EURO TECH HOLDINGS CO LTD
Form 20-F
April 26, 2017

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

Commission file number 000-22113

EURO TECH HOLDINGS COMPANY LIMITED
(Exact name of Registrant as specified in its charter)

EURO TECH HOLDINGS COMPANY LIMITED
(Translation of Registrant's name into English)

British Virgin Islands
(Jurisdiction of incorporation or organization)

Unit D, 18/F Gee Chang Hong Centre, 65 Wong Chuk Hong Road, Hong Kong
(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, no par value	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

Indicate the number of issued and outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report 2,061,909 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posed on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and " emerging growth company" in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer Accelerated filer Non-accelerated filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

†The term “new or revised financial accounting standards” refers to any update by the Financial Accounting Standards Board to its accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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INTRODUCTION

In this Form 20-F, references to ”us”, “we”, the “Company” and “Euro Tech” are to Euro Tech Holdings Company Limited and its subsidiaries unless otherwise expressly stated or the context otherwise requires.

Forward Looking Statements

This annual report contains forward looking statements. Additional written or oral forward looking statements may be made by the Company from time to time in filings with the Commission or otherwise. Such forward looking statements are within the meaning of that term in Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). Such statements may include, but not be limited to, projections of revenues, income, or loss, capital expenditures, plans for future operations, financing needs or plans, and plans relating to products or services of the Company, as well as assumptions relating to the foregoing. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” and similar expressions identify forward looking statements, which speak only as of the date the statement was made. Forward looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward looking statements. Statements in this Annual Report, including those contained in the sections entitled Part I, Item 3D. “Risk Factors” and Item 5. “Operating and Financial Review and Prospects” and the notes to the Company’s Consolidated Financial Statements, describe factors, among others, that could contribute to or cause such differences.

GLOSSARY

The following glossary of terms may be helpful in understanding the terminology used in this Annual Report.

Ambient Air:	Atmospheric air (outdoor as opposed to indoor air).
Anaerobic:	Treating waste water biologically in the absence of air.
Atomic Spectrometer:	An analytical instrument used to measure the presence of an element in a substance by testing a sample which is aspirated into a flame and atomized. The amount of light absorbed or emitted is measured. The amount of energy absorbed or emitted is proportional to the concentration of the element in the sample.
Coalescer:	A process that coalesces smaller oil particles to form larger oil particles that can readily float to a tank's surface.
Colorimeter:	An analytical instrument that measures substance concentration by color intensity when the substance reacts to a chemical reagent.
Human Machine Interface Software:	A type of software to interface (or coordinate) the interaction between machine or equipment and a human being.
Lamella:	Synthetic media installed in a clarifier tank to assist in particle flocculation (coming together in a "floc" or "flakes").
Mass Spectrometer:	An analytical instrument that separates and identifies chemical constituents according to their mass-to-charge ratios and is used to identify organic compounds.
Membrane Biological Reactor (MBR):	A suspended-growth bioreactor combined with a membrane liquid/solids separation unit. The "MBR" uses an advanced membrane technology that treats biological wastes to a quality level which in many industries is sufficient for reuse or low-cost disposal to sewers.
Multi-Channel Digital Recorder:	A device that measures and records more than one input of a digitized signal (signal in the form of pulses).
pH Controller:	A process instrument that measures and controls the acidity or alkalinity of a fluid.
Reagent:	A chemical substance used to cause a chemical reaction and detect another substance.
Sequential Batch Reactor (SBR):	A waste-water treatment process that combines aeration and settling in one reactor tank thus saving on space. Used for the treatment of industrial waste-water as well as municipal sewage. The SBR is a batch process that is ideal for waste-waters of changing characteristics.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

ITEM 3A. SELECTED FINANCIAL DATA

SELECTED FINANCIAL INFORMATION

(Amounts expressed in thousands, except share and per share data and unless otherwise stated)

The selected consolidated statement of operations and comprehensive income/(loss) data for years ended December 31, 2016, 2015 and 2014 and the selected consolidated balance sheet data as of December 31, 2016, and 2015 set forth below are derived from audited consolidated financial statements of the Company included herein and should be read in conjunction with, and are qualified in their entirety by reference to such financial statements, including the notes thereto and “Item 5. Operating and Financial Review and Prospects.” The selected consolidated statement of operations and comprehensive income/(loss) data for the years ended December 31, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2014, 2013 and 2012 set forth below are derived from audited consolidated financial statements of the Company which are not included herein.

	2016	2015	2014	2013	2012
	US$	US$	US$	US$	US$
Balance Sheet Data:					
Cash and cash equivalents	3,751	2,480	4,857	5,406	7,468
Working capital(1)	3,101	3,698	5,267	5,830	5,706
Total assets	23,104	21,270	23,399	23,878	24,947
Short-term debt(2)	720	0	0	0	0
Net assets	16,618	16,456	17,530	17,877	17,756
Capital Stock	123	123	123	123	123

(1) Current assets minus current liabilities.
(2) Short-term debt includes short-term borrowings and current portion of long-term bank loans.

	2016	2015	2014	2013	2012
	US$	US$	US$	US$	US$
Statement of Operations and Comprehensive Income/(loss) Data:					
Revenue	22,478	18,302	18,822	18,602	21,645
Cost of revenue	(17,527)	(14,259)	(13,991)	(13,138)	(15,480)
Gross profit	4,951	4,043	4,831	5,464	6,165
Finance costs	(19)	(4)	-	-	-
Selling and Administrative Expenses	(5,602)	(5,997)	(5,802)	(5,719)	(6,224)
Operating loss	(670)	(1,958)	(971)	(255)	(59)
Interest Income	18	45	27	45	46
Other income, net	5	9	65	54	48
Gain/(loss) on disposal of fixed assets	7	-	-	(1)	(22)
(Loss)/income before taxes	(640)	(1,904)	(879)	(157)	13
Income taxes (expenses)/credit	(228)	47	(18)	(73)	(142)
Net gain on deemed disposal of affiliate	24	-	-	-	-
Equity in income of affiliates	1,002	850	605	325	9
Net Income/(Loss)	158	(1,007)	(292)	95	(120)
Less: net loss/(income) attributable to non-controlling interest	73	391	169	(113)	(309)
Net income/(loss) attributable to the Company	231	(616)	(123)	(18)	(429)
Other comprehensive income/(loss)					
Net income/(loss)	158	(1,007)	(292)	95	(120)
Foreign exchange translation adjustments	4	(63)	(15)	181	-
Release of translation reserves upon disposal of a subsidiary	-	-	-	(74)	-
Comprehensive income/(loss)	162	(1,070)	(307)	202	(120)
Less: Comprehensive loss/(income) attributable to non-controlling interest	127	477	176	(167)	(309)
Comprehensive income/(loss) attributable to the Company	289	(593)	(131)	35	(429
Net income/(loss) per Ordinary Share-Basic	0.11	(0.30)	(0.06)	(0.01)	(0.21)
-Diluted	0.11	(0.30)	(0.06)	(0.01)	(0.21)
Weighted Average Number of Ordinary Shares Outstanding					
Basic	2,061,909	2,063,738	2,069,223	2,069,223	2,070,685
Diluted	2,061,909	2,063,738	2,069,223	2,069,223	2,076,315

The Company maintains its books and records in United States dollars (“US$” or “U.S. Dollars”). Its subsidiaries, retail shops and affiliates maintain their books and records either in US$, Hong Kong dollars (“HK$” or “Hong Kong Dollars”) or in Chinese Renminbi (“RMB” or “Renminbi”).

