— The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2.17 Taxation

Income tax for the financial year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that is relates to items recognized directly in equity, in which case such tax is recognized directly in equity.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities, if any, are recognized for taxable temporary differences, except:

— Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— In respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reverse of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carried-forward unused tax credits and unused tax losses can be utilized except:

— Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— In respect of deductible temporary differences associated with investment in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities, if any, are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities, if any, are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority.

The carrying amount of deferred income tax assets is revised at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

3. Revenue

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

4. Segment Analysis

Segment Information

The primary segment reporting format is determined to be business segment as the Group's risks and rates of return are affected predominantly by differences in the products. The operating business is reported separately according to the nature of the products, with each representing a strategic business unit that offers different products.

a) Business segment

The Group's operating businesses are organized into two business segments, namely incinerator special for disposal of urban municipal waste and incinerator special for disposal of medical waste.

b) Geographical business

The Group is principally engaged in design and manufacture of various incinerators in People's Republic of China (''PRC'') and all of its customers are based in PRC. In addition, all identifiable assets of the Group are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Operating expenses and income are allocated to the segments on a reasonable basis.

Segment assets, liabilities and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the items which can not be allocated reasonably.

Inter-segment sales are eliminated on consolidation.

The following table presents revenue and results information regarding the Group's business segments for the financial years end December 31, 2006, 2005 and 2004:

Business segment

	2006	2005	2004
	EUR	EUR	EUR
Revenue:			
Sales to external customers			
Incinerator special for disposal of medical waste	15,542,879	10,352,077	1,812,911
Incinerator special for disposal of urban household waste	3,451,686	1,045,559	4,349,112
	18,994,565	11,397,636	6,162,023
Results:			
Incinerator special for disposal of medical waste	11,359,868	7,366,304	1,145,685
Incinerator special for disposal of urban household waste	2,151,486	598,330	2,786,028
Unallocated expenses	(1,642,853)	(1,232,000)	(931,327)
Profit from operations before tax	11,868,502	6,732,634	3,000,386
Income tax	(3,846,620)	(2,380,136)	(1,134,883)
Profit for the year	8,021,882	4,352,498	1,865,503

The following table presents certain assets, liabilities and other information regarding the Group's segments for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
	EUR	EUR	EUR
Assets and liabilities:			
Segment assets			
Incinerator special for disposal of medical waste	2,269,644	140,501	1,321,391
Incinerator special for disposal of urban household waste	5,185,074	4,875,724	1,213,306
Unallocated assets	9,361,919	5,161,829	3,918,511
Total assets	16,816,637	10,178,054	6,453,209
Segment liabilities			
Incinerator special for disposal of medical waste	418,173	528,223	724,738
Incinerator special for disposal of urban household waste	43,569	1,371	393,681
Unallocated liabilities	7,532,237	1,703,340	1,275,503
Total liabilities	7,993,979	2,232,934	2,393,921
Other segment information			
Unallocated capital expenditure on property, plant and equipment and intangible assets	106,962	15,185	7,673
Unallocated depreciation and amortization	38,507	40,282	3,210

5. Profit from Operations

	2006	2005	2004
	EUR	EUR	EUR
Depreciation of property, plant and equipment	39,164	37,473	35,078
Staff costs	622,288	570,416	516,886
Renumeration of auditors			
Audit services	500	305	469
Non-audit services	20,380	20,009	17,676
Amortization of intangible assets	380	142	—
Allowance for doubtful trade debts	138,570	121,221	29,171
Research and development costs	203,461	180,859	176,513

6. Finance Costs

	2006	2005	2004
	EUR	EUR	EUR
Interest expense on bank loan	50,228	57,949	56,298
Bank charges	91	111	52
	50,318	58,060	56,350

7. Equipment

	Machine equipment	Electronic equipment	Total
	EUR	EUR	EUR
Cost:			
At 1 January 2004	284,154	25,700	309,854
Additions	410	7,264	7,674
Disposals	—	—	—
At 31 December 2004	284,564	32,964	317,528
Additions	—	10,494	10,494
Disposals	—	0	0
Exchange difference	52,418	6,816	59,234
At 31 December 2005	336,982	50,274	387,256
Additions	108,596	1,248	109,844
Disposals	—	—	—
Exchange difference	(27,729)	(3,744)	(31,473)
At 31 December 2006	417,849	47,778	465,627
Accumulated depreciation and impairment:			
At 1 January 2004	39,061	5,552	44,613
Depreciation charged for the year	29,023	6,055	35,078
Disposals	—	—	—
Exchange difference	(2,001)	(1,041)	(3,042)
At 31 December 2004	66,083	10,567	76,650
Depreciation charged for the year	30,028	7,445	37,473
Disposals	—	—	—
Exchange difference	14,151	2,626	16,777
At 31 December 2005	110,263	20,637	130,899
Depreciation charged for the year	31,028	8,135	39,164
Disposals	0	0	0
Exchange difference	(9,524)	(1,166)	(10,689)
At 31 December 2006	131,767	27,606	159,374
Net carrying amount:			
At 31 December 2004	218,481	22,397	240,878
At 31 December 2005	226,719	29,637	256,356
At 31 December 2006	286,082	20,172	306,253

The plant and office buildings the Group uses now are leased from Fujian Fengquan Environmental Protection Group Co., Ltd. Details are set out in Notes 18 and 19.

8. Intangible Assets

	Software
	EUR
Cost:	
At 1 January 2004	—
Additions	—
At 31 December 2004	—
Additions	3,947
At 31 December 2005	3,947
Additions	—
At 31 December 2006	3,947
Accumulated amortization and impairment:	
At 1 January 2004	—
Amortization	—
At 31 December 2004	—
Amortization	142
Exchange difference	10
At 31 December 2005	152
Amortization	380
Exchange difference	270
At 31 December 2006	802
Net carrying amount:	
At 31 December 2004	—
At 31 December 2005	3,795
At 31 December 2006	3,145

Significant intangible assets used by the Group but not recognized as assets:

All intellectual properties which are necessary for the production are owned by Chen Zefeng. Pursuant to the agreement dated on July 25, 2006, these intellectual properties have been licensed exclusively to Fujian Fengquan Environmental Protection Equipment Co., Ltd. for its development and manufacture activities.

The brand is beneficially owned by Fujian Fengquan Environmental Protection Group Co., Ltd.. Pursuant to the agreement dated on July 25, 2006, the brand is granted for use to Fujian Environmental Protection Equipment Co., Ltd. on an irrevocable and exclusive basis. The license agreement is valid and subsisting within its legal protection period and free of any charge.

9. Inventory

	2006	2005	2004
	EUR	EUR	EUR
Raw materials and consumables	172,225	275,458	141,015
Finished goods	519,420	293,155	673,541
Work in process	78,384	0	85,609
	770,029	568,613	900,166

10. Trade and Other Receivables

	2006	2005	2004
	EUR	EUR	EUR
Trade receivables:			
Trade receivables	5,199,763	3,800,839	1,634,532
Allowance for trade receivables	(276,554)	(200,734)	(87,194)
	4,923,209	3,600,105	1,547,338
Other receivables:			
Other receivables	52,708	36,702	30,734
Prepayments	24,485	2,048	—
	77,193	38,750	30,734
Allowance for other receivables	—	—	—
	77,193	38,750	30,734
Related parties:			
Amount due from related parties-trade	1,484,926	646,773	—
Amount due from related parties-non-trade	4,864	5,014,342	3,670,565
Allowance for amount due from related parties	(74,246)	(32,339)	—
	1,415,544	5,628,777	3,670,565

Trade receivables

All trade receivables are non-interest bearing. They are recognized at their original invoice amounts which represents their fair values on initial recognition. The aging is as follows:

	2006	2005	2004
	EUR	EUR	EUR
Within 30 days	2,426,767	1,268,161	220,573
31-90 days	2,241,723	1,576,973	623,733
91-180 days	1,397,070	1,063,652	569,464
181-360 days	597,124	515,066	208,612
361-1080 days	22,005	23,759	12,150
	6,684,689	4,447,612	1,634,532

Prepayments

The prepayments are mainly relating to the capitalization of IPO and related expenses.

Related parties receivables

Amounts due from related parties are non-interest bearing loans and are repayable on demand. All related parties receivables are unsecured and are to be settled in cash. There is no allowance for doubtful debts arising from the non-trade outstanding balance.

Allowance for doubtful receivables

For each financial period, the following amounts of impairment loss are recognized in the income statement.

	2006	2005	2004
	EUR	EUR	EUR
Provision for trade receivables	134,935	129,817	26,642
Provision for other receivables	—	—	—
	134,935	129,817	26,642

11. Cash and Cash Equivalent

	2006	2005	2004
	EUR	EUR	EUR
Cash at banks and in hand	4,820,654	3,568	26,191
Short term deposit	4,377,730	—	—
	9,198,384	3,568	26,191

Cash at banks earns interest at an annual rate of 0.72%. The short term deposit is made for varying period between one day and six months depending on the immediate cash requirements of the Group, and earns interest at a 2.25% annual rate.

12. Interest Bearing Loans and Borrowings

	2006	2005	2004
	EUR	EUR	EUR
Current bank loan			
— #1 **(a)**	—	—	443,494
— #2 **(b)**	—	—	177,398
— #3 **(c)**	—	—	177,398
— #4 **(d)**	—	420,150	—
— #5 **(e)**	291,849	—	—
— #6 **(f)**	389,132	—	—
	680,980	420,150	798,290

(a) The one-year bank loan facility #1 was fully repaid on October 23, 2005. Interest was charged at 7.254% per annum. The bank loan was secured by third party.

(b) The one-year bank loan facility #2 was fully repaid on June 23, 2005. Interest was charged at 6.903% per annum. The bank loan was unsecured.

(c) The one-year bank loan facility #3 was fully repaid on July 13, 2005. Interest was charged at 6.903% per annum. The bank loan was unsecured.

(d) The one-year bank loan facility #4 was fully repaid on June 28, 2006. Interest was charged at 7.254% per annum. The bank loan was unsecured.

(e) The one-year bank loan facility #5 is required to be repaid on November 20, 2007. Interest is charged at 7.254% per annum. The bank loan was secured by third party.

(f) The one-year bank loan facility #6 is required to be repaid on June 28, 2007. Interest is charged at 7.605% per annum. The bank loan was unsecured.

13. Trade and Other Payable

	2006	2005	2004
	EUR	EUR	EUR
Current liabilities			
Advance from customers	14,550	154,651	869,514
Accrued expenses and provisions	457,272	3,564	25,949
VAT payable	148,434	89,366	12,485
Other tax payables	2,186	10,376	1,411
Other payables	5,437,167	234,127	176,536
	6,059,610	492,084	1,085,895
Trade payables	443,566	368,411	243,425
Income tax payable	809,823	952,289	266,311
	7,312,999	1,812,784	1,595,631

All trade payables are non-interest bearing. The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheet to be reasonable approximation of their fair value.

