

# Q1

1st Quarterly Report 2017



ZhongDe Waste Technology AG



## COMPANY PROFILE

ZhongDe Group, as one of the leading players in waste-to-energy industry in China, designs constructs, finances and operates waste-to-energy plants, which generate electricity from the incineration of solid municipal and industrial waste. After selling all BOT (Build, Operate and Transfer) projects, ZhongDe Group is acting as an EPC (Engineering, Procurement and Construction) contractor to develop incineration plants. Apart from this, it is focused on exploring the market for small scale waste-to-energy plants with waste disposal capacities of around 200 - 300 tons per day, which require less investment and have shorter construction periods. Since 1996, ZhongDe Group has installed approximately 200 waste incinerators in 13 provinces throughout China. It will continuously devote itself to the eco-friendly industry in China.

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## KEY FIGURES

Key figures:

in k€	Q1 2017	Q1 2016	Change
Order intake	0	0	0.0%
Order backlog	64,232	104,121	-38.3%
Revenues	27,167	26,636	2.0%
EBITDA	-1,063	-733	-45.0%
EBITDA margin	-4%	-3%	-1 pp
EBIT	-1,066	-1,057	-0.8%
EBIT margin	-4%	-4%	+0 pp
Headcount (as at 31 March)	51	357	-85.7%

## INTERIM MANAGEMENT STATEMENT

### Key facts of the first quarter

After the disposal of the intermediate holding company Chung Hua Environmental Protection Assets (Holdings) Group Ltd. (“Chung Hua”), effective as of 28 December 2016, the operational business of the ZhongDe Group is carried out by ZhongDe China Environmental Protection Co. Ltd., Beijing, a limited liability company formed under the laws of the PRC. This subsidiary is mainly responsible for handling project acquisition, project planning and other administrative duties at the site in Beijing. Furthermore, the EPC-project in Dingzhou and the EPC-project in Wuhai are operated in this subsidiary.

In the three months period ended March 2017, ZhongDe started commodity trading with metals like copper. The new business contributed revenues amounting to € 26.9 million in the first three months 2017.

Due to typical seasonal effects in the first quarter caused by the weather and the Chinese New Year revenues from EPC projects only amounted to EUR 0.3 million in the first three months of 2017.

### Results of Operations

in k€	Q1 2017	Q1 2016
Revenues	27,167	26,636
Cost of sales	-27,088	-26,879
<b>Gross result</b>	<b>79</b>	<b>-243</b>
Other operating income	0	780
Selling and distribution expenses	-764	-189
Administrative expenses	-242	-984
Research and development expenses	0	-14
Other operating expenses	-139	-407
<b>Loss from operations</b>	<b>-1,066</b>	<b>-1,057</b>
Finance income	43	1,028
Finance costs	-1	-1,670
<b>Loss before income tax</b>	<b>-1,024</b>	<b>-1,699</b>
Income tax expenses	0	31
<b>Loss for the period</b>	<b>-1,024</b>	<b>-1,668</b>

Following the sale of Chung Hua by the end of December 2016, ZhongDe has disposed the complete BOT-business as well as the Incinerator segment and also the EPC project in Zhucheng. Accordingly, the figures of 2017 are only comparable with the prior year figures to a certain extent.

During the first quarter of 2017, revenues of € 27.2 million were generated, of which € 26.9 million were contributed by commodity trading started in January 2017 and € 0.3 million were contributed by the EPC project in Wuhai. Revenues amounting to € 26.6 million in the first quarter 2016 mainly refer to the BOT project in Lanzhou.

The gross result for Q1 2017 amounted to € 0.1 million. The commodity trading contributed only k€ 53 to the gross profit.

In Q1 2017 selling and distribution expenses which relate to bad debt allowances for trade receivables increased by € 0.6 million to € 0.8 million compared to the same period 2016.

Accordingly, EBITDA in the first three months 2017 decreased to €-1.1 million compared to €-0.7 million for the same period in 2016.

The EBITDA represents earnings before interests, depreciation and amortization without effects from impairments or appreciations. Extraordinary effects regarding the impairments or appreciations of service concession rights are not presented in EBITDA. The reconciliation from EBITDA to EBIT is presented below:

in k€	Q1 2017	Q1 2016	Change
<b>EBITDA</b>	<b>-1,063</b>	<b>-733</b>	<b>-45.0%</b>
Depreciation	3	26	-88.5%
Amortization	0	8	<-100.0%
Impairment	0	290	<-100.0%
<b>EBIT</b>	<b>-1,066</b>	<b>-1,057</b>	<b>-0.8%</b>

In Q1 2017 EBIT remained stable at € 1.1 million compared with Q1 2016.

Finance income and finance costs mainly relate to exchange gains as well as exchange losses generated in the ZhongDe AG.