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar). Since 1983, the Hong Kong dollar has effectively been officially linked to the U.S. dollar at the rate of approximately HK$ 7.80 = US$ 1.00. However, the market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be influenced by the forces of supply and demand in the foreign exchange market. Exchange rates between the Hong Kong dollar and other currencies are influenced by the rate between the U.S. dollar and the Hong Kong dollar.

Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People’s Bank of China, which are set daily based on the previous day’s interbank foreign exchange market rates. From 1994 through 2004, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable and maintained at the rate of approximately RMB 8.30 = US$ 1.00. However, from 2012 through 2016, the Renminbi has fluctuated and at the end of 2016, 2015, 2014, 2013 and 2012, the exchange rates were approximately RMB 6.9445, RMB 6.48554 = US$ 1.00, RMB 6.2069 = US$ 1.00, RMB, 6.0540 = US$ 1.00, and RMB 6.2306 = US$ 1.00, respectively. The value of the Renminbi fluctuates and is subject to changes in PRC political and economic conditions.

The high, low and average exchange rates are set forth below:

	Rate at Period End	Low	High	Average
US$ to RMB				
Fiscal 2012	6.2306	6.2223	6.3889	6.3094
Fiscal 2013	6.0540	6.0540	6.2456	6.1480
Fiscal 2014	6.2069	6.0428	6.2611	6.1612
Fiscal 2015	6.4855	6.1931	6.4900	6.2854
Fiscal 2016	6.9445	6.4571	6.9593	6.6444
US$ to HK$				
Fiscal 2012	7.7505	7.7500	7.7688	7.7571
Fiscal 2013	7.7538	7.7417	7.7656	7.7566
Fiscal 2014	7.7502	7.7500	7.7677	7.7524
Fiscal 2015	7.7564	7.7493	7.8240	7.7549
Fiscal 2016	7.7555	7.7504	7.8267	7.7624

The Following Months	Low	High	Average
US$ to RMB			
October 2016	6.6684	6.7790	6.7256
November 2016	6.7535	6.9278	6.8386
December 2016	6.8666	6.9569	6.9214
January 2017	6.8414	6.9552	6.8961
February 2017	6.8581	6.8850	6.8723
March 2017	6.8676	6.9149	6.8941
US$ to HK$			
October 2016	7.7532	7.7589	7.7567
November 2016	7.7542	7.7578	7.7558
December 2016	7.7529	7.7670	7.7588
January 2017	7.7529	7.7583	7.7556
February 2017	7.7557	7.7624	7.7589

March 2017	7.7609	7.7705	7.7652

ITEM 3D. RISK FACTORS

You should carefully consider all of the information set forth in this annual report and the following risk factors. The risks below are not the only ones we face. Additional risks not currently known by us or that we deem immaterial may also impair our business operations. Our business, financial condition or results of operations could be materially adversely effected by any of these risks. This annual report also contains forward looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See – “Forward Looking Statements.”

Certain Risks Relating to Doing Business in Hong Kong and the People's Republic of China (the "PRC" or "China").

PRC Sovereignty over Hong Kong is Still Developing.

The Company's executive and principal offices are located in Hong Kong, a Special Administrative Region of China (or "SAR"; Hong Kong is sometimes herein referred to as the "Hong Kong SAR").

As provided in the Sino-British Joint Declaration on the Question of Hong Kong (the "Joint Declaration") and the Basic Law of the Hong Kong SAR of China (the "Basic Law"), the Hong Kong SAR is provided a high degree of autonomy except in foreign and defense affairs. The PRC's political system and policies are not practiced in Hong Kong. Under this principle of "one country, two systems," Hong Kong maintains a legal system that is based on common law and is different from that of the PRC.

There is friction between Hong Kong residents pressing for greater democracy and the new government leadership in Beijing. Leadership personnel at Beijing's liaison office in Hong Kong had been abruptly replaced. The formula for the preservation of Hong Kong's independent legal and economic system under Chinese sovereignty has been referred to as "one country, two systems." There appears to be a deep suspicion that Hong Kong's democracy advocates are being manipulated by the United States to cause difficulties at China's doorstep as regional tensions rise, i.e. as China has been asserting territorial claims in the East and South China Seas. The foregoing is raising concerns that civil liberties in Hong Kong may be eroded in the years to come. At this point in time it is not possible to predict if this trend will continue and what effect it will have on the Company, if any.

The Company's results of operations and financial condition may be influenced by the political situation in Hong Kong and by the general state of the Hong Kong economy. See — "Economic Stability Uncertain."

There can be no assurance that these past, or any prospective future, changes in political, economic or commercial conditions in Hong Kong and the PRC will not result in a material adverse effect upon the Company.

Economic Stability in the Far East is Uncertain.

Most economies in the Far East have suffered from an economic instability. There can be no assurance that there will be a recovery, most especially in light of the recent global economic downturn. Continued growth in the PRC depends on an adequate supply of energy. There is no assurance that adequate supplies of energy can be developed or found to fuel the PRC's continued economic growth.

The PRC's Economic, Political and Social Conditions; Slowdown in Growth.

The PRC economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past thirty years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by changes in applicable tax regulations, rates of currency exchange, inflation and effects to curb inflation.

The PRC economy appears to be moving from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC are still owned by the PRC

government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Recently, the Chinese economy experienced a steep slowdown in growth from a 9.5% GDP in 2011 to 6.7% GDP in 2016 as the Chinese government focuses on raising the incomes of the average citizen and seek a national economy less driven by investment and more by consumer demand. Although past predictions have not always proven reliable, if these predictions prove accurate, they, as well as future actions and policies of the PRC government, could suffer a material adverse effect.

Also, financial reporting suggests a real estate "bubble" exists in the PRC. If a real estate "bubble" truly exists in the PRC and it bursts, the PRC's economy and the Company could suffer a material adverse effect.

The success of the Company's activities in the PRC depends on the Company's continued ability to overcome circumstances specifically effecting the industrial sector, including the relatively poor infrastructure, road transportation and communications network and an uncertain legal and regulatory environment.

Economic Reforms May Not Continue or Impact Positively On the Company; Changing Business Environment.