The amount due to related parties is non-trade (thereof December 31, 2006 loan of EUR 5,115,013), unsecured and interest free. It is repayable on demand.

Provisions

	Maintenance/ warranties	Staff bonus and welfare	Total
	EUR	EUR	EUR
At January 1, 2004			
Additions	98,211	—	98,211
Utilised	(72,262)	—	(72,262)
At December 31, 2004	25,949	—	25,949
Additions	89,103	—	89,103
Utilised	(87,887)	—	(87,887)
At December 31, 2005	27,165	—	27,165
Additions	240,451	51,984	292,435
Utilised	(109,721)	—	(109,721)
At December 31, 2006	157,895	51,984	209,879

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

Staff bonus and welfare fund: In 2006, the subsidiary company converted to be a Foreign Investment Company. Pursuant to the Foreign Investment Company Laws of PRC and Decisions of the Board of Directors of the subsidiary company, 1% of the profit after tax was accrued as staff bonus and welfare fund. The fund can only be used for staff public welfare.

14. Income Tax

Major components of income tax expense

The major components of income tax expense are as follows:

	2006	2005	2004
	EUR	EUR	EUR
Current income tax	3,898,536	2,411,768	1,153,885
Deferred income tax:			
Deferred income tax induced by time difference	(72,173)	(31,632)	(19,002)
Deferred income tax induced by tax rate reduction	20,257	—	—
Income tax recognised in profit and loss	3,846,620	2,380,136	1,134,883

Relationship between tax expense and accounting profit:

A reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate is as follows:

	2006	2005	2004
	EUR	EUR	EUR
Accounting (loss)/profit before income tax	11,868,502	6,732,634	3,000,386
Tax at respective company's domestic income tax rate	3,667,903	2,221,770	1,002,103
Effect of reduction in tax rate	20,257	—	—
Taxes on non-deductible expenses	158,460	158,366	132,780
Income tax expense recognised in profit and loss	3,846,620	2,380,136	1,134,883

Deferred tax assets

Deferred income tax relates to the following:

	2006	2005	2004
	EUR	EUR	EUR
Allowance for bad and doubtful debts	84,192	76,914	28,774
Provision for warranty	38,687	1,176.21	8,563.26
	122,879	78,090	37,337

Applicable tax rate

In accordance with the Income Tax Law of the People's Republic of China for Enterprises with foreign Investment and foreign Enterprises, the subsidiary company in PRC is entitled to full exemption from Enterprise Income tax for the first two years and a 50% reduction for the next three years, commencing from the first profit-making year after offsetting all tax losses carried forward from the previous five years.

Pursuant to the aforementioned tax laws, the tax payer can choose whether to enjoy the tax exemption when its operating period as a foreign enterprise is less than half a year. The subsidiary company obtained its foreign investment enterprise license in August 2006. Accordingly, the subsidiary company choose the next year to be the first profit-making year.

15. Reserve

According to the Company Law of PRC, the companies operating in China should provide the following statutory reserves which are appropriated from the net profit as reported statutory financial statements:

a) Statuary reserve

A company (not yet recognized as a foreign owned company) is required each year to transfer 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common reserve fund, except where the fund has reached 50% of the company's registered capital. This fund can be used to make up for any losses incurred or be converted into paid-up capital, provided that the fund does not fall below 25% of the registered capital. The additions are put down in the statements of change in equity and are based upon the local financial statements in China (PRC). In 2006 the relating contributions relate to the first half year in which the company was not yet recognized as a foreign owned company.

b) Statutory common reserve fund

A company (not yet recognized as a foreign owned company) was required each year to transfer 5% to 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common welfare fund. This fund was used to the collective welfare of the staff and workers of the company. The common welfare fund was not available for the distribution to the owners (exception on liquidation). The relating former welfare reserve has now be allocated to the retained earnings. As a foreign owned company the contributions to the welfare fund are now voluntarily and are based upon management's decision. Accordingly further contributions, if any, have to be regarded as provisions.

c) Retained earnings

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

16. Employees Benefits

	2006	2005	2004
Average number of employees of the Group			
Management and administration	29	38	37
Research and development	19	19	21
Manufacture	85	82	84
Sales	39	51	45
	172	**190**	**187**

	2006	2005	2004
	EUR	EUR	EUR
The average payroll costs of these employees are as follows:			
Wages and salaries	550,044	477,499	429,932
Social security costs	37,329	30,353	30,691
Welfare	34,914	62,564	56,264
	622,288	**570,416**	**516,886**

All remunerations paid to researchers are expensed when incurred.

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 total cost charged to the consolidated income statements for the financial years ended December 31, 2006, 2005 and 2004 were approximately EUR 101.573, EUR 82.607 and EUR 72.630 respectively, representing contributions payable to the scheme for the respective years.

18. Commitments and Contingencies

Operating lease commitments

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

	2006	2005	2004
	EUR	EUR	EUR
Lease payment recognized as expense	87,201	85,207	75,227

Future minimum lease payments payable under non-cancellable operation leases as at December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	EUR	EUR	EUR
Not later than one year	92,437	86,443	79,450
Later than one year but not later than five years	49,035	142,671	220,722
Later than five years	—	—	—
	141,472	229,114	300,172

Contingent liabilities

At December 31, 2006 and prior years the Group did not have any significant contingent liabilities

19. Related Party Disclosures

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

— it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group or vice versa; or

— it is subject to common control or common significant influence.

a) Related party information

Name of related party	Relationship
Fujian Fengquan Environmental Protection Limited	Common legal representative
Fujian Development Zone Kaijie Environmental Protection Equipment Installation Limited	Common legal representative
Fujian Fengquan Environmental Protection Investment Holding Limited	Common legal representative
Beijing Zhongfukang Environmental Protection Technology Limited	Common Key management
Zhuji Fengquan Lipu Solid Waste Disposal Limited	Common legal representative
Fujian Fengquan Boiler Limited	Common Key management

b) Sales and purchase of goods

The following transactions took place between the Group and related party during the financial years.

	2006	2005	2004
	EUR	EUR	EUR
Related parties			
Sales of finished goods to a related party	2,397,698	2,831,641	178,892
Rental fee paid to a related party	95,606	95,466	83,980

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

c) Due from/to related parties

	2006	2005	2004
	EUR	EUR	EUR
Due from related parties			
trade	1,484,926	646,773	—
non-trade	4,864	5,014,342	3,670,565
	1,489,790	5,661,115	3,670,565
Allowance for doubtful trade debts	(74,246)	(32,339)	—
	1,415,544	5,628,777	3,670,565
Due to related parties			
trade	—	—	321,156
non-trade	5,115,013	6,532	5,479
	5,115,013	6,532	326,636

d) Key management remuneration

	2006	2005	2004
	EUR	EUR	EUR
Key management of the Group	85,311	73,658	59,552
Comprises amount paid to:			
Directors of subsidiary	32,758	28,247	20,504

20. Financial Risks Management Objectives and Policies

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

(a) Credit risk

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

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

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

(b) Interest rate risk

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

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

(c) Foreign currency risk

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

(d) Liquidity risk

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

(e) Fair values

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

21. Events after Balance Sheet Date

There have been no events between December 31, 2006 and May 5, 2007, that would require an adjustment to the carrying amount of the assets and liabilities or that would need to be disclosed on this heading.

Hamburg, May 5, 2007
On behalf of the management
Chen Zefeng, Chairman

Auditors' Report

Auditors' Report

We have audited the accompanying combined consolidated financial statements for ZhongDe Waste Technology AG, Hamburg, comprising the balance sheet as of December 31, 2006, 2005 and 2004, respectively, and the related income statements, statements of changes in equity, cash flow statements respectively, and the notes to the combined consolidated financial statements. The preparation of the combined consolidated financial statements was conducted in accordance with International Financial Reporting Standards as adopted by EU under consideration of the applied scope of consolidated financial statements as described in the notes. The preparation of combined consolidated financial statements is the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit of the combined consolidated financial statements in accordance with the International Standards of Auditing (ISA). 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 financial statements are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the companies 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 books and records as well as the financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 combined consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of the group for each year in compliance with IFRS as adopted by EU under the assumption that the parent company were existent over all reporting periods.

Hamburg, May 29, 2007

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Wirtschaftsprüfungsgesellschaft

sgd.	Dr. Zemke Wirtschaftsprüfer	zu Inn- u. Knyphausen Wirtschaftsprüfer

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim financial statement as of March 31, 2007

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim balance sheet as of March 31, 2007

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim balance sheet as of March 31, 2007

	March 31, 2007	Dec. 31, 2006
	EUR	EUR
ASSETS		
Non-current assets		
Equipment	292,992	306,254
Intangible assets	3,039	3,145
Deferred tax assets	61,567	122,879
	357,599	432,278
Current assets		
Inventories	698,264	770,029
Trade receivables	9,157,905	4,923,209
Other receivables and prepayments	136,448	77,193
Amounts due from related parties	234,127	1,415,544
Cash and cash equivalents	10,102,702	9,198,384
	20,329,446	16,384,359
Total assets	20,687,045	16,816,637
LIABILITIES		
Current liabilities		
Short-term loans	678,124	680,980
Trade payable	529,612	443,566
Other payables and accruals	1,177,326	734,718
Provisions	235,361	209,879
Amounts due to related parties	5,104,417	5,115,013
Income tax payable	72,823	809,823
	7,797,663	7,993,979
Non-current liabilities		
Long-term loan	—	—
	—	—
Total liabilities	7,797,663	7,993,979
CAPITAL AND RESERVES		
Share capital	2,774,525	2,774,525
Statutory reserves	1,765,356	1,765,356
Retained earnings	8,384,469	4,272,133
Foreign exchange reserve	(34,968)	10,644
Total equity	12,889,382	8,822,658
Total liabilities and equity	20,687,045	16,816,637

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim statement of income and expenses for the period from January 1 to March 31, 2007

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim statement of income and expenses for the period from January 1 to March 31, 2007

	1. Quarter 2007	1. - 4. Quarter 2006
	EUR	EUR
Sales	7,358,509	18,994,565
Cost of sales	(2,562,892)	(5,611,216)
Gross Profit	4,795,617	13,383,349
Other operating income	1,446	14
Selling and distribution expenses	(242,438)	(734,766)
Administrative expenses	(289,253)	(377,224)
Research and development expenses	(47,886)	(203,461)
Other operating expense	(84,555)	(165,323)
Profit from operations	4,132,931	11,902,589
Finance income	53,738	16,231
Finance costs	(13,408)	(50,318)
Profit before income tax	4,173,260	11,868,502
Income tax	(60,924)	(3,846,620)
Profit for the 1.quarter/year	4,112,336	8,021,882
Earnings per share	0.4112*	0.8022*

*computed for comparable purposes taking the shares of the parent holding company (10,000,000 shares paid in).