The loss from continuing operations decreased slightly to € -1.0 million compared to € -1.7 million for the three month period ended 31 March 2017 compared to the same period in 2016.

## Statement of Financial Position

in k€	31 Mar. 2017	31 Dec. 2016	Change
Current liquidity ratio <sup>1)</sup>	5.6	5.8	-3.4%
Equity ratio <sup>2)</sup>	82.2%	82.8%	-0.6 pp
Net working capital <sup>3)</sup>	124,480	126,256	-1.4%
Cash and cash equivalents	126	1,324	-90.5%
Current assets	151,400	152,427	-0.7%
Non-current assets	22	20	+10.0%
Total assets	151,422	152,447	-0.7%
Current liabilities	26,920	26,171	+2.9%
Shareholders' equity	124,502	126,276	-1.4%

<sup>1)</sup> Current assets / current liabilities.

<sup>2)</sup> Equity / total assets.

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

As at 31 March 2017, shareholders' equity decreased by 1.4% to € 124.5 million compared to 31 December 2016 due to the negative result for the three months period ended 31 March 2017 and foreign currency translation effects. Total assets decreased by 0.7% compared to 31 December 2016. Accordingly ZhongDe's equity ratio went down from 82.8% as at 31 December 2016 to 82.2% as at 31 March 2017.

The cash position as at 31 March 2017 amounted to € 0.1 million, compared to € 1.3 million as at 31 December 2016 (-90.5%). For the two upcoming years negative cash flows from operating activities are expected as a result of the completion of EPC projects in progress at reporting date. A decrease of cash and cash equivalents is expected within the planning period. As of 20 June 2018 cash and cash equivalents of the group amount to approximately € 0.6 million. The going concern of the group as a whole is therefore highly dependent on payments received from the buyer of Chung Hua group as settlement for the outstanding receivables and notably on the repayment for the prepayments to the suppliers of commodity trading. Management assumes that it is reasonably certain that sufficient cash will be available to ensure the continuous operation of the group.

## Current status of energy-from-waste projects

(as of 31 March 2017)

EPC projects	Dingzhou	Wuhai
Daily capacity (tons/day)	600	1,000
PoC as at 31 Mar. 2017	48.8%	7.9%
PoC as at 31 Dec. 2016	48.8%	7.5%
Estimated time of completion	2018	2019

At the end of Q1 2017, the percentage of completion of the EPC project in Dingzhou remains at 48.8% (31 December 2016: 48.8%). By the end of March 2017, the work has been resumed. Until May 2018 78% of the project has been completed, only the power access system and the secondary electrical wiring work have not yet been finalised. The Dingzhou project is supposed to enter normal operation in July 2018.

At the end of Q1 2017, the percentage of completion of the project in Wuhai is 7.9% (31 December 2016: 7.5%). Currently, as of June 2018 the percentage of completion amounts to 22%, all civil works for the main plant, the office building, the complex building and the other key units have been done. Over 80% of the secondary structure, masonry and plastering work of the main building and the attached house have been completed. The equipment has been completely ordered and partly been installed. The project is expected to enter trial operation and to be completed during the year 2019.

## **Developments after the end of the reporting period**

The progress of the EPC projects is satisfying. As of end of May 2018, the progress of the EPC project in Dingzhou has been 76%, the EPC project in Wuhai is 22% completed as of June 2018. The Dingzhou project is planned to start normal operation in June 2018 and Wuhai project is planned to be completed at the end of 2019.

Additionally, ZhongDe decided to focus the EPC business on small scale waste-to-energy-plants with a capacity of 150 – 300 tons/days since the related market is less competitive than the market for large scale plants and the demand for such smaller plants is very high in smaller cities and especially in the countryside.

The receivables against the acquirer of Chung Hua group resulting from the transfer of clearing accounts amounting to in total € 16.4 million at 31 December 2016 have only been repaid at an amount of € 0.9 million until the date of this report. Management assumes that it is reasonably certain that the cash will be received in short notice.

Prepayments to suppliers relating to commodity trading of in total € 130.0 million have not been repaid until the date of this report. Management assumes that it is reasonably certain that the cash will be received in short notice.

Besides this, no significant events have occurred between the reporting date and the date of authorization of the condensed interim consolidated financial statements.



## Opportunities and Risks

For the information on opportunities and risks, please refer to our Risk Report in the Group Management Report as at 31 December 2016. Please note that these expectations are subject to uncertainty even if currently we do not have any information as to any other developments. There were no significant changes in opportunities and risks compared to 31 December 2016.

## Outlook

The sale of the Chung Hua Subgroup in December 2016 has contributed an extraordinary profit and had a significant positive effect on ZhongDe's result in 2016. The BOT projects in Lanzhou, Zhoukou, Xianning, Kunming and Feicheng as well as the EPC project in Zhucheng have been transferred to the buyer.