Over the past several years, the PRC's government has pursued economic reform policies including encouraging private economic activities and decentralization of economic deregulation. It appears that the PRC government may not continue to pursue these policies or may significantly alter them to our detriment from time to time without notice. Changes in policies by the PRC government resulting in changes in laws, regulations, or their interpretation, or the imposition of confiscatory taxes, restrictions on currency conversion and imports could materially and adversely affect our business and operating results. From 2013 through 2016, the annual growth rates in imports and exports were 7.3%, 0.4%, 14.1%, -5.5% and 7.9%, 6.1%, -2.8%, -7.7%, respectively. The nationalization or other expropriations of private enterprises by the PRC government could result in a loss of our investments in actual funds and time and effort, in China.

The Company's results at times may also be adversely effected by: (1) changes in political, economic and social conditions in the PRC; (2) changes in government policies such as changes in laws and regulations (or their interpretation); (3) the introduction of additional measures to control inflation; (4) changes in the rate or method of taxation; (5) imposition of additional restrictions on currency conversion remittances abroad; (6) reduction in tariff protection and other import restrictions; and (7) a return to the more centrally-planned economy that existed previously.

We Are Subject To International Economic And Political Risks, Over Which We Have Little Or No Control.

Doing business entirely outside the United States subjects us to various risks, including changing economic and political conditions, exchange controls, currency fluctuations, armed conflicts and unexpected changes in United States and foreign laws relating to tariffs, trade restrictions, transportation regulations, foreign investments and taxation. We have no control over most of these risks and other unforeseeable risks and may be unable to anticipate changes in international economic and political conditions and, therefore, unable to alter our business practice in time to avoid the adverse effect of any of these changes.

The International Financial Crisis and Economic Conditions May Have A Material Adverse Impact on Our Business and Financial Conditions.

With deteriorating worldwide economies, global markets have experienced significant turmoil and upheavals characterized by extreme volatility and the volatility in prices and securities and commodities, diminished credit availability, inability to access capital markets, waves of bankruptcies, high unemployment and declining consumer and business confidence. It appears that international economic deterioration has negatively impacted our revenue and other results of operation. We cannot predict the short and long-term impact of these events on our business and financial condition that may be materially and adversely affected in the future.

Our revenue and net income may be materially and adversely affected by any economic slowdown in China.

The PRC government has in recent years implemented a number of measures to control the rate of economic growth, including by raising interest rates and adjusting deposit reserve ratios for commercial banks as well as by implementing other measures designed to tighten credit and liquidity. These measures have contributed to a slowdown of the PRC economy. According to the National Bureau of Statistics of China, China's GDP growth rate was 6.7% in 2016. Any continuing or worsening slowdown could significantly reduce domestic commerce in China, including through the Internet generally and within our ecosystem. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in China or any other market in which we may operate could have a material adverse effect on our business, financial condition and results of operations.

We May be Impacted by Inflation in PRC .

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business historically. In response to the increased inflation rate during 2004, the Chinese government announced measures to restrict lending and investment in the PRC in order to reduce inflationary pressure on the PRC's economy; More recently, the inflation rate has increased by 2.7%, 2.6%, 1.9%, 1.4% and 2.0 in 2012, 2013, 2014, 2015 and 2016, respectively. Efforts by the PRC to curb inflation may also curb economic growth, increase our overhead costs and adversely affect our sales. Inflationary increases cause a corresponding increase in our general overhead. If the PRC rate of inflation continues to increases, the Chinese government may introduce further measures intended to reduce the inflation rate in the PRC. Any such measures adopted by the Chinese government may not be successful in reducing or slowing the increase in the PRC's inflation rate. A sustained or increased inflation in the PRC may have an adverse impact on the PRC's economy and may materially and adversely affect our business and financial results.

There is an Uncertain Legal System and Application of Laws.

The legislative trend in the PRC over the past decade has been to enhance the protection afforded to foreign investment and allow for more active control by foreign parties of foreign invested enterprises. This may not continue. In addition, as the PRC economy, business and commercial framework and legal system all continue to develop, that development may adversely affect the Company's activities in the PRC or the ability of the Company to enter into Sino-foreign agreements.

The Business Laws of the PRC Legal System Are Still Developing.

The PRC does not yet possess a comprehensive body of business law or a consolidated body of laws governing foreign investment enterprises. As a result, the enforcement, interpretation and implementation of existing laws, regulations or agreements may be sporadic, inconsistent and subject to considerable discretion. The PRC's judiciary has not had sufficient opportunity to gain experience in enforcing laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. As the legal system develops, entities such as the Company may be adversely affected by new laws, changes to existing laws (or interpretations thereof) and preemption of provincial or local laws by national laws. Even when adequate law exists in the PRC, it may not be possible to obtain speedy and equitable enforcement of the law.

The PRC Government Imposes Currency Controls.

The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of its currency, Renminbi, into foreign exchange and through restrictions on foreign imports. The conversion of RMB into Hong Kong Dollars and U.S. Dollars must be based on rates set by the People's Bank of China, which rates are set daily based on the previous day's Chinese interbank foreign exchange market rate with reference to current exchange rates on the world financial markets.

Currently, the RMB is permitted to fluctuate within a narrow band against the U.S. Dollar. Exchange rate fluctuations may adversely affect the Company because of increases in overhead costs, adverse effects on sales, foreign currency denominated liabilities, and may materially adversely affect the value, translated into U.S. dollars, of the Company's net fixed assets situated and to be situated in the PRC, earnings and dividends.

There is a Foreign Currency Risk.

The Company operates in Hong Kong, the PRC and trades with both local and overseas customers, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to purchases in, Hong Kong dollar, Renminbi, US dollars, the Japanese yen and Euro. Foreign exchange risk arises from committed and unmatched future commercial transactions, such as confirmed import purchase orders and sales orders, recognized assets and liabilities, and net investment in the PRC operations. The Company uses derivative financial instruments such as foreign exchange contracts to hedge certain foreign currency exposures but does not currently adequately hedge its foreign exchange positions. There can be no assurances that the Company's hedging strategies will be adequate to avoid this foreign exchange risk.

The PRC has had Turbulent Relations with the United States of America ("United States").

Differences between the United States and PRC governments on some political issues continue occasionally to color their relationship. These occasional controversies could materially and adversely affect our business and operations. Political or trade friction between the two countries could also materially and adversely affect the market price of our ordinary shares ("Ordinary Shares"), whether or not they adversely affect our business.

Certain Risks Relating to the Company's Business.

Decline in Revenues; Operating Loss; Loss Before Income Taxes.