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim statement of cash flow for the period from January 1 to March 31, 2007

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim statement of cash flow for the period from January 1 to March 31, 2007

	1. Quarter 2007	1. - 4. Quarter 2006
	EUR	EUR
Profit before income tax	4,173,260	11,868,502
Adjustments for:		
Amortization of intangible assets	92	380
Allowance for doubtful trade debts	164,072	138,570
Provision for warranty	74,999	162,149
Depreciation of property, plant and equipment	12,003	39,164
Interest income	(53,738)	(16,231)
Interest expense	13,408	50,318
Operating cash flows before working capital changes	4,384,096	12,242,853
Working capital changes:		
(Increase)/decrease in:		
Inventories	71,765	(201,416)
Trade receivables	(4,398,768)	(1,461,674)
Other receivables and prepayments	(59,255)	(38,442)
Amounts due from related parties	1,181,417	(551,047)
Increase/(decrease) in:		
Trade payables	86,046	75,155
Other payables, provisions and accruals	393,091	296,896
Amounts due to related parties	(10,596)	(33,167)
Cash generated from/(used in) operations	1,647,796	10,329,158
Interest received	53,738	16,231
Income tax paid	–737,000.00	(3,972,640)
Net cash generated from operating activities	964,535	6,372,749
Cash flow from investing activities		
Purchase of property, plant and equipment	—	(109,844)
Purchase of intangible assets	—	—
Cash flow used in investing activities	0	(109,844)
Cash flow from financing activities		
Capital injection	—	441
Capital injection (share premium), eliminated due to reverse consolidation	—	4,104,921
Purchase of subsidiary, eliminated due to reverse consolidation	—	(4,104,921)
Increase in short-term bank loans	(2,856)	260,830
Loans from related parties	—	5,141,648
Loans given to related parties	—	4,764,280
Interest paid	(12,696)	(50,318)
Dividends paid to shareholders	—	(6,518,742)
Cash flow from financing activities	(15,552)	3,598,139
Net increase in cash and cash equivalents	948,983	9,861,044
Cash at beginning of year	9,198,384	3,568
Foreign exchange differences	(44,664)	(666,228)
Cash at end of period	10,102,702	9,198,384

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim statement of changes in equity for the period from January 1 to March 31, 2007

ZhongDe Waste Technology AG, Hamburg

Combined consolidated interim statement of changes in equity for the period from January 1 to March 31, 2007

	Share capital Parent	Share capital Subsidiary	Welfare reserves	Statutory reserves	Retained earnings	Foreign exchange difference	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2006	—	2,774,084	323,849	647,696	3,726,563	472,928	7,945,120
Capital injection	441	—	—	—	—	—	441
Dividend paid for the year 2005	—	—	—	—	(3,350,700)[1]	—	(3,350,700)
Transfers	—	—	(323,849)	1,117,660	(793,811)	—	0
Net profit for the financial year	—	—	—	—	8,021,882	—	8,021,882
Advance dividend paid for the year 2006	—	—	—	—	(3,331,801)[2]	—	(3,331,801)
Foreign exchange reserve	—	—	—	—	—	(462,284)	(462,284)
Balance as at 31 December 2006	441	2,774,084	0	1,765,356	4,272,133	10,644	8,822,658
Net profit for the financial year	—	—	—	—	4,112,336	—	4,112,336
Foreign exchange reserve	—	—	—	—	—	(45,612)	(45,612)
Balance as at 31 March 2007	441	2,774,084	0	1,765,356	8,384,469	(34,968)	12,889,382

1 RMB 31,900,000 (translated at 9.5204).

2 RMB 33,350,000 (translated at 10.0096).

ZhongDe Waste Technology AG, Hamburg

Selected notes to the combined consolidated interim financial statements for the period from Januar 1 to March 31, 2007

ZhongDe Waste Technology AG, Hamburg

Selected notes to the combined consolidated interim financial statements for the period from January 1 to March 31, 2007

1. Background and Basis of Preparation

1.1 The Company

ZhongDe Waste Technology AG, Hamburg, (the Company) is a company domiciled in Hamburg, Germany. The Company was incorporated on May 4, 2007, for the purpose of becoming a holding company for the Group, comprising the following entities:

Company	Country of incorporation	Date of incorporation	Business type	Ownership and voting interest
Chung Hua Environmental Protection Assets (Holdings) Group Ltd.	HongKong	February 25, 2004	Holding	100%
Fujian Fengquan Environmental Protection Equipment Co., Ltd.	China (PRC)	September 9, 1996	Manufacturing	100%

The legal and tax restructuring process to form the Group started in mid 2006 and was finalized in May 2007. As consideration for the above subsidiaries, the Company issued 10,000,000 shares with a par value of EUR 1.00 each against the contribution in kind of the subsidiaries by their shareholders effective May 4, 2007.

1.2 Basis of Preparation

The combined consolidated interim financial information for the period from January 1 to March 31, 2007 has been presented as if ZhongDe Waste Technology AG already existed as of January 1, 2004. Doing this the acquisitions of the sub ''Business Combination'' of ZhongDe Waste Technology AG have been accounted for in accordance with the principals of reverse acquisition accounting, in accordance with IFRS 3 ''Business Combination'', on the basis that the former majority shareholders of the subsidiaries retain effective control of the Group. No goodwill arose in respect of the acquisitions.

The combined consolidated interim financial statements for the period ending March 31, 2007 are prepared in accordance with the aforementioned accounting principle as if the restructuring exercises had been completed since January 1, 2004, and the comparative combined consolidated net assets and results represent mainly those of Fujian Fengquan Environmental Protection Equipment Ltd.

The business is more or less totally driven by Fujian Fengquan Environmental Protection Equipment Ltd. whereas ZhongDe Waste Technology AG and Chung Hua Environmental Protection Assets (Holdings) Group Limited have only holding functions.

The present separate financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and/or International Accounting Standards (IAS) for interim financial reporting as adopted by the International Standards Board (IASB) and by the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) under consideration of aforementioned scope of consolidated financial statements.

2. Significant accounting policies

The accounting policies applied by the Group in the combined consolidated interim financial statements are the same as those applied by ZhongDe Waste Technology AG in its combined consolidated financial statements for the years ending December 31, 2006, 2005 and 2004. For

further details reference is made to those combined consolidated financial statements, each of them comprising the balance sheet, the statement of income and expense, the statement of cash flow, the statement of change in equity and the notes to the financial statements.

3. Segment Analysis

Segment Information

a) Business segment

The Group's operating businesses are organized into two business segments, namely incinerator special for disposal of urban municipal waste and incinerator special for disposal of medical waste.

b) Geographical business

The Group is principally engaged in design and manufacture of various incinerators in People's Republic of China (''PRC'') and all of its customers are based in the PRC. In addition, all identifiable assets of the Group are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Operating expenses and income are allocated to the segments on a reasonable basis.

Segment assets, liabilities and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the items which can not be allocated reasonably.

Inter-segment sales are eliminated on consolidation.

The following table presents revenue and results information regarding the Group's business segments for the first quarter 2007 and for the financial year ended December 31, 2006.

Business segment

	1. Quarter 2007	1. - 4. Quarter 2006
	EUR	EUR
Revenue:		
Sales to external customers		
Incinerator special for disposal of medical waste	3,863,703	15,542,879
Incinerator special for disposal of urban household waste	3,494,806	3,451,686
	7,358,509	18,994,565
Results:		
Incinerator special for disposal of medical waste	2,967,382	11,359,868
Incinerator special for disposal of urban household waste	1,828,235	2,151,486
Unallocated expenses	(622,357)	(1,642,853)
Profit from operations before tax	4,173,260	11,868,502
Income tax	(60,924)	(3,846,620)
Profit for the year	4,112,336	8,021,882

The following table presents certain assets, liabilities and other information regarding the Group's segments for the first quarter 2007 and for the year ended December 31, 2006.

	March 31, 2007	December 31, 2006
	EUR	EUR
Assets and liabilities:		
Segment assets		
Incinerator special for disposal of medical waste	4,351,765	2,269,644
Incinerator special for disposal of urban household waste	5,738,532	5,185,074
Unallocated assets	10,596,749	9,361,919
Total assets	20,687,045	16,816,637
Segment liabilities		
Incinerator special for disposal of medical waste	607,329	418,173
Incinerator special for disposal of urban household waste	458,425	43,569
Unallocated liabilities	6,731,910	7,532,237
Total liabilities	7,797,663	7,993,979
Other segment information		
Unallocated capital expenditure on property, plant and equipment and intangible assets	0	106,962
Unallocated depreciation and amortization	12,070	38,507

4. Functional and Presentation Currency

	1. quarter 2007	1. - 4 quarter 2006
Quarter end/year end	10.3226	10.2793
Average	10.3010	10.0096

5. Income tax

The Group does not reflect any actual income tax in the first quarter 2007 because of its status as a ''Foreign owned Entity'' that leads to tax free income for two years. The income taxes reflected in the combined consolidated statement of income and expense reflect deferred taxes.

6. Events after Balance Sheet Date

There have been no events between March 31 and May 5, 2007, that would require an adjustment to the carrying amount of the assets and liabilities or that would need to be disclosed on this heading.

Hamburg, May 5, 2007
On behalf of the management
Chen Zefeng, Chairman

Auditors' Review Report

Auditors' Review Report

We have reviewed the accompanying combined consolidated interim balance sheet for ZhongDe Waste Technologie AG, Hamburg, as of March 31, 2007 and the related statement of income, changes in equity and cash flow for the three-months period then ended, and a summary of selected notes to the combined interim financial statements. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards under consideration of the applied scope of consolidated financial statements as disclosed in the selected notes. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with International Standards of Review Engagements 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity''. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying combined consolidated interim financial information does not give a true and fair view of the financial position of the entity as of March 31, 2007, and of its financial performance and its cash flow for the three-months period then ended in accordance with IFRS under the assumption that the parent company were existent over all reporting periods.

Hamburg, May 29, 2007

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Wirtschaftsprüfungsgesellschaft

(Dr. Zemke)
Wirtschaftsprüfer

(zu Inn- u. Knyphausen)
Wirtschaftsprüfer

ZhongDe Waste Technology AG, Hamburg

Financial statement (opening balance) as of May 4, 2007 (after contribution in kind of Chung Hua Environmental Protection Assets (Holdings) Group Limited, HongKong)

ZhongDe Waste Technology AG, Hamburg

Opening balance as of May 4, 2007

	May 4, 2007 EUR
ASSETS	
Non-current assets	
Investment in subsidiary	10,000,000
Total assets	10,000,000
CAPITAL	
Share capital	10,000,000
Total equity	10,000,000

Auditors' Report

Auditors' report

We have audited the financial statement (opening balance sheet) after contribution in kind of Chung Hua Enviromental Protection Assets (Holdings) Group Limited, HongKong, as of May 4, 2007. The maintenance of the books and records and the preparation of the financial statements (opening balance sheet) in accordance with International Financial Reporting Standards as they have to be applied in the European Union (EU) are the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the opening balance sheet based on our audit.