Management decided to continue with building EPC projects in the future. The EPC project in Dingzhou and Wuhai continued their construction progress and are expected to contribute to revenues at an amount of € 15.4 million and to gross profit at an amount of € 2.4 million for the company in 2017 and will contribute continuously during 2018 and 2019.

The management is seeking to contract new small scale EPC projects and is confident that more EPC contracts will be concluded in 2018. Nevertheless the final closing of new contracts always depends on conditions which are not within the sole decision of the management and therefore cannot be forecasted with absolute certainty.

In short, 2017 was a period in which ZhongDe succeeded in making noticeable progress with the existing EPC projects. Due to the small number of projects, a decrease in revenues from progress of projects resulted. However, it shall be assumed that the gross profit is still on a good level in comparison to 2016 considering the one-off effect from the sale of Chung Hua group. Accordingly, the EBITDA for the period followed this positive trend, also the net result remained positive. Noticeable effects on the financial statements due to changes of interest rates, exchange rates, price increases or any other effects, that are difficult to calculate, did not arise. The outcome of the actual figures was strongly influenced by the project development of the two existing EPC projects, which depended on the performance of the project team and the subcontractors as well as the pace of the required authorizations and acceptances.

The projects in Dingzhou and Wuhai progressed as planned. The figures budgeted for 2017 have been achieved. The further economic development of ZhongDe until 2018 and onwards is dependent on new projects and the financing of these projects. Due to the uncertainty relating to delays, the availability of suppliers, the fluctuation of the RMB/Euro exchange rate as well as the success in the new business area, all forecasts contain some uncertainty.

As a non-financial key performance indicator, the total number of employees has increased slightly within 2017 and management expects a further increase during 2018. The technical research department will have an increasing number of employees while in other departments the number of employees will remain stable or be reduced slightly in accordance with cost saving measures. Due to the project progress the order backlog, which is another key performance indicator, decreased in 2017 and is expected to further decrease in 2018 if no new contracts are signed.

After the transfer of the waste-to-energy BOT projects in 2016, the long-term assets ratio has declined. Hence, we are now able to continue our business without the usage of non-current outside capital and to build a solid foundation for its future development if the trade receivables and the prepayments to suppliers are repaid.

In summary, we expect that ZhongDe will focus on the completion of existing EPC projects until the end of 2018. Furthermore, we especially plan to conclude new contracts for small scale EPC projects in 2018.

For the second half of 2017 as well as for 2018 management expects a solid increase of revenue and gross profit from the completion of the EPC project and is confident to sign new EPC contracts.

EBIT and EBITDA are accordingly expected to increase noticeably as well.

## Forward Looking Statements

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

For us, particular uncertainties arise, among others, from: changes in general economic and business conditions, changes in the regulatory environment, the introduction of competing products or technologies by other companies, changes in business strategy, our analysis of the potential impact of such matters on our financial statements, as well as various other factors. More detailed information about our risk factors and key factors affecting our results and operations is contained in ZhongDe’s Group Management Report 2015, which is available on the ZhongDe website: [www.zhongde-ag.com](http://www.zhongde-ag.com). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the relevant forward-looking statement as expected, anticipated, intended, planned, believed, sought, estimated or projected. ZhongDe does not intend or assume any obligation to update or revise these forward-looking statements in the light of developments which differ from those anticipated, unless otherwise required by law.

The English translation of this interim management statement is for convenience purposes only. The German version of this interim report is binding for legal purposes.

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY TO 31 March 2017

### Condensed Three-Month Consolidated Statement of Comprehensive Income

in k€	Q1 2017	Q1 2016
Revenues	27,167	26,636
Cost of sales	-27,088	-26,879
<b>Gross result</b>	<b>79</b>	<b>-243</b>
Other operating income	0	780
Selling and distribution expenses	-764	-189
Administrative expenses	-242	-984
Research and development expenses	0	-14
Other operating expenses	-139	-407
<b>Loss from operations</b>	<b>-1,066</b>	<b>-1,057</b>
Finance income	43	1,028
Finance costs	-1	-1,670
<b>Loss before income tax</b>	<b>-1,024</b>	<b>-1,699</b>
Income tax expenses	0	31
<b>Profit (+) / loss (-) after income taxes</b>	<b>-1,024</b>	<b>-1,668</b>
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange differences	-739	-4,128
Items that will not be reclassified subsequently to profit or loss:		
Foreign exchange differences	-12	26
<b>Other comprehensive income</b>	<b>-751</b>	<b>-4,102</b>
<b>Total comprehensive income</b>	<b>-1,775</b>	<b>-5,770</b>
<b>Loss attributable to owners of the parent</b>	<b>-1,024</b>	<b>-1,668</b>
<b>Total comprehensive income attributable to owners of the parent</b>	<b>-1,775</b>	<b>-5,770</b>
<b>Earnings per share (in €) (diluted and undiluted):</b>	<b>-0.14</b>	<b>-0.13</b>
Weighted average shares outstanding (diluted and undiluted)	12,600,000	12,600,000

<sup>1)</sup> Amended.