Since Fiscal 2008, the Company's revenues have declined and its losses have increased, with revenues having declined from approximately $31,738,000 in 2008 to approximately $22,478,000 in 2016, operating losses having increased from approximately $371,000 in income in 2008 to approximately $670,000 of losses in 2016, and losses before income taxes having increased from approximately $560,000 in income in 2008 to approximately $640,000 of losses before income taxes in 2016. The Company primarily attributes the revenue reduction, and the increase in operating losses and losses before income taxes to the global international economic downturns and having key suppliers selling their products through China suppliers other than the Company. Exacerbating these losses in Fiscal 2010 was the further inclination of key suppliers selling their products other than through the Company and the delay of site readiness of several waste water treatment contracts including one site delayed by a fatal traffic accident. During Fiscal 2014, the Company had revenues of approximately US$18,822,000, operating losses of approximately US$971,000, and losses before income tax of approximately US$879,000. The principal reason for the operating losses for Fiscal 2014 was the drop in sales revenue and gross margin from engineering activities as a result of strong competition and the international economic slowdown. During Fiscal 2015, the Company had revenues of approximately US$18,302,000, operating losses of approximately US$1,958,000, and losses before income tax of approximately US$1,904,000 The principal reason for the operating losses for Fiscal 2015 was a further drop in sales revenue and gross margin from engineering activities. During Fiscal 2016, the Company had revenues of approximately US$22,478,000, operating losses of approximately US$670,000, and losses before income tax of approximately US$640,000. The principal reason for the operating losses for Fiscal 2016 was research and development costs of approximately US$475,000.

We encountered difficulties in the PRC in obtaining certain new customers for our products and services as these potential new customers appear reluctant to separate from their current service providers and sellers.

As the international economic downturn appears to be continuing, showing only modest positive economic improvement and the Company may face further competition by having key suppliers selling their products through China suppliers other than the Company, there can be no assurance that the Company's revenues will not decline further and losses will not increase.

Future Plans to Increase Revenue; Decrease Losses and Return to Profitability Uncertain.

The Company has been attempting to stem the decline in revenue by streamlining its activities. The Company has reduced its staff, consolidated offices and is trying to improve staff efficiencies. To date, this has not been successful but the Company plans to continue these economizing efforts. The Company obtained formal certification from China's Classification Society ("CCS"), acceptance from the U.S. Coast Guard for use as an Alternate Management Systems ("AMS") in U.S. waters for its 200, 300, 500, 750, 1200 and 1250 Cubic Meters per hour BWTS, and RS type approval (Russian Maritime Register) for its 300 Cubic Meters per hour BWTS . The Company entered into a contract to supply a 300 Cubic Meters per hour BWTS for a maritime institute in Jiangsu during 2015 and the goods were delivered in 2016. The Company hopes to receive revenues from orders to retrofit and install its ballast water treatment process into ocean going vessels and is working on a number of sales quotations. There can be no assurance that continuing its streamlining of efforts and its sales of its ballast water treatment process will be successful or, if successful, that the process will result in significant revenues to the Company. Even if the Company builds a market for a product or service, the research and development and marketing of that product or service will result in losses to the Company for a significant period of time, even if that product or service ultimately becomes profitable. However, we were unable to market such energy meters. There can be no assurance that products, if any, that we develop in the future, will not have similar results with the time, effort and expense used to develop any such products having a material adverse effect on the Company.

We Have Made And May Make Further Acquisitions Without Your Approval.

Although we endeavor to evaluate the risks inherent in any particular acquisition, there can be no assurance that we will properly or accurately ascertain all such risks. We will have virtually unrestricted flexibility in identifying and selecting prospective acquisition candidates and in deciding if they should be acquired for cash, equity or debt, and in what combination of cash, equity and/or debt.

We have taken equity positions in related businesses. We will not seek stockholder approval for any additional acquisitions unless required by applicable law and regulations. Our stockholders may not have an opportunity to review financial and other information on acquisition candidates prior to consummation of any acquisitions under almost all circumstances.

Investors will be relying upon our management, upon whose judgment the investor must depend, with only limited information concerning management's specific intentions.

There can be no assurance that the Company will locate and successfully complete any such additional acquisitions, or any acquisition will perform as anticipated, will not result in significant unexpected liabilities or will ever contribute significant revenues or profits to the Company or that the Company will not lose its entire investment in any acquisition.

Dependence upon Management.

The Company is dependent upon the services of its executive officers, in particular Mr. T.C. Leung, the Chairman of the Company's Board of Directors and its Chief Executive Officer. The business of the Company could be adversely affected by the loss of services of, or a material reduction in the amount of time devoted to the Company by its executive officers. The Company does not maintain "Key Man" life insurance on the lives of any of its officers and directors. See – Item 6. "Directors, Senior Management and Employees."

Material Adverse Effect upon the Company of PRC's Credit Restrictions.

The Company faces increasing competition from other distributors of substantially similar products and manufacturers themselves, both foreign and Chinese. The Company faces its principal competition from foreign manufacturers and other distributors of their products situated in Hong Kong and the PRC. Competition may cause purchaser demands for price reductions and reduced profit margin.

Competition with Vendors.

As the Company assembles products of the kind that it presently distributes, the Company may directly compete with certain of its vendors. Any such direct competition may adversely affect its relationship with its vendors.

Dependence on Vendors; Lack of Long Term Arrangements; Loss of Vendors.

The Company distributes supplies manufactured by a number of vendors. Thermo Fisher Scientific Group ("Thermo"), Stanford Research Systems, Inc. ("Stanford"), Hach Company ("Hach"), and Hioki E. E. Corporation ("Hioki") are among the Company's largest suppliers, pursuant to short term arrangements. Although alternative sources of supply exist, there can be no assurance that the termination of the Company's relationship with any of the above or other vendors would not have an adverse effect on the Company's operations due to the Company's dependence on these vendors. A substantial number of the Company's suppliers have been selling their products into China directly and through other distributors. During Fiscal 2014, our sales revenue from trading activities slightly increased by approximately 6%.

During Fiscal 2015, our sales revenue from trading activities slightly increased by approximately 5%. During Fiscal 2016, our sales revenue from trading activities increased by approximately 12%. A loss of a substantial vendor or substantial number of our other vendors and/or our competing with them would have a material adverse effect on our revenues from trading activities.

Risks Relating To the Company Itself; Control by T.C. Leung; Potential Conflict of Interests.

T.C. Leung, the Company's Chairman of the Board and Chief Executive Officer, as a practical matter, is able to nominate and cause the election of all the members of the Company's Board of Directors, control the appointment of its officers and the day-to-day affairs and management of the Company. As a consequence, Mr. Leung can have the Company managed in a manner that would be in his own interests and not in the interests of the other shareholders of the Company. See – Item 6. "Directors, Senior Management and Employees" and Item 7. "Major Shareholders and Related Party Transactions."

Certain Legal Consequences of Incorporation in the British Virgin Islands; Rights of Shareholders Not As Extensive As In U.S. Corporations.

Principles of British Virgin Islands ("BVI") corporate law relating to such matters as the validity of the Company procedures, the fiduciary duties of management and the rights of the Company's shareholders may differ from those that would apply if the Company were incorporated in a jurisdiction within the United States.

The rights of shareholders under BVI law are not as extensive as the rights of shareholders under legislation or judicial precedent in many United States jurisdictions. Under United States law, majority and controlling shareholders generally have certain "fiduciary" responsibilities to the minority shareholders. United States shareholder action must be taken in good faith and actions by controlling shareholders in a United States jurisdiction and executive compensation which are obviously unreasonable may be declared null and void.