We conducted our audit in accordance with sect. 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW, German Instituts of Auditors), as well as in accordance with the International Standards of Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets in accordance with International Financial Reporting Standards as they have to be applied in the European Union (EU) are detected with reasonable assurance. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

Hamburg, May 29, 2007

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Wirtschaftsprüfungsgesellschaft

sgd.	Dr. Zemke Wirtschaftsprüfer	zu Inn- u. Knyphausen Wirtschaftsprüfer

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Financial statements for the years ending December 31, 2006, 2005 and 2004

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Balance sheets
for the years ending December 31, 2006, 2005 and 2004

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Balance sheets for the years ending December 31, 2006, 2005 and 2004

	Notes	2006	2005	2004
		EUR	EUR	EUR
ASSETS				
Non-current assets				
Equipment	7	306,254	256,356	240,878
Intangible assets	8	3,145	3,795	—
Deferred tax assets	14	122,879	78,090	37,337
		432,278	338,241	278,215
Current assets				
Inventories	9	770,029	568,613	900,166
Trade receivables	10	4,923,209	3,600,105	1,547,338
Other receivables and prepayments	10	52,708	38,750	30,734
Amounts due from related parties	10, 19	1,415,174	5,628,777	3,670,565
Cash and cash equivalents	11	9,112,945	3,568	26,191
		16,274,065	9,839,813	6,174,994
Total assets		16,706,343	10,178,054	6,453,209
LIABILITIES				
Current liabilities				
Short-term loans	12	680,980	420,150	798,290
Trade payable	13	443,566	368,411	243,425
Other payables and accruals	13	626,451	458,387	733,310
Provisions	13	209,879	27,165	25,949
Amounts due to related parties	13, 19	5,115,013	6,532	326,636
Income tax payable	13	809,823	952,289	266,311
		7,885,712	2,232,934	2,393,921
Non-current liabilities				
Long-term loan		—	—	—
		—	—	—
Total liabilities		7,885,712	2,232,934	2,393,921
CAPITAL AND RESERVES				
Share capital	1	2,774,084	2,774,084	2,774,084
Statutory reserves	15	1,765,356	971,545	237,921
Retained earnings	15	4,270,515	3,726,563	1,393,823
Foreign exchange difference		10,676	472,928	(346,540)
Total equity		8,820,631	7,945,120	4,059,288
Total liabilities and equity		16,706,343	10,178,054	6,453,209

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Statement of Income and Expenses for the years ending December 31, 2006, 2005 and 2004

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Statement of Income and Expenses for the years ending December 31, 2006, 2005 and 2004

	Notes	2006	2005	2004
		EUR	EUR	EUR
Sales	3	18,994,565	11,397,636	6,162,023
Cost of sales		(5,611,216)	(3,508,227)	(2,270,979)
Gross Profit		13,383,349	7,889,409	3,891,044
Other operating income	3	14	—	—
Selling and distribution expenses		(734,766)	(419,639)	(353,312)
Administrative expenses		(377,224)	(366,744)	(264,468)
Research and development expenses		(203,461)	(180,859)	(176,513)
Other operating expense		(165,323)	(141,586)	(47,315)
Profit from operations		11,902,589	6,780,581	3,049,436
Finance income	3	14,569	10,113	7,300
Finance costs	3	(50,318)	(58,060)	(56,350)
Profit before income tax		11,866,840	6,732,634	3,000,386
Income tax	14	(3,846,620)	(2,380,136)	(1,134,883)
Profit for the year		8,020,220	4,352,498	1,865,503
Earnings per share		0.277*	0.150*	0.064*

* Computed for comparable purposes taking the shares of the Company (29,000,000 shares paid in).

Fujian Fengquan Environmental Protection Equipment Co., Ltd.,
Fuzhou, China (PRC)

Statement of Cash flow
or the years ending December 31, 2006, 2005 and 2004

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Statement of Cash flow for the years ending December 31, 2006, 2005 and 2004

	2006	2005	2004
	EUR	EUR	EUR
Profit before income tax	11,866,840	6,732,634	3,000,386
Adjustments for:			
Amortization of intangible assets	380	142	—
Allowance for doubtful trade debts	138,570	121,221	29,170
Provision for warranty	162,149	(25,366)	28,413
Depreciation of property, plant and equipment	39,164	37,473	35,078
Interest income	(14,569)	(10,113)	(7,300)
Interest expense	50,318	58,061	56,351
Operating cash flows before working capital changes	12,242,852	6,914,050	3,142,098
Working capital changes:			
(Increase)/decrease in:			
Inventories	(201,416)	331,553	(567,125)
Trade receivables	(1,461,674)	(2,173,988)	(463,681)
Other receivables and prepayments	(13,959)	(8,016)	8,751
Amounts due from related parties	(550,677)	(1,334,777)	—
Increase/(decrease) in:			
Trade payables	75,155	124,986	124,241
Other payables, provisions and accruals	188,629	(248,341)	276,906
Amounts due to related parties	(33,167)	(320,103)	357,641
Cash generated from/(used in) operations	10,245,743	3,285,364	2,878,831
Interest received	14,569	10,113	7,300
Income tax paid	(3,972,640)	(1,817,018)	(1,024,471)
Net cash generated from operating activities	6,287,673	1,478,459	1,861,660
Cash flow from investing activities			
Purchase of property, plant and equipment	(109,844)	(10,494)	(7,674)
Purchase of intangible assets	—	(3,685)	—
Cash flow used in investing activities	(109,844)	(14,179)	(7,674)
Cash flow from financing activities			
Capital injection	—	—	971,185
Increase in short-term bank loans	260,830	(378,139)	(339,915)
Loans from related parties	5,141,648	—	—
Loans given to related parties	4,764,280	(623,435)	(2,662,406)
Interest paid	(50,318)	(58,061)	(56,351)
Dividends paid to shareholders	(6,518,742)	(1,422,196)	—
Cash flow from financing activities	3,597,698	(2,481,831)	(2,087,487)
Net increase in cash and cash equivalents	9,775,527	(1,017,551)	(233,501)
Cash at beginning of year	3,568	26,192	258,953
Foreign exchange differences	(666,150)	994,926	740
Cash at end of year	9,112,945	3,568	26,192

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Statement of changes in equity for the years ending December 31, 2006, 2005 and 2004

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Statement of changes in equity for the years ending December 31, 2006, 2005 and 2004

	Share capital	Welfare reserves	Statutory reserves	Retained earnings	Foreign exchange difference	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2004	1,817,504	—	—	(233,759)	—	1,583,744
Capital injection	956,581	—	—	—	—	956,581
Net profit for the financial year	—	—	—	1,865,503	—	1,865,503
Transfers	—	79,307	158,614	(237,921)	—	0
Foreign exchange difference	—	—	—	—	(346,540)	(346,540)
Balance as at 31 December 2004	2,774,084	79,307	158,614	1,393,823	(346,540)	4,059,288
Net profit for the financial year	—	—	—	4,352,498	—	4,352,498
Transfers	—	244,542	489,082	(733,624)	—	—
Dividend paid to shareholders	—	—	—	(1,286,134)	—	(1,286,134)
Foreign exchange difference	—	—	—	—	819,468	819,468
Balance as at 31 December 2005	2,774,084	323,849	647,696	3,726,563	472,928	7,945,120
Dividend paid for the year 2005	—	—	—	(3,350,700)[1]	—	(3,350,700)
Transfers	—	(323,849)	1,117,660	(793,811)	—	0
Net profit for the financial year	—	—	—	8,020,220	—	8,020,220
Advance dividend paid for the year 2006	—	—	—	(3,331,801)[2]	—	(3,331,801)
Foreign exchange difference	—	—	—	44	(462,252)	(462,208)
Balance as at 31 December 2006	2,774,084	0	1,765,356	4,270,515	10,676	8,820,631

1 RMB 31,900,000 (translated at 9.5204).

2 RMB 33,350,000 (translated at 10.0096).

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Notes to the financial statements for the years ending December 31, 2006, 2005 and 2004

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Notes to the financial statements for the years ending December 31, 2006, 2005 and 2004

1. Background and Basis of Preparation

The share capital of Fujian Fengquan Environmental Protection Equipment Co., Ltd. amounts to RMB 29,000,000 (= EUR 2,774,084).

The financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and/or International Accounting Standards (IAS) as adopted by the International Standards Board (IASB) and by the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

IFRS 1, First-time adoption of International Financial Reporting Standards, is used in preparing separate financial statements for the first time. The statutory financial statements are prepared in accordance with their respective generally accepted accounting practices. The financial information is based on these statutory records, with adjustments and reclassifications recorded for the purpose of the fair presentation in accordance with IFRS.

The main adjustments on local commercial books related to warranty reserves and allowance for doubtful accounts and the relating deferred taxes thereon. The effect was immaterial.

The standards, as revised in connection with the IASB Improvement Project, were published by IASB in December 2003, and their application is binding for financial years starting on or after January 1, 2005. Earlier adoption is recommended. In line with IFRS 1, the current standards and interpretations are applied with retroactive effect. The following standards relevant to the Company are already applied in their revised version as of the 2004 financial year:

IAS 1 Presentation of financial statements
IAS 2 Inventories
IAS 8 Accounting policies: changes in accounting estimates and errors
IAS 10 Events after the balance sheet date
IAS 16 Property, plant and equipment
IAS 17 Leases
IAS 21 The effects of changes in foreign exchange rates
IAS 24 Related party disclosures

Moreover, the new revised standards published by the IASB in 2004 — IAS 32, Financial Instruments: Disclosure and Presentation, IAS 36, Impairment of assets, IAS 38, Intangible assets, and IAS 39, Financial Instruments: Recognition and Measurement — were applied as of the 2004 financial year.

2. Significant Accounting Policies

2.1 Significant Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in the process of applying the Company's policy and 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 financial statements and the reported amount of revenue and expenses during the reporting period.

The following estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are disclosed below:

a) Allowance for trade receivables

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

Management uses judgement to determine the allowance for doubtful receivables which are supported by historical write-off credit history of the customers and repayment records. The Company reviews its allowance for doubtful receivables monthly or more frequently. Accounts balances are charged off 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.

b) Depreciation of equipment

The cost of equipment used for the manufacture process is depreciated on a straight line basis over its estimated useful life. The management estimates the useful life of these plant and equipment to be within 5 to 10 years. These are common life expectancies applied in machine manufacturing industry. The carrying amount of the Company's equipment at December 31, 2006, 2005 and 2004 were TEUR 306, TEUR 256 and TEUR 241. Changes in the expected level of usage and technological developments could impact the economic useful life and the residual value of these assets, therefore, future depreciation charge could be revised.

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

c) Provision for warranty

Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based an the one-year warranty period for all product sold. It is expected most of these costs will be incurred after one year from the balance sheet date.