## Condensed Interim Consolidated Statement of Financial Position

as at 31 March 2017

in k€	31 Mar. 2017	31 Dec. 2016	31 Mar. 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	0	0	44,450
Property, plant and equipment	22	20	371
Receivables from BOT	0	0	118,721
Deferred tax assets	0	0	0
	<b>22</b>	<b>20</b>	<b>163,542</b>
<b>Current assets</b>			
Inventories	0	0	430
Trade receivables	33,401	3,738	6,512
Other receivables and prepayments	117,873	130,980	51,051
Amounts due from related parties and companies	0	0	14
Other financial assets	0	16,385	215
Cash and cash equivalents	126	1,324	71,451
	<b>151,400</b>	<b>152,427</b>	<b>129,673</b>
<b>Total Assets</b>	<b>151,422</b>	<b>152,447</b>	<b>293,215</b>
<b>Liabilities and Equity</b>			
<b>Capital and Reserves</b>			
Issued capital	13,000	13,000	13,000
Own shares	-4,608	-4,608	-4,608
Capital reserves	62,914	62,914	62,914
Chinese statutory reserves	0	0	8,459
Retained earnings	55,750	56,773	-17,920
Foreign currency translation reserve	-2,554	-1,803	36,939
<b>Total Equity</b>	<b>124,502</b>	<b>126,276</b>	<b>129,673</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Long-term loans	0	0	93,602
Deferred tax liabilities	0	0	1,561
	<b>0</b>	<b>0</b>	<b>95,163</b>
<b>Current liabilities</b>			
Trade payables	4,481	5,273	29,475
Other payables and prepayments	22,127	20,591	21,438
Provisions	305	307	4,117
Amounts due to related parties and companies	7	0	8
Tax liabilities	0	0	81
Other financial liabilities	0	0	43,753
	<b>26,920</b>	<b>26,171</b>	<b>99,268</b>
<b>Total Liabilities</b>	<b>26,920</b>	<b>26,171</b>	<b>194,431</b>
<b>Total Liabilities and Equity</b>	<b>151,422</b>	<b>152,447</b>	<b>293,215</b>

## Condensed Three-Month Consolidated Statement of Cash Flows

for the period from 1 January to 31 March 2017

in k€	3M 2017	3M 2016
<b>Loss before income tax</b>	<b>-1,024</b>	<b>-1,699</b>
<b>Adjustments for:</b>		
Appreciation of intangible assets	0	8
Amortization of intangible assets	0	290
Write-off of inventories	0	36
Allowance for doubtful trade and other receivables	764	156
Depreciation of property, plant and equipment	3	26
Interest income / exchange gains	-42	-1,028
Interest expense / exchange losses	1	1,670
<b>Operating cash flows before working capital changes</b>	<b>-298</b>	<b>-512</b>
<b>Working capital changes:</b>		
<i>(-) Increase/ (+) decrease in:</i>		
Inventories	0	-76
Trade receivables	-30,567	-17
PoC receivables from BOT projects	0	-26,499
Other receivables and prepayments	27,996	307
<i>(+) Increase/ (-) decrease in:</i>		
Trade payables	-764	4,866
Other payables, provisions and accruals	2,754	83
Amounts due to related parties	7	-112
<b>Cash used in operations</b>	<b>-872</b>	<b>-15,397</b>
Interest received	42	70
Interest paid	-1	-2,342
Income tax paid	-359	-84
<b>Net cash used in operating activities</b>	<b>-1,190</b>	<b>-17,753</b>
<b>Cash flow from investing activities:</b>		
Purchase of property, plant, equipment and intangible assets	-21	-2
<b>Cash flow used in investing activities</b>	<b>-21</b>	<b>-2</b>
<b>Cash flow from financing activities:</b>		
Increase in borrowings	0	16,482
Repayments of loans	0	-312
Cash repayments of financial assets (BOT projects)	0	160
<b>Cash flow generated from financing activities</b>	<b>0</b>	<b>16,330</b>
<b>Net increase (+) / decrease (-) before income tax</b>	<b>-1,211</b>	<b>-1,425</b>
Cash and cash equivalents at beginning of period	1,324	75,842
Foreign exchange differences	13	-2,966
<b>Cash fund at end of period</b>	<b>126</b>	<b>71,451</b>

## **CONTACT INFORMATION**

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

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