The BVI law protecting the interests of the minority shareholders is not as protective in all circumstances as the law protecting minority shareholders in United States jurisdictions. The shareholders of the Company may have more difficulty in protecting their interests in the face of actions by the Company's Board of Directors, and may have more limited rights, than they might have as shareholders of a company incorporated in many United States jurisdictions.

Anti-Takeover Provisions.

The Company has 5,000,000 shares of "blank check preferred stock" authorized. The "blank check preferred stock" is intended to strengthen the Company's ability to resist an unsolicited takeover bid and may be deemed to have an anti-takeover effect. The Board of Directors has the right to fix the rights, terms and preferences at the time of issue of "blank check preferred stock" without further action by our shareholders.

Uncertainty of Enforcing United States Judgments.

There is some uncertainty whether BVI courts would enforce judgments of the courts of the United States and of other foreign jurisdictions, or enforce actions brought in the BVI which are based upon the securities laws of the United States. A final monetary judgment obtained in the United States will be treated as a cause of action in itself by the BVI courts so that no retrial of the issues would be necessary, provided that material preconditions are met and the proceedings pursuant to which judgment was obtained were not contrary to the rules of natural justice.

All of the Company's directors and executive officers reside outside of the United States, service of process upon the Company and such persons may be difficult to effect in the United States upon all such directors and officers.

All of the Company's assets are and will be located outside of the United States, in Hong Kong and the PRC, and any judgment obtained in the United States may not be enforced in those jurisdictions. Hong Kong courts will not directly enforce against the Company or such persons judgments obtained in the United States. There is also substantial doubt as to the enforceability in the PRC of actions to enforce judgments of the United States' courts arising out of or based on the ownership of the securities, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws or otherwise. See — "Certain Legal Consequences of Incorporation in the British Virgin Islands; Rights of Shareholders not as Extensive as in U.S. Corporations."

Being a Foreign Private Issuer Exempts Us from Certain SEC and NASDAQ OMX ("NASDAQ") Requirements.

We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). As such, with certain limitations, we are exempt from certain provisions applicable to United States public companies including: (1) the rules under the Exchange Act requiring the filing with the Commission of

quarterly reports on Form 10-Q or current reports on Form 8-K; (2) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; (3) the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; and (4) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any “short-swing” trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer’s equity securities within less than six months). Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

Our Securities Must Continue To Meet Qualitative And Quantitative Listing Maintenance Criteria For NASDAQ; Recent Deficiency Cured.

Our securities are quoted and traded on NASDAQ. There can be no assurance that we will continue to meet both the qualitative and quantitative criteria for continued quotation and trading of our securities on NASDAQ. One of NASDAQ’s listing requirements is the maintenance of a closing bid price of US$ 1.00 per share. During periods of time in 2008 and 2009 the Company was not in compliance with that requirement but NASDAQ had generally suspended that requirement and others due to market conditions and/or the US$1.00 per share bid price was not met for a sufficient period of time to cause a NASDAQ deficiency action.

In September 20, 2011, the Company received a deficiency letter from NASDAQ that the Company was no longer in compliance with NASDAQ's listing maintenance rule for failing to have a bid price of at least US$ 1.00 per share for the prior thirty trading days. In January 2012, the Company effected a combination or reverse stock split of its issued Ordinary Shares, and thereafter, in February 2012, the Company received a letter from NASDAQ advising that it had regained compliance with NASDAQ's maintenance listing requirements.

If we are unable to meet the continued quotation criteria of NASDAQ and are suspended from trading on these markets, our securities could possibly be traded in the over-the-counter market and be quoted in the so-called "pink sheets" or, if then available, the OTC Bulletin Board. In such an event, an investor would likely find it more difficult to dispose of, or even obtain accurate quotations of, our securities. See—"We Are Also Required To Meet Certain, But Not All Corporate Governance Criteria Applicable to NASDAQ Listed Issuers."

We Are Also Required To Meet Certain, But Not All, Corporate Governance Criteria Applicable To NASDAQ Listed Issuers.

Although, in the past, we have been able to satisfy corporate governance criteria applicable to NASDAQ listed issuers, those criteria are difficult to comply with and include, among other things: (a) a heightened degree of independence of members of the board of directors with independent directors to, among other things: hold regular meetings among themselves only; (b) establishment of a code of conduct addressing compliance with laws; and (c) a limit on payments to independent directors and their family members (other than for services on the board of directors).

These corporate governance requirements and a strict definition of "independent director" make it more difficult to find independent directors for our Board of Directors. There is intense competition for qualified independent directors, including those persons with accounting experience and financial statement acumen to serve on audit committees. We believe that continued compliance with the corporate governance requirements applicable to NASDAQ listed issuers may be difficult and increase our costs and expenses as the costs of finding and compensating independent directors escalate and the costs of administering their new powers and responsibilities is an added financial burden. If we are unable to attract and keep a sufficient number of independent directors willing to take on the responsibilities imposed by such rules on what we believe to be commercially reasonable terms, our securities may be delisted from NASDAQ. See—"Being a 'Controlled Company' Exempts Us from Certain Other Corporate Governance Criteria Applicable to NASDAQ Listed Issuers."

Being A "Controlled Company" Exempts Us From Certain Other Corporate Governance Criteria Applicable To NASDAQ Listed Issuers.

As a result of T.C. Leung, the Company's Chairman of the Board and Chief Executive Officer, beneficially owning the majority voting power of our Ordinary Shares, we are a "controlled company" as that term is defined in rules and regulations applicable to NASDAQ listed issuers. As a "controlled company," we are not required to comply with certain NASDAQ corporate governance criteria including, among other things, the requirements that the majority of our Board be independent directors, and their having the authority to approve director nominations and executive officer compensation.

We Are Not Subject To Various Corporate Governance Measures, Which May Result In Shareholders Having Limited Protections.

Recent federal legislation, including the Sarbanes-Oxley Act of 2002 ("SOX"), has resulted in the adoption of various corporate governance measures by securities exchanges and NASDAQ designed to promote the integrity of the corporate management and the securities markets. Being a "controlled company," we are exempt from many, but not all, of those requirements. Furthermore, the absence of such practices with respect to our Company may leave our

shareholders without protections against interested director transactions, conflicts of interest and similar matters.

We May Be Exposed To Potential Risks Relating To Our Internal Controls Over Financial Reporting.

Pursuant to Section 404 of SOX, the SEC adopted rules requiring public companies to include a report of management on the Company's internal controls over financial reporting in their annual reports, including Form 20-F.

We expend significant resources in developing and maintaining the necessary documentation and testing procedures required by SOX, there is a risk that we will not maintain compliance with all of these requirements.

In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner our ability to obtain equity or debt financing could suffer and the market price of our shares could decline.

The Market Price Of Our Securities Has Been Fluctuating Widely.

During the past several years, the market price of our Ordinary Shares has fluctuated widely on occasion. Except for the price declines that the Company attributes to the current international economic downturn, the Company knows of no reason for these wide fluctuations. See – Item 9.C “Markets.”

There Are Risks In Purchasing Low-Priced Securities.