2.2 Functional and Presentation Currency

a) Functional currency

The directors have determined the currency of the primary economic environment in which the Company operates, to be Renminbi (''RMB''). Sales and major costs of the providing goods and services including major operating expenses are primarily influenced by fluctuations in RMB.

b) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the entity and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values are determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognized in the income statement.

c) Foreign currency translation

The presentation currency is EUR. The results and financial position of the Company which are in measurement currency other than EUR are translated from RMB into EUR as follows:

	2006	2005	2004	2003
year end	10,2793	9,5204	11,2741	10,4539
average	10,0096	10,1955	10,2967	

The results and financial position of foreign operations are translated using the following procedures:

Assets and liabilities for each balance sheet are presented at the closing rate ruling at the balance sheet date and income and expenses for income statements are translated at average exchange rates for the year, which approximates to the exchange rates at the date of transactions.

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

2.3 Equipment

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

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

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

Machinery equipment	— 10 years
Electronic equipment, furniture and fixtures	— 5 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 on 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 recognized in profit or loss.

2.4 Intangible Assets

a) Financial Software

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

Financial software is stated at cost less accumulated amortization and any impairment losses. The costs are amortized using a straight line method over its estimated useful life of 10 years.

b) Research and Development Costs

Research costs, if any, are expensed in the period in which it is incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the

Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell of the asset, how the asset will generate future economic benefits, the ability of resources to complete and the ability to measure reliably the expenditure during the development.

The carrying amount of the development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arising during the reporting period. Upon completion, the development costs are amortized over the estimated useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

2.5 Impairment of Non-financial Assets

The Company assesses at each reporting date 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 Company 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 recognized impairment losses recognized for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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 recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount can not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Reverse of an impairment loss is recognized in the income statement. After such a reversal, the depreciation charge is adjusted for future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic base over its remaining useful life.

2.6 Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, bank deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant rise of changes in value.

2.7 Trade and Other Receivables

Trade and other receivables are recognized and carried at original amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made as following: the basis to charge allowance is its outstanding balance by deducting any subsequently collections from its book balance, the principal of the doubtful debt is 5% for debts aging less than one year, 50% for debts aging between one year and three years, 100% for debts aging more than three years. If there is no significant indication for an insolvency of debtors, the outstanding balances due from related parties non trade are not subject to allowance.

Bad debts are written off when identified.

2.8 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing the inventories to their present location and condition is accounted for as follows:

Raw materials: Purchase cost on a weighted average basis

Finished goods and work-in-process: Costs of direct materials and labor and a proportion of manufacture overheads based on normal operating capacity but excluding borrowing costs.

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

2.9 Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into. Significant financial liabilities include interest-bearing short-term bank loans, trade and other payables.

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and service received. Gains and losses are recognized in the income statement when the payment of the liabilities is identified to be needless.

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

2.10 Provisions

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

2.11 Operating Lease

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

2.12 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

a) Sales of goods

Revenue is recognized upon the transfer of significant risk and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognized to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) Rendering service

Revenue from rendering service is recognized when the services are rendered and relative revenue can be measured reliably.

c) Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

2.13 Employee Benefits

The Company participates in national pension schemes as defined by the laws of the country in which it has operations. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

2.14 Interest Bearing Loans

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

2.15 Derecognition of Financial Assets and Liabilities

a) Financial assets, if any

A financial asset is derecognized where:

The contractual rights to receive cash flows from the assets have expired;

The Company retains the contractual rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

b) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2.16 Taxation

Income tax for the financial year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that is relates to items recognized directly in equity, in which case such tax is recognized directly in equity.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities, if any, are recognized for taxable temporary differences, except:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, where the timing of the reverse of the temporary difference can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carried-forward unused tax credits and unused tax losses can be utilized except:

— Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— In respect of deductible temporary differences associated with investment in subsidiaries, associated companies and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities, if any, are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities, if any, are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority.

The carrying amount of deferred income tax assets is revised at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

3. Revenue

Sale of goods represents the invoiced amount of delivered goods net of discounts, returns and valued added tax.

4. Segment Analysis

Segment Information

The primary segment reporting format is determined to be business segment as the Company's risks and rates of return are affected predominantly by differences in the products. The operating business is reported separately according to the nature of the products, with each representing a strategic business unit that offers different products.

a) Business segment

The Company's operating businesses are organized into two business segments, namely incinerator special for disposal of urban municipal waste and incinerator special for disposal of medical waste.

b) Geographical business

The Company is principally engaged in design and manufacture of various incinerators in People's Republic of China (''PRC'') and all of its customers are based in PRC. In addition, all identifiable assets of the Company are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Operating expenses and income are allocated to the segments on a reasonable basis.

Segment assets, liabilities and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the items which can not be allocated reasonably.

Inter-segment sales are eliminated on consolidation.

The following table presents revenue and results information regarding the Company's business segments for the financial years end December 31, 2006, 2005 and 2004:

Business segment

	2006	2005	2004
	EUR	EUR	EUR
Revenue:			
Sales to external customers			
Incinerator special for disposal of medical waste	15,542,879	10,352,077	1,812,911
Incinerator special for disposal of urban household waste	3,451,686	1,045,559	4,349,112
	18,994,565	11,397,636	6,162,023
Results:			
Incinerator special for disposal of medical waste	11,359,868	7,366,304	1,145,685
Incinerator special for disposal of urban household waste	2,151,486	598,330	2,786,028
Unallocated expenses	(1,644,514)	(1,232,000)	(931,327)
Profit from operations before tax	11,866,840	6,732,634	3,000,386
Income tax	(3,846,620)	(2,380,136)	(1,134,883)
Profit for the year	8,020,220	4,352,498	1,865,503

The following table presents certain assets, liabilities and other information regarding the Company's segments for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
	EUR	EUR	EUR
Assets and liabilities:			
Segment assets			
Incinerator special for disposal of medical waste	2,269,644	140,501	1,321,391
Incinerator special for disposal of urban household waste	5,185,074	4,875,724	1,213,306
Unallocated assets	9,251,625	5,161,829	3,918,511
Total assets	16,706,343	10,178,054	6,453,209
Segment liabilities			
Incinerator special for disposal of medical waste	418,173	528,223	724,738
Incinerator special for disposal of urban household waste	43,569	1,371	393,681
Unallocated liabilities	7,423,970	1,703,340	1,275,503
Total liabilities	7,885,712	2,232,934	2,393,921
Other segment information			
Unallocated capital expenditure on property, plant and equipment and intangible assets	106,962	15,185	7,673
Unallocated depreciation and amortization	38,507	40,282	3,210

5. Profit from Operations

	2006	2005	2004
	EUR	EUR	EUR
Depreciation of property, plant and equipment	39,164	37,473	35,078
Staff costs	622,288	570,416	516,886
Renumeration of auditors			
Audit services	500	305	469
Non-audit services	20,380	20,009	17,676
Amortization of intangible assets	380	142	—
Allowance for doubtful trade debts	138,570	121,221	29,171
Research and development costs	203,461	180,859	176,513

6. Finance Costs

	2006	2005	2004
	EUR	EUR	EUR
Interest expense on bank loan	50,228	57,949	56,298
Bank charges	91	111	52
	50,318	58,060	56,350

7. Equipment

	Machine equipment	Electronic equipment	Total
	EUR	EUR	EUR
Cost:			
At 1 January 2004	284,154	25,700	309,854
Additions	410	7,264	7,674
Disposals	—	—	—
At 31 December 2004	284,564	32,964	317,528
Additions	—	10,494	10,494
Disposals	—	—	—
Exchange difference	52,418	6,816	59,234
At 31 December 2005	336,982	50,274	387,256
Additions	108,596	1,248	109,844
Disposals	—	—	—
Exchange difference	(27,729)	(3,744)	(31,473)
At 31 December 2006	417,849	47,778	465,627
Accumulated depreciation and impairment:			
At 1 January 2004	39,061	5,552	44,613
Depreciation charged for the year	29,023	6,055	35,078
Disposals	—	—	—
Exchange difference	(2,001)	(1,041)	(3,042)
At 31 December 2004	66,083	10,566	76,649
Depreciation charged for the year	30,028	7,445	37,473
Disposals	—	—	—
Exchange difference	14,151	2,626	16,777
At 31 December 2005	110,263	20,637	130,899
Depreciation charged for the year	31,028	8,135	39,164
Disposals	—	—	—
Exchange difference	(9,524)	(1,166)	(10,689)
At 31 December 2006	131,767	27,606	159,374
Net carrying amount:			
At 31 December 2004	218,481	22,398	240,878
At 31 December 2005	226,719	29,637	256,356
At 31 December 2006	286,082	20,172	306,254

The plant and office buildings the Group uses now are leased from Fujian Fengquan Environmental Protection Group Co., Ltd. Details are set out in Notes 18 and 19.

8. Intangible Assets

	Software
	EUR
Cost:	
At 1 January 2004	—
Additions	—
At 31 December 2004	—
Additions	3,947
At 31 December 2005	3,947
Additions	—
At 31 December 2006	3,947
Accumulated amortization and impairment:	
At 1 January 2004	—
Amortization	—
At 31 December 2004	—
Amortization	142
Exchange difference	10
At 31 December 2005	152
Amortization	380
Exchange difference	270
At 31 December 2006	802
Net carrying amount:	
At 31 December 2004	—
At 31 December 2005	3,795
At 31 December 2006	3,145

Significant intangible assets used by the Company but not recognized as assets:

All intellectual properties which are necessary for the production are owned by Chen Zefeng. Pursuant to the agreement dated on July 25, 2006, these intellectual properties have been licensed exclusively to Fujian Fengquan Environmental Protection Equipment Co., Ltd. for its development and manufacture activities.

The brand is beneficially owned by Fujian Fengquan Environmental Protection Group Co., Ltd. Pursuant to the agreement dated on July 25, 2006, the brand is granted for use to Fujian Fengquan Environmental Protection Equipment Co., Ltd. on an irrevocable and exclusive basis. The license agreement is valid and subsisting within its legal protection period and free of any charge.

9. Inventory

	2006	2005	2004
	EUR	EUR	EUR
Raw materials and consumables	172,225	275,458	141,015
Finished goods	519,420	293,155	673,541
Work in process	78,384	—	85,609
	770,029	568,613	900,166

10. Trade and Other Receivables

	2006	2005	2004
	EUR	EUR	EUR
Trade receivables:			
Trade receivables	5,199,763	3,800,839	1,634,532
Allowance for trade receivables	(276,554)	(200,734)	(87,194)
	4,923,209	3,600,105	1,547,338
Other receivables:			
Other receivables	28,223	36,702	30,734
Prepayments	24,485	2,048	—
	52,708	38,750	30,734
Allowance for other receivables	—	—	—
	52,708	38,750	30,734
Related parties:			
Amount due from related parties-trade	1,484,926	646,773	—
Amount due from related parties-non-trade	4,494	5,014,342	3,670,565
Allowance for amount due from related parties	(74,246)	(32,339)	—
	1,415,174	5,628,777	3,670,565

Trade receivables

All trade receivables are non-interest bearing. They are recognized at their original invoice amounts which represents their fair values on initial recognition. The aging is as follows:

	2006	2005	2004
	EUR	EUR	EUR
Within 30 days	2,426,767	1,268,161	220,573
31-90 days	2,241,723	1,576,973	623,733
91-180 days	1,397,070	1,063,652	569,464
181-360 days	597,124	515,066	208,612
361-1080 days	22,005	23,759	12,150
	6,684,689	4,447,612	1,634,532

Prepayments

The prepayments are mainly relating to the capitalization of IPO and related expenses.

Related parties receivables

Amounts due from related parties are non-interest bearing loans and are repayable on demand. All related parties receivables are unsecured and are to be settled in cash. There is no allowance for doubtful debts arising from the non-trade outstanding balance.

Allowance for doubtful receivables

For each financial period, the following amounts of impairment loss are recognized in the income statement.

	2006	2005	2004
	EUR	EUR	EUR
Provision for trade receivables	134,935	129,817	26,642
Provision for other receivables	—	—	—
	134,935	129,817	26,642

11. Cash and Cash Equivalent

	2006	2005	2004
	EUR	EUR	EUR
Cash at banks and in hand	4,735,215	3,568	26,191
Short term deposit	4,377,730	—	—
	9,112,945	3,568	26,191

Cash at banks earns interest at an annual rate of 0.72%. The short term deposit is made for varying period between one day and six months depending on the immediate cash requirements of the Company, and earns interest at a 2.25% annual rate.

12. Interest Bearing Loans and Borrowings

	2006	2005	2004
	EUR	EUR	EUR
Current bank loan			
—#1[(a)]	—	—	443,494
—#2[(b)]	—	—	177,398
—#3[(c)]	—	—	177,398
—#4[(d)]	—	420,150	—
—#5[(e)]	291,849	—	—
—#6[(f)]	389,132	—	—
	680,980	420,150	798,290

(a) The one-year bank loan facility #1 was fully repaid on October 23, 2005. Interest was charged at 7.254% per annum. The bank loan was secured by third party.

(b) The one-year bank loan facility #2 was fully repaid on June 23, 2005. Interest was charged at 6.903% per annum. The bank loan was unsecured.

(c) The one-year bank loan facility #3 was fully repaid on July 13, 2005. Interest was charged at 6.903% per annum. The bank loan was unsecured.

(d) The one-year bank loan facility #4 was fully repaid on June 28, 2006. Interest was charged at 7.254% per annum. The bank loan was unsecured.

(e) The one-year bank loan facility #5 is required to be repaid on November 20, 2007. Interest is charged at 7.254% per annum. The bank loan was secured by third party.

(f) The one-year bank loan facility #6 is required to be repaid on June 28, 2007. Interest is charged at 7.605% per annum. The bank loan was unsecured.

13. Trade and Other Payable

	2006	2005	2004
	EUR	EUR	EUR
Current liabilities			
Advance from customers	14,550	154,651	869,514
Accrued expenses and provisions	349,005	3,564	25,949
VAT payable	148,434	89,366	12,485
Other tax payables	2,186	10,376	1,411
Other payables	5,437,168	234,127	176,536
	5,951,343	492,084	1,085,895
Trade payables	443,566	368,411	243,425
Income tax payable	809,823	952,289	266,311
	7,204,732	1,812,784	1,595,631

All trade payables are non-interest bearing. The fair value of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheet to be reasonable approximation of their fair value.

The amount due to related parties is non-trade (thereof December 31, 2006 loan of EUR 5,115,013), unsecured and interest free. It is repayable on demand.

Provisions

	Maintenance/ warranties	Staff bonus and welfare	Total
	EUR	EUR	EUR
At January 1, 2004			
Additions	98,211	—	98,211
Utilised	(72,262)	—	(72,262)
At December 31, 2004	25,949	—	25,949
Additions	89,103	—	89,103
Utilised	(87,887)	—	(87,887)
At December 31, 2005	27,165	—	27,165
Additions	240,451	51,984	292,435
Utilised	(109,721)	—	(109,721)
At December 31, 2006	157,895	51,984	209,879

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

Staff bonus and welfare fund: In 2006, the subsidiary company converted to be a Foreign Investment Company. Pursuant to the Foreign Investment Company Laws of PRC and Decisions of the Board of Directors of the subsidiary company, 1% of the profit after tax was accrued as staff bonus and welfare fund. The fund can only be used for staff public welfare.

14. Income Tax

Major components of income tax expense

The major components of income tax expense are as follows:

	2006	2005	2004
	EUR	EUR	EUR
Current income tax	3,898,536	2,411,768	1,153,885
Deferred income tax:			
Deferred income tax induced by time difference	(72,173)	(31,632)	(19,002)
Deferred income tax induced by tax rate reduction	20,257	—	—
Income tax recognised in profit and loss	3,846,620	2,380,136	1,134,883

Relationship between tax expense and accounting profit:

A reconciliation between tax expense and the product of accounting (loss)/profit multiplied by the applicable corporate tax rate is as follows:

	2006	2005	2004
	EUR	EUR	EUR
Accounting (loss)/profit before income tax	11,866,840	6,732,634	3,000,386
Tax at respective company's domestic income tax rate	3,667,903	2,221,770	1,002,103
Effect of reduction in tax rate	20,257	—	—
Taxes on non-deductible expenses	158,460	158,366	132,780
Income tax expense recognised in profit and loss	3,846,620	2,380,136	1,134,883

Deferred tax assets

Deferred income tax relates to the following:

	2006	2005	2004
	EUR	EUR	EUR
Allowance for bad and doubtful debts	84,192	76,914	28,774
Provision for warranty	38,687	1,176.21	8,563.26
	122,879	78,090	37,337

Applicable tax rate

In accordance with the Income Tax Law of the People's Republic of China for Enterprises with foreign Investment and foreign Enterprises, the Company is entitled to full exemption from Enterprise Income tax for the first two years and a 50% reduction for the next three years, commencing from the first profit-making year after offsetting all tax losses carried forward from the previous five years.

Pursuant to the aforementioned tax laws, the tax payer can choose whether to enjoy the tax exemption when its operating period as a foreign enterprise is less than half a year. The Company obtained its foreign investment enterprise license in August 2006. Accordingly, the Company choose the next year to be the first profit-making year.

15. Reserves

According to the Company Law of PRC, the companies operating in China should provide the following statutory reserves which are appropriated from the net profit as reported statutory financial statements:

a) Statutory common reserve fund

A company (not yet recognized as a foreign owned company) is required each year to transfer 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common reserve fund, except where the fund has reached 50% of the company's registered capital. This fund can be used to make up for any losses incurred or be converted into paid-up capital, provided that the fund does not fall below 25% of the registered capital. The additions are put down in the statements of change in equity and are based upon the local financial statements in China (PRC). In 2006 the relating contributions relate to the first half year in which the company was not yet recognized as a foreign owned company.

b) Statutory common welfare fund

A company (not yet recognized as a foreign owned company) was required each year to transfer 5% to 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common welfare fund. This fund was used to the collective welfare of the staff and workers of the company. The common welfare fund was not available for the distribution to the owners (exception on liquidation). The relating former welfare reserve has now be allocated to the retained earnings. As a foreign owned company the contributions to the welfare fund are now voluntarily and are based upon management's decision. Accordingly further contributions, if any, have to be regarded as provisions.

c) Retained earnings

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

16. Employees Benefits

	2006	2005	2004
Average number of employees of the Company			
Management and administration	29	38	37
Research and development	19	19	21
Manufacture	85	82	84
Sales	39	51	45
	172	**190**	**187**

	2006	2005	2004
	EUR	EUR	EUR
The average payroll costs of these employees are as follows:			
Wages and salaries	550,044	477,499	429,932
Social security costs	37,329	30,353	30,691
Welfare	34,914	62,564	56,264
	622,288	**570,416**	**516,886**

All remunerations paid to researchers are expensed when incurred.

Retirement Benefit Plans

The eligible employees, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Company 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 Company with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the income statements for the financial years ended December 31, 2006, 2005 and 2004 were approximately EUR 101.573, EUR 82.607 and EUR 72.630 respectively, representing contributions payable to the scheme for the respective years.

18. Commitments and Contingencies

Operating lease commitments

The Company 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 Company by entering into these leases. The operating lease payment recognized as expense in the income statement in every financial year is as follows:

	2006	2005	2004
	EUR	EUR	EUR
Lease payment recognized as expense	87,201	85,207	75,227

Future minimum lease payments payable under non-cancellable operation leases as at December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
	EUR	EUR	EUR
Not later than one year	92,437	86,443	79,450
Later than one year but not later than five years	49,035	142,671	220,722
Later than five years	—	—	—
	141,472	229,114	300,172

Contingent liabilities

At December 31, 2006 and prior years the Company did not have any significant contingent liabilities.

19. Related Party Disclosures

An entity or individual is considered a related party of the Company 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 Company or vice versa; or

— it is subject to common control or common significant influence.

a) Related party information

Name of related party	Relationship
Fujian Fengquan Environmental Protection Limited	Common legal representative
Fujian Development Zone Kaijie Environmental Protection Equipment Installation Limited	Common legal representative
Fujian Fengquan Environmental Protection Investment Holding Limited	Common legal representative
Beijing Zhongfukang Environmental Protection Technology Limited	Common Key management
Zhuji Fengquan Lipu Solid Waste Disposal Limited	Common legal representative
Fujian Fengquan Boiler Limited	Common Key management

b) Sales and purchase of goods

The following transactions took place between the Company and related party during the financial years.

	2006	2005	2004
	EUR	EUR	EUR
Related parties			
Sales of finished goods to a related party	2,397,698	2,831,641	178,892
Rental fee paid to a related party	95,606	95,466	83,980

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

c) Due from/to related parties

	2006	2005	2004
	EUR	EUR	EUR
Due from related parties			
trade	1,484,926	646,773	—
non-trade	4,494	5,014,342	3,670,565
	1,489,420	5,661,115	3,670,565
Allowance for doubtful trade debts	(74,246)	(32,339)	—
	1,415,174	5,628,777	3,670,565
Due to related parties			
trade	—	—	321,156
non-trade	5,115,013	6,532	5,479
	5,115,013	6,532	326,636

d) Key management remuneration

	2006	2005	2004
	EUR	EUR	EUR
Key management of the Company	85,311	73,658	59,552
Comprises amount paid to:			
Directors of the Company	32,758	28,247	20,504

20. Financial Risks Management Objectives and Policies

The Company is exposed to interest rate and other market risks arising in the normal course of business. The Company 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.

(f) Credit risk

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

The Company'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 balance sheet 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 Company's maximum exposure to credit risk.

(g) Interest rate risk

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

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

(h) Foreign currency risk

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

(i) Liquidity risk

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

(j) Fair values

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

21. Events after Balance Sheet Date

There have been no events between December 31, 2006 and May 5, 2007, that would require an adjustment to the carrying amount of the assets and liabilities or that would need to be disclosed on this heading.