If our securities were to be suspended or delisted from NASDAQ, they could be subject to rules under the Exchange Act which impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established clients and “accredited investors.” For transactions covered by such rules, a broker-dealer must make a special suitability determination of the purchaser and have received the purchaser’s written consent to the transaction prior to the sale. Consequently, such rules may affect the ability of broker-dealers to sell our securities and the ability to sell any of our securities in any secondary market that may develop for such securities. In the event our securities are no longer listed on NASDAQ or are not otherwise exempt from the provisions of the SEC’s “penny stock” rules, such rules may also affect the ability of broker-dealers and investors to sell our securities.

There Is No Assurance Of A Continued Public Market For Our Securities.

There can be no assurance that a trading market for our Ordinary Shares will continue.

We May Be Considered To Be A Passive Foreign Investment Company For The 2016 Calendar Year And May Be A Passive Foreign Investment Company For Future Years, Which Would Result In Adverse U.S. Federal Income Tax Consequences To U.S. Holders Of Our Ordinary Shares.

A non-U.S. corporation will be considered a passive foreign investment company (“PFIC”) for U.S. income tax purposes, for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The annual PFIC determination to be made by a U.S. holder of our ordinary shares is an inherently factual determination and there is limited guidance regarding the application of the PFIC rules to specific situations. We currently hold a substantial amount of cash and cash equivalents, and investments in PRC enterprises, and the value of our goodwill and other assets may be based in part on the market price of our ordinary shares, which has experienced significant fluctuations. Although the determination of PFIC status is subject to factual uncertainties because it depends upon the valuation of our ordinary shares, as well as our goodwill and other assets and income, we are uncertain if we would be considered to be a PFIC for 2016. In addition, as the determination of PFIC status is made on an annual basis and depends on variables over which we have limited control, there can be no assurance that we will not be a PFIC for 2016 or any future years. If we are a PFIC in any year, U.S. holders will be subject to certain adverse United States federal income tax consequences, and are urged to consult with his or her tax advisor. See— Item 10. “Taxation—United States Federal Income Taxation .”

If We Become Directly Subject to the Recent Scrutiny Involving U.S.-Listed Chinese Companies, We May Have to Expend Significant Resources to Investigate and/or Defend the Matter, Which Could Harm our Business Operations, Stock Price and Reputation and Could Result in a Complete Loss of Your Investment in Us.

U.S. listed companies that have substantial operations in China have been the subject of intense scrutiny by investors, financial commentators and regulatory agencies. Much of the scrutiny has centered on financial and accounting irregularities and mistakes, a lack of effective internal controls over financial reporting and, in many cases, allegations of fraud. As a result of the scrutiny, the publicly traded stock of many U.S. listed China-based companies that have been the subject of such scrutiny has sharply decreased in value. Many of these companies are now subject to

shareholder lawsuits and/or SEC enforcement actions that are conducting internal and/or external investigations into the allegations. If we become the subject of any unwarranted scrutiny, even allegations that are not true, we may have to expend significant resources to investigate such allegations and/or defend the Company. Such investigations or allegations will be costly and time-consuming and distract our management from our business plan and could result in our reputation being harmed and our stock price could decline as a result of such allegations, regardless of the truthfulness of the allegations.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company was organized under the laws of the BVI on September 30, 1996 for the purposes of raising capital and for acquiring all the outstanding capital stock of Euro Tech (Far East) Limited, a Hong Kong corporation involved in the distribution of advanced water treatment equipment (“Far East”). In March 1997, the Company acquired all the issued and outstanding capital stock of Far East and it became a wholly-owned subsidiary and was the primary operational entity of the Company.

Yixing Pact Environmental Technology Company Limited (“Yixing”) and Pact Asia Pacific Limited (“Pact,” collectively with “Yixing”, “Pact-Yixing”), companies engaged in the water and waste-water treatment solution business, became our majority-owned subsidiaries in 2005, and we acquired additional two percent (2%) and five percent (5%) equity interests in Pact and Yixing in January 2010 and July 2011, respectively.

Pact-Yixing, situated in Shanghai, specialize in the design, manufacture and operation of water and waste-water treatment plants in several industries situated in China. Pact-Yixing, through agents and business alliances, also conduct similar operations in the Middle East.

We established Shanghai Euro Tech Environmental Engineering Company Ltd. ("Shanghai Environmental") as a wholly-owned subsidiary under the laws of the PRC, to carry on our environmental engineering department with that line of business and its personnel transferred from our subsidiary, Far East. Shanghai Environmental is focusing on our water and waste-water treatment engineering business. We are scaling down this company to avoid duplication of costs and efforts as we have a 58% equity interest in Pact-Yixing which operate similar business activities. Shanghai Environmental is just completing its outstanding projects and had made an operating loss of approximately US$ 558,000 in Fiscal 2015 and $105,000 in Fiscal 2016 and we plan to wind it down upon collection of outstanding account receivable.

China's rapid economic growth had led it to become one of the world's largest emitters of sulfur dioxide. The damage due to acid rain caused by sulfur dioxide is vast, and is also affecting the neighboring countries as air currents transport sulfur dioxide. To tackle these environmental and geo-political issues, China has established targets to reduce key pollutants, namely, sulfur dioxide, nitrogen oxides and suspended particulates. Heavy polluters are being warned to reduce their emissions or face penalties. We believe that as a result, the demand of desulphurization and dust removal equipment will increase accordingly.

Far East owns a 19.7% equity interest in Zhejiang Tianlan Environmental Protection Technology Company Limited ("Blue Sky"), founded in 2000. Blue Sky provides design and general contracting services, equipment manufacturing, installation, testing and operation management for the purification treatment of industrial waste gases (specifically as desulphurization, flue gas de-nitration, dust removal) emitted from various boilers and industrial furnaces of power plants, steelworks and chemical plants. By securing an equity stake in Blue Sky's business, we have a strategic partner to work within China's environmental protection business. With Blue Sky's technology and technical support, we believe we are able to provide services and environmental solutions not only for water and waste-water treatment but also for air pollution control for industrial clients in China. Blue Sky's revenue increased during Fiscal 2014 and Fiscal 2015, and decreased during Fiscal 2016, and net income has steadily increased during Fiscal 2014, Fiscal 2015 and Fiscal 2016. Blue Sky has received approval from the National Equities Exchange and Quotations ("NEEQ") to list its shares on the New Third Board in the PRC on November 17, 2015 and is now listed in the New Third Board. The New Third Board is a national over-the-counter market in the PRC regulated by China Securities Regulatory Commission, and managed by NEEQ. New Third Board serves as a trading platform for small and medium-sized enterprises. Any new issuance of Blue Sky's shares on the New Third Board will dilute our ownership in Blue Sky. On the other hand, the New Third Board provides us with an exit channel to sell our position in Blue Sky if the price is attractive.

We have a 20% equity interest in Zhejiang Jia Huan Electronic Co. Ltd., ("Jia Huan"). Jia Huan has been in the environmental protection business since 1969. Approximately 95% of Jia Huan's business is related to air pollution control and less than 5% is related to water and wastewater treatment. Jia Huan designs and manufactures automatic control systems and electric voltage control equipment for electrostatic precipitators which are used as air purification equipment for power plants, cement plants and incinerators to remove and collect dust and pollutants from exhaust stacks.