Hamburg, May 5, 2007
On behalf of the management
Chen Zefeng, Chairman

Auditors' Report

Auditors' Report

We have audited the accompanying financial statements of Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC), comprising the balance sheet as of December 31, 2006, 2005 and 2004, respectively, and the related income statements, statements of changes in equity, cash flow statements, and the notes to the financial statements, together with the bookkeeping system for the financial years ending December 31, 2006, 2005 and 2004. The maintenance of the books and records and the preparation of the financial statements in accordance with International Financial Reporting Standards as they have to be applied in the European Union (EU) are the responsibility of the companies legal representatives. Our responsibility is to express an opinion on the financial statements, together with the bookkeeping system based on our audit.

We conducted our audit of the financial statements in accordance with the International Standards of Auditing (ISA). 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 financial statements in accordance with International Financial Reporting Standards as they have to be applied in the European Union (EU) are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company 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 books and records as well as the financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 financial statements comply with the International Financial Reporting Standards as they have to be applied in the European Union (EU) and give a true and fair view of the net assets, financial position and results of operations of the Company for each year.

Hamburg, May 29, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd.	(Dr. Zemke) Wirtschaftsprüfer	(zu Inn- u. Knyphausen) Wirtschaftsprüfer

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim financial statement as of March 31, 2007

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim balance sheet as of March 31, 2007

	March 31, 2007	Dec. 31, 2006
	EUR	EUR
ASSETS		
Non-current assets		
Equipment	292,992	306,254
Intangible assets	3,039	3,145
Deferred tax assets	61,568	122,879
	357,599	432,278
Current assets		
Inventories	698,264	770,029
Trade receivables	9,157,905	4,923,209
Other receivables and prepayments	30,729	52,708
Amounts due from related parties	234,127	1,415,174
Cash and cash equivalents	10,099,302	9,112,945
	20,220,327	16,274,065
Total assets	20,577,925	16,706,343
LIABILITIES		
Current liabilities		
Short-term loans	678,124	680,980
Trade payable	529,612	443,566
Other payables and accruals	1,177,326	626,451
Provisions	235,361	209,879
Amounts due to related parties	4,996,605	5,115,013
Income tax payable	72,823	809,823
	7,689,851	7,885,712
Non-current liabilities		
Long-term loan	—	—
	—	—
Total liabilities	7,689,851	7,885,712
CAPITAL AND RESERVES		
Share capital	2,774,084	2,774,084
Statutory reserves	1,765,356	1,765,356
Retained earnings	8,383,563	4,270,515
Foreign exchange reserve	(34,929)	10,676
Total equity	12,888,074	8,820,631
Total liabilities and equity	20,577,925	16,706,343

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim statement of income and expenses for the period from January 1 to March 31, 2007

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim statement of income and expenses for the period from January 1 to March 31, 2007

	1. Quarter 2007	1. - 4. Quarter 2006
	EUR	EUR
Sales	7,358,509	18,994,565
Cost of sales	(2,562,892)	(5,611,216)
Gross Profit	4,795,617	13,383,349
Other operating income	1,446	14
Selling and distribution expenses	(242,438)	(734,766)
Administrative expenses	(289,253)	(377,224)
Research and development expenses	(47,886)	(203,461)
Other operating expense	(84,555)	(165,323)
Profit from operations	4,132,931	11,902,589
Finance income	53,738	14,569
Finance costs	(12,696)	(50,318)
Profit before income tax	4,173,973	11,866,840
Income tax	(60,925)	(3,846,620)
Profit for the 1. quarter/year	4,113,048	8,020,220
Earnings per share	0.142*	0.277*

* computed for comparable purposes taking the shares of the Company (29,000,000 shares paid in).

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim statement of cash flow for the period from January 1 to March 31, 2007

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim statement of cash flow for the period from January 1 to March 31, 2007

	1. Quarter 2007	1. - 4. Quarter 2006
	EUR	EUR
Profit before income tax	4,173,973	11,866,840
Adjustments for:		
Amortization of intangible assets	92	380
Allowance for doubtful trade debts	164,072	138,570
Provision for warranty	74,999	162,149
Depreciation of property, plant and equipment	12,003	39,164
Interest income	(53,738)	(14,569)
Interest expense	12,696	50,318
Operating cash flows before working capital changes	4,384,097	12,242,852
Working capital changes:		
(Increase)/decrease in:		
Inventories	71,767	(201,416)
Trade receivables	(4,398,768)	(1,461,674)
Other receivables and prepayments	21,979	(13,959)
Amounts due from related parties	1,181,047	(550,677)
Increase/(decrease) in:		
Trade payables	86,046	75,155
Other payables, provisions and accruals	501,358	188,629
Amounts due to related parties	(118,408)	(33,167)
Cash generated from/(used in) operations	1,729,118	10,245,743
Interest received	53,738	14,569
Income tax paid	(737,000)	(3,972,640)
Net cash generated from operating activities	1,045,857	6,287,673
Cash flow from investing activities		
Purchase of property, plant and equipment	—	(109,844)
Purchase of intangible assets	—	—
Cash flow used in investing activities	—	(109,844)
Cash flow from financing activities		
Increase in short-term bank loans	(2,856)	260,830
Loans from related parties	—	5,141,648
Loans given to related parties	—	4,764,280
Interest paid	(12,696)	(50,318)
Dividends paid to shareholders	—	(6,518,742)
Cash flow from financing activities	(15,552)	3,597,698
Net increase in cash and cash equivalents	1,030,305	9,775,527
Cash at beginning of year	9,112,945	3,568
Foreign exchange differences	(43,948)	(666,150)
Cash at end of period	10,099,302	9,112,945

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim statement of changes in equity for the period from January 1 to March 31, 2007

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Interim statement of changes in equity for the period from January 1 to March 31, 2007

	Share capital	Welfare reserves	Statutory reserves	Retained earnings	Foreign exchange difference	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2006	2,774,084	323,849	647,696	3,726,563	472,928	7,945,120
Dividend paid for the year 2005	—	—	—	(3,350,700)[1]	—	(3,350,700)
Transfers	—	(323,849)	1,117,660	(793,811)	—	0
Net profit for the financial year	—	—	—	8,020,220	—	8,020,220
Advance dividend paid for the year 2006	—	—	—	(3,331,801)[2]	—	(3,331,801)
Foreign exchange reserve	—	—	—	44	(462,252)	(462,208)
Balance as at 31 December 2006	2,774,084	0	1,765,356	4,270,515	10,676	8,820,631
Net profit for the financial year	—	—	—	4,113,048	—	4,113,048
Foreign exchange reserve	—	—	—	—	(45,605)	(45,605)
Balance as at 31 March 2007	2,774,084	0	1,765,356	8,383,563	(34,929)	12,888,074

1 RMB 31,900,000 (translated at 9.5204).

2 RMB 33,350,000 (translated at 10.0096).

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Selected notes to the interim financial statements for the period from January 1 to March 31, 2007

Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuzhou, China (PRC)

Selected notes to the interim financial statements for the period from January 1 to March 31, 2007

1. Basis of Preparation

The present financial statements have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) and/or International Accounting Standards (IAS) for interim financial reporting as adopted by the International Standards Board (IASB) and by the EU along with the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) under consideration of aforementioned scope of consolidated financial statements.

2. Significant accounting policies

The accounting policies applied by the Company in the interim financial statements are the same as those applied in its financial statements for the years ending December 31, 2006, 2005 and 2004. For further details reference is made to those financial statements, each of them comprising the balance sheet, the statement of income and expense, the statement of cash flow, the statement of change in equity and the notes to the financial statements.

3. Segment Analysis

Segment Information

a) Business segment

The Company's operating businesses are organized into two business segments, namely incinerator special for disposal of urban municipal waste and incinerator special for disposal of medical waste.

b) Geographical business

The Company is principally engaged in design and manufacture of various incinerators in People's Republic of China (PRC) and all of its customers are based in the PRC. In addition, all identifiable assets of the Company are principally located in the PRC. Accordingly, no geographical segment analysis is presented.

c) Allocation basis

Revenue and cost of sales are directly attributable to the segments. Operating expenses and income are allocated to the segments on a reasonable basis. Segment assets, liabilities and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly the items which can not be allocated reasonably.

Inter-segment sales are eliminated.

The following table presents revenue and results information regarding the Company's business segments for the first quarter 2007 and for the financial year ended December 31, 2006.

Business segment

	1. Quarter 2007	1. - 4. Quarter 2006
	EUR	EUR
Revenue:		
Sales to external customers		
Incinerator special for disposal of medical waste	3,863,703	15,542,879
Incinerator special for disposal of urban household waste	3,494,806	3,451,686
	7,358,509	18,994,565
Results:		
Incinerator special for disposal of medical waste	2,967,382	11,359,868
Incinerator special for disposal of urban household waste	1,828,235	2,151,486
Unallocated expenses	(621,644)	(1,644,514)
Profit from operations before tax	4,173,973	11,866,840
Income tax	(60,925)	(3,846,620)
Profit for the year	4,113,048	8,020,220

The following table presents certain assets, liabilities and other information regarding the Company's segments for the first quarter 2007 and for the year ended December 31, 2006.

	March 31, 2007	December 31, 2006
	EUR	EUR
Assets and liabilities:		
Segment assets		
Incinerator special for disposal of medical waste	4,351,765	2,269,644
Incinerator special for disposal of urban household waste	5,738,532	5,185,074
Unallocated assets	10,487,628	9,251,625
Total assets	20,577,925	16,706,343
Segment liabilities		
Incinerator special for disposal of medical waste	607,329	418,173
Incinerator special for disposal of urban household waste	458,425	43,569
Unallocated liabilities	6,624,097	7,423,970
Total liabilities	7,689,851	7,885,712
Other segment information		
Unallocated capital expenditure on property, plant and equipment and intangible assets	0	106,962
Unallocated depreciation and amortization	12,070	38,507

4. Functional and Presentation Currency

	1. quarter 2007	1. - 4 quarter 2006
Quarter end/year end	10.3226	10.2793
Average	10.3010	10.0096

5. Income tax

The Company does not reflect any actual income tax in the first quarter 2007 because of its status as a ''Foreign owned Entity'' that leads to tax free income for two years. The income taxes reflected in the statement of income and expense reflect deferred taxes.

6. Events after Balance Sheet Date

There have been no events between March 31 and May 5, 2007, that would require an adjustment to the carrying amount of the assets and liabilities or that would need to be disclosed on this heading.

Hamburg, May 5, 2007
On behalf of the management
Chen Zefeng, Chairman

Auditors' Report

Auditors' Review Report

We have reviewed the accompanying interim balance sheet for Fujian Fengquan Environmental Protection Equipment Co., Ltd., Fuhou, China (PRC), as of March 31, 2007 and the related statement of income, changes in equity and cash flow for the three-months period then ended, and a summary of selected notes to the interim financial statements. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards under consideration of the applied scope of financial statements as disclosed in the selected notes. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with International Standards of Review Engagements 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity''. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as of March 31, 2007, and of its financial performance and its cash flow for the three-months period then ended in accordance with IFRS.