In Fiscal 2016, Blue Sky and Jia Huan made income contribution of approximately US$689,000 and US$313,000, respectively, to the Company. In Fiscal 2015, Blue Sky and Jia Huan made income contribution of approximately US$663,000 and US$187,000, respectively, to the Company. In Fiscal 2014, Blue Sky and Jia Huan made income contribution of approximately US$453,000 and US$152,000, respectively, to the Company. China's 13th Five Year Plan promotes a cleaner and greener economy, with strong commitments to environmental management and

protection, clean energy and emissions controls, ecological protection and security, and the development of green industries. This demonstrates a clear focus on charting a sustainable course for the economy in the long-term and the desire to play a global role in curbing greenhouse gas emissions. Management believes such development in the Chinese government policy will benefit our business as well as those of these two affiliates.

ITEM 4B. BUSINESS OVERVIEW

The Company had been primarily a distributor of a wide range of advanced water treatment equipment, laboratory instruments, analyzers, test kits and related supplies and power generation equipment (including recorders and power quality analyzers). The Company acts as an exclusive and non-exclusive distributor for well-known manufacturers of such equipment, primarily to commercial customers and governmental agencies or instrumentalities in Hong Kong and the PRC.

The Company distributes products through its Hong Kong headquarters, its trading companies and representative offices in Beijing, Shanghai, Guangzhou, Chongqing, Xi´An, and Shenyang. The Company's PRC trading subsidiaries are Chongqing Euro Tech Rizhi Technology Company, Rizhi Euro Tech Investments (Shaanxi) Company Limited and Guangzhou Euro Tech Environmental Equipment Company Limited.

Laboratory instruments, analyzers and test kits are used to analyze the chemical content and ascertain the level of impurities or other contaminants in water. The Company distributes analytical re-agents and chemicals to support testing systems of laboratory and portable instruments, process analyzers and portable test kits and assist in the analysis process. The Company offers a wide variety of test kits to test water quality. The Company believes that these portable test kits are easy to use and preadapted for rugged field use. These test kits are used to monitor drinking water distribution systems.

Laboratory and portable instruments generally consist of analytical instruments including, but not limited to the following: spectrophotometers, colorimeters, turbidimeters, ion-selective electrodes, chemical oxygen demand apparati, digestion apparati, and precision re-agent dispensing devices which are used to test and monitor impurities and contaminants in water systems. See – "Glossary."

The Company also distributes continuous-reading process analyzers, process turbidimeters, pH controllers and analyzer accessories. These products are generally used to monitor and control drinking water quality to ensure that water treatment procedures comply with regulatory standards. See – "Glossary."

In 2005, we acquired Pact-Yixing to allow the Company to bid on larger water, waste-water and power generation projects. The Company believes that the Pact-Yixing business is complementary to the Company's business as the Company expects to have a competitive advantage by offering customers and potential customers not only hardware but solutions to engineering problems as well.

Pact-Yixing completed a substantial number of industrial water and waste-water treatment projects in the PRC. The majority of these projects are for large multinational manufacturing facilities for clients from the USA, Europe and Japan. Process design as well as mechanical and electrical engineering are completed in-house and manufacturing contracted to approved fabricators of components. Fabrication drawings are also done in-house for submittal to said fabricators under the supervision of Pact-Yixing's quality control engineers.

Pact-Yixing's clients cover a varied spectrum of industries covering semiconductor, pharmaceutical, petrochemicals, auto and auto parts, steel, food and beverage and beauty products.

The water and waste-water treatment processes applied at Pact-Yixing cover chemical, physical, biological and membrane separation. Combinations of those processes are normally used to treat a specific industrial process feed or effluent. With respect to the water treatment side of Pact-Yixing's business, they design and build filtration equipment, ion-exchange softeners and demineralizers, reverse osmosis, electro-deionization, chemical treatment systems and package type mobile water treatment plants. As for waste-water treatment, Pact-Yixing design and build biological treatment systems, oil coalescers, dissolved air flotation, lamella clarifiers, chemical reactor tanks, ultrafiltration, microfiltration, dewatering systems and package type mobile sewage treatment plants. Biological treatment plants cover both aerobic and anaerobic processes. State-of-the-art aerobic processes of SBR (sequential batch reactors) and MBR (membrane biological reactors) are technologies also covered by Pact-Yixing. See – "Glossary."

In 2006, Pact-Yixing commenced selling water and waste-water treatment equipment. Pact and Engineering FZC ("PACTFZC"), a Middle Eastern water treatment company based in Dubai, and a third party formed a joint venture (the "JV"). Pact invested US$300,000 and had a 60% controlling interest of the JV, PACTFZC, majority owned by George Hayek, Pact-Yixing's managing director, and a third party each invested US$100,000 in consideration for 20% interests. In 2013, The JV was liquidated and its business has been taken over by Pact-Yixing.

We continue the process of shifting our emphasis from the distribution of instruments and equipment to engineering and manufacturing activities. Revenues from our trading activities have fallen-off as a substantial number of our suppliers have been selling their products into China directly and through other distributors. Many of these other distributors are local Chinese companies and can operate with a lower overhead.

During Fiscal 2014, there were slight increases in revenues from trading activities. Revenue from Pact-Yixing decreased in 2014, while Shanghai Environmental incurred an operating loss of $238,000. In addition, we incurred research and development costs of approximately US$631,000 in 2015 relating to BWTS and Pact-Yixing incurred an operating loss of approximately US$402,000. This resulted in operating loss from engineering activities of approximately US$640,000.

During Fiscal 2015, there were slight increases in revenues from trading activities. Revenue from Pact-Yixing decreased in 2015, while Shanghai Environmental incurred an operating loss of $558,000. In addition, we incurred research and development costs of approximately US$851,000 in 2015 relating to BWTS and Pact-Yixing incurred an operating loss of approximately US$1,084,000. This resulted in operating loss from engineering activities of

approximately US$1,624,000.

During Fiscal 2016, there were increases in revenues from both trading and engineering activities. Revenue from Pact-Yixing increased significantly in 2016 to $8,757,000, while Shanghai Environmental incurred an operating loss of $105,000. In addition, we incurred research and development costs of approximately US$475,000 in 2016 relating to BWTS and Pact-Yixing incurred an operating loss of approximately US$104,000. This resulted in operating loss from engineering activities of approximately US$209,000. We continue to scale down Shanghai Environmental to avoid duplication of costs and efforts, as Pact-Yixing operate similar business activities, and we plan to wind it down upon collection of outstanding account receivable.