Hamburg, May 29, 2007

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

sgd.

(Dr. Zemke)
Wirtschaftsprüfer

(zu Inn- u. Knyphausen)
Wirtschaftsprüfer

GLOSSARY

Activated carbon ..... Activated carbon, also called activated charcoal or activated coal, is a general term which covers carbon material mostly derived from charcoal. It is a material with an exceptionally large surface area. Filters with activated carbon are usually used for adsorbing harmful materials (very small particles).

Aviation Waste ..... Waste that results from maintenance and overhauling of aircraft at airports as well as waste left by passengers in aircrafts.

Avian Influenza ..... Avian influenza (also ''bird flu'', ''avian flu'', ''bird influenza''), means ''flu from viruses adapted to birds''. This infection from a particular subtype of Influenza A virus, H5N1, can cause severe illness in humans who are infected.

Blueprint ..... A blueprint is a type of paper-based reproduction usually of a technical drawing documenting an architecture or an engineering design. More generally, the term ''blueprint'' has come to be used to refer to any detailed plan.

Brownfields ..... Contaminated lands resulting from inadequate disposal practices, treatment of leachate, or chemical spills, having a negative impact on public health, environmental quality and land values.

Build-Operate-Transfer (BOT), Build-Operate-Own-Transfer (BOOT) ..... Form of project financing, wherein a private entity receives a franchise from the public sector to finance, design, construct, and operate a facility for a specified period, after which ownership is transferred back to the public sector. During the time that the project proponent operates the facility, it is allowed to charge facility users appropriate tolls, fees, rentals, and charges stated in their contract to enable the project proponent to recover its investment, and operating and maintenance expenses in the project. Examples of countries using BOT are Japan, China, Malaysia and Hong Kong. However, in some countries, such as Canada and New Zealand, the term used is Build-Operate-Own-Transfer (BOOT).

Build-Transfer (BT) ..... It is a kind of engineering construction form in which the tendering party decides the construction party through invitation of tenders, the construction party will be responsible for raising money and construction for the project, and the tendering party repurchases the project after it is completed. BT is extensively used in large-scale infrastructure construction projects in the world.

Chimney ..... See ''Stack''.

Combustion Chamber ..... A combustion chamber is the part of an incinerator in which waste is burned.

Compost ..... Compost is the aerobically decomposed remnants of organic materials (those with plant and animal origins).

Disposal ..... The final handling of solid waste, following collection, processing, or incineration. Disposal often means placement of wastes in a dump or a landfill.

Dumps ..... Dumps are simply called landfills. Dumps are landfills that are not engineered with the special protective measures required by sanitary landfills. They are most common in rural, remote, and developing areas.

Emissions ..... Gases released into the atmosphere.

Energy-from-waste (EFW) facility ..... See ''Waste-To-Energy (WTE) plant''.

European Economic Area (EEA) ... The European Economic Area (EEA) came into being on January 1, 1994 following an agreement between the European Free Trade Association (EFTA) and the European Union (EU). It was designed to allow EFTA countries to participate in the European Single Market without having to join the EU. The current members of the EEA, contracting parties, are three of the four EFTA states — Iceland, Liechtenstein and Norway, without Switzerland — and the 27 EU Member States along with the European Community.

Feeding Hopper ..... A device for continuously feeding waste to the furnace of a waste incinerator.

Gasification ..... See ''Pyrolysos''.

Greenhouse Gas ..... Greenhouse gases (GHG) are components of the atmosphere that contribute to the Greenhouse effect. Some greenhouse gases occur naturally in the atmosphere, while others result from human activities such as burning of fossil fuel and coal. Greenhouse gases include water vapor, carbon dioxide, methane, nitrous oxide, and ozone.

Hazardous Waste ..... Waste that is reactive, toxic, corrosive, or otherwise dangerous to living things and/or the environment. Many industrial by-products are hazardous.

Incineration ..... The process of burning solid waste under controlled conditions to reduce its weight and volume, and often to produce energy.

Induced Fan ..... Device used to induce airflow and generally made from broad, flat surfaces which revolve or oscillate. Industrial fans and blowers are valuable tools for moving air and materials required in a wide variety of manufacturing processes and industries.

Industrial Waste ..... Industrial waste is waste type produced by industrial factories, mills and mines. It has existed since the outset of the industrial revolution. Toxic waste and chemical waste are two designations of industrial waste.

Infectious Waste ..... See ''Medical Waste''.

ISO 9001:2000 quality management systems ..... Requirement intended for use in any organization which designs, develops, manufactures, installs and/or services any product or provides any form of service. It provides a number of requirements which an organization needs to fulfill if it is to achieve customer satisfaction through consistent products and services which meet customer expectations. This is the only implementation for which third-party auditors may grant certifications.

ISO 14001 environmental management standards ..... The *ISO 14000* environmental management standards exist to help organizations minimize how their operations negatively affect the environment (cause adverse changes to air, water, or land), comply with applicable laws, regulations, and other environmentally oriented requirements, and continually improve on the above. *ISO 14001* is the standard against which organizations are assessed. *ISO 14001* is generic and flexible enough to apply to any organization producing any product or service anywhere in the world.

Landfilling ..... The final disposal of solid waste by placing it in a controlled manner in a place intended to be permanent.

Mechatronics ..... Synergistic combination of mechanical engineering (''**mecha**'' for mechanisms, i.e., machines that 'move'), electronic engineering (''**tronics**'' for electronics), and software engineering. The purpose of this interdisciplinary engineering field is the study of automata from an engineering perspective and serves the purposes of controlling advanced hybrid systems.

Medical Waste/ (Infectious Waste) ..... Refers to biological products which are essentially useless. Disposal of this waste is an environmental concern, as many medical wastes are classified as infectious or biohazardous and can spread infectious disease. Examples of infectious waste include blood, potentially contaminated ''sharps'' such as needles and scalpels, and flesh.

Municipal Solid Waste (MSW) .... All solid waste generated in an area except industrial, medical and agricultural wastes. Sometimes includes construction and demolition debris and other special wastes that may enter the municipal waste stream. Generally excludes hazardous wastes except to the extent that they enter the municipal waste stream. Sometimes defined to include all solid wastes that a city authority accepts responsibility for managing in some way.

Organic Substances ..... Organic Substances derive from living things or contain carbon.

Pollution..... The contamination of soil, water, or the atmosphere by the discharge of waste or other offensive materials.

Pyrolysis..... Chemical decomposition of a substance by heat in an oxygen-deficient way, resulting in various hydrocarbon gases and carbon-like residue.

Reciprocating grate furnace ..... Fixed hearth with a moving grate. The moving grate enables the movement of waste through the combustion chamber to be optimised to allow a more efficient burn.

Rotary Kiln ..... A rotary kiln is a pyroprocessing device used to raise materials to a high temperature (calcination) in a continuous process. Materials produced using rotary kilns include cement, lime, refractories, metakaolin, titanium dioxide, aluminia and vermiculite. A rotary kiln is used for incinerators with a rotating combustion chamber. The rotation helps mix the wastes and promotes more complete burning.

Sanitary Landfill ..... Sanitary landfills are also called modern, engineered or secure landfills, these usually have physical barriers such as liners and leachate collection systems, and procedures to protect the public from exposure to the disposed wastes. The term sanitary landfill normally refers to those where municipal solid waste is disposed of, as well as other wastes high in organic material. In some countries, all landfills are sanitary landfills.

Severe acute respiratory syndrome (SARS) ..... Severe acute respiratory syndrome or SARS is a respiratory disease in humans which is caused by the SARS coronavirus.

Sewage Disposal ..... Sewage is the liquid waste produced by humans which typically contains washing water, faeces, urine, laundry waste and other liquid or semi-liquid wastes from households and industry. It is one type of wastewater. Sewage collection and disposal is usually done via a system of sewer pipes (sewers) called sewerage, and sometimes via a cesspool emptier.

Stack ..... Stack or flue gas stack is the industrial terminology for an industrial plant chimney. A flue gas stack is a type of chimney, a vertical pipe, channel or similar structure through which combustion product gases called flue gases are exhausted to the outside air.

Stack effect ..... The combustion flue gases inside the flue gas stacks are much hotter than the ambient outside air and therefore less dense than the ambient air. That causes the bottom of the vertical column of hot flue gas to have a lower pressure than the pressure at the bottom of a corresponding column of outside air. That higher pressure outside the chimney is the driving force that moves the required combustion air into the combustion zone and also moves the flue gas up and out of the chimney. That movement or flow of combustion air and flue gas is called ''natural draft (or draught)'', ''natural ventilation'', ''chimney effect'', or ''stack effect''.

Thermal Treatment ..... Incineration and other high temperature waste treatment systems are described as thermal treatment.

Toxic Substances ..... Toxic substances are substances that can cause damage, illness, or death to organisms, usually by chemical reaction or other activity on the molecular scale, when a sufficient quantity is absorbed by an organism.

Turnkey projects ..... A turnkey project is a project in which separate entities are responsible for setting up a plant or equipment (e.g. trains/infrastructure) and for putting it into operation. It can include contractual actions at least through the system, subsystem, or equipment installation phase and may include follow-on contractual actions, such as testing, training, logistical, and operational support. It is often given to the best bidder in a procurement process.

Waste Management ..... Waste management is the collection, transport, processing, recycling or disposal of waste materials, usually ones produced by human activity, in an effort to reduce their effect on human health or local aesthetics or amenity. Waste management can involve solid, liquid or

gaseous substances with different methods and fields of expertise for each.

Waste-To-Energy (WTE) plant (Energy-from-waste (EFW) facility) . . . . . A facility that uses solid waste materials (processed or raw) to produce energy. WTE plants include incinerators that produce steam for district heating or industrial use, or that generate electricity; they also include facilities that convert landfill gas to electricity. These types of incinerators are sometimes also called energy-from-waste (EFW) facilities.

Signatures

Hamburg and Frankfurt/Main, 20 June 2007

ZhongDe Waste Technology AG
signed Mr. Chen Zefeng
Chairman of the Management Board
(Vorstandsvorsitzender)

ZhongDe Waste Technology AG
signed Mrs. Lin Na
Member of the Management Board
(Vorstand)

Sal. Oppenheim jr. & Cie.
Kommanditgesellschaft auf Aktien
signed Dirk Weyerhäuser

Sal. Oppenheim jr. & Cie.
Kommanditgesellschaft auf Aktien
signed Matthias Wycisk

BOCI
Asia Limited
signed per procuration
Dirk Weyerhäuser

BOCI
Asia Limited
signed per procuration
Matthias Wycisk

CLSA Limited
signed per procuration
Dirk Weyerhäuser

CLSA Limited
signed per procuration
Matthias Wycisk

Products – Technology

LRX-3 incinerator for industrial hazardous waste with a daily disposal capacity of 3 tons located in Zhuhai

LFRY-8 medical waste incinerator with a daily disposal capacity of 8 tons located in Jiangmen

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