Our Growth Strategy

We are focusing our trading activities in Hong Kong, Macau and Guangdong under a more productive operation. These cities are located close to our Hong Kong headquarters, our customers are more concentrated in these cities rendering customer support easier while incurring less travel expenses and while supporting distributorships in these cities as opposed to distributorships throughout China. We will continue our efforts to control costs to enhance operational efficiency. At the same time we will place greater focus at the manufacturing level on the chemical reagent business that the Company believes is very profitable and easier to sell. These chemical reagents are manufactured in our plant in Shanghai. These reagents include but are not limited to chemical oxygen demand (COD) analyzers, fine carbon tetrachloride, total nitrogen and free chlorine. These reagents are used by water and wastewater treatment plants and other industries such as beverage, as consumables with the water analyzers to monitor the quality of the water/ discharged water. To date, our existing distribution network for these products has not been that effective, although in 2013 we received three engineering contracts from two foreign companies outside China and one company in China worth about US$ 2.3 million. Two of said contracts were completed in Fiscal 2013 and the remaining one contract was completed in Fiscal 2014. In 2016, we received a contract worth about US$ 6 million from a foreign mobile phone company that covers design, supply, installation and the commissioning of industrial wastewater treatment and scrubber systems for its OEM plants in Shanghai, Shenzhen and Zhengzhou, China. A major portion of this contract was completed in Fiscal 2016. We have been investing significant portion of our resources to developing our BWTS for the global market and feet positive about our ability to expand our worldwide customer base by working closely and actively with some international engineering companies because of Pact-Yixing's competitive prices and the high quality of its services, although no assurance can be given.

Our plans for the near term also include use of our "on-line" product sales (via www.yibaynet.com.cn) will allow us to continue to offer products at lower prices than our competitors. This website is not that effective at this moment.

The Company believes that by assembling the products it distributes it may realize increased gross profit margins and greater revenues and net income than if it remains only a product distributor. During the next twelve months, we intend to assemble and/or manufacture additional products, and seek opportunities with our suppliers to assemble their products, secure manufacturing and/or assembly facilities. We begin to promote our BWTS product that currently treats wastewater at a rate of 200, 300, 500, 750, 1,200 and 1,250 cubic meters per hour.

We also anticipate that an additional US$250,000 in research and development costs will be expended on similar projects and potential research and development projects for the development of BWTS, portable ballast water checker, air and water testing equipment and monitoring equipment during Fiscal 2017.

Future Planning and Expansion

We continuously search for products and equipment with substantial market potential for design and development. For example, international shipping ballast water cargo stowaway species and microorganisms that create unpredictable ecosystem contaminations as ballast water tanks are emptied or refilled at ports of call. The International Maritime Organization ("IMO") requires that the Ballast Water Management ("BWM") Convention will enter into force 12 months after ratification by 30 States, representing 35% of world merchant shipping tonnage. If and when it goes into force, all ocean going vessels will be fitted with dedicated water treatment systems treating ballast water before port-of-call discharge. Pact has been attempting to develop a non-chemical BWTS since late 2010. In 2012, Pact successfully completed and passed the land based test requirement, and, in 2014, PACT passed ship board testing and obtained CCS certification in the PRC and compliance with the IMO convention. In September 2016, the International Maritime Organization had received acceptance from 52 States, representing 35.1441% of world merchant shipping tonnage. The Ballast Water Management Convention will enter into force 12 months after this ratification, i.e. September 8, 2017. The Company has since received a number of enquiries for its BWTS from China, Hong Kong,

Russia, India and other Southeast Asian countries, despite worldwide recession in shipping industries. We anticipate that the costs of any such acquisition or product development would be drawn from our general working capital and, possibly, by seeking strategic partners such as companies in the BWM Convention shipping industries or funding raising from substantial investors, and by private sales of our securities. We have no commitments or received no indications of interest for the private sales of our securities.

Product Distribution and Other Services

Scientific Instruments. The Company distributes analytical instruments, environmental quality monitoring instruments, sample pre-treatment equipment and general purpose laboratory instruments. Analytical instruments include, but are not limited to, chromatographs, mass spectrometers, flow injector analyzers, automated sample preparation workstations and atomic spectrometers. Environmental monitoring instruments include both air and water quality monitoring instruments. Air quality monitoring instruments are generally divided into those which monitor ambient (i.e., atmospheric) air, and those which monitor pollution sources. The revenue from sales of air quality monitoring instruments is nominal as the Company has not been able to acquire a distributorship for air quality instruments from brand name manufactures that we believe engage in direct customer sales or rely on their existing distributors. Sample pre-treatment equipment is used to clean-up the sample prior to chemical analysis for checking pesticides and drug residues in food. Additionally, the Company offers general purpose laboratory instruments including a variety of water quality monitoring and analysis equipment, such as continuous reading process analyzers, process turbidimeters, pH controllers, and test kits for monitoring chemical content in water (i.e., chlorine, fluorides, etc.). See – “Glossary.”

Customers for the analytical instruments include government agencies, academic and research institutions, major laboratories and beverage producers, including analytical system to the Hong Kong Government Laboratory for analysis of persistent organic pollutants (POPs) and pesticides in the environment. Customers for water quality monitoring instruments also include government agencies. Customers for sample pre-treatment equipment are mainly different laboratories of major cities under the Administration of Quality Supervision, Inspection and Quarantine in the PRC. The Company derived approximately 75.0%, 64.7% and 67.5% of its revenues from the sale of scientific instruments during Fiscal 2016, 2015 and Fiscal 2014, respectively.

Power Solutions and Process Automation Products. The Company distributes general testing and measuring equipment including multi-channel digital and analogue recorders, signal amplifiers and calibration equipment for energy conservation, renewable energy equipment, power quality analyzers, continuous emissions monitoring systems and air pollution control systems to industries including power plants, railway and aero-space industries, utilities, educational institutions and telecommunications companies.

The Company also provides process control systems specifically designed for the industrial needs of clients including sensors, temperature gauges, pressure gauges, power and energy consumption meters, flow meters, valves, temperature and pressure transmitters and control devices, temperature and pressure calibrators, moisture, power, energy and harmonic analyzers. Customers for the foregoing distributed products include government water supply agencies, water treatment facilities, power and electric companies, petrochemical plants and instrument manufacturers.

In conjunction with the distribution of products such as programmable logic controllers, telemetry units and supervisory control and data acquisition (SCADA) systems and software, the Company also provides systems engineering to government agencies, waste-water treatment and power generation plants and beverage producers. Specific services provided include automated control system design, the operation and management of various waste-water, water and power generation projects. We endeavor to introduce, develop, and promote new and advanced technologies, products, and appropriate technical developments from abroad. We have also been cooperating with established technology companies and engage in systems and special projects in Programmable Logic Control, Telemetry unit, SCADA systems, Human Machine Interface Software and Sequential Event Recording.

The Company derived approximately 23.6%, 33.6% and 31.2% of revenues from the sale of Power Solutions and Process during Fiscal 2016, 2015 and Fiscal 2014, respectively.

Technical Support. The Company’s technical support staff provides customers with maintenance, installation assistance, and calibration services, and assists sales personnel in giving technical advice to and performing product demonstrations for customers. The Company derived approximately 1.4%, 1.7% and 1.3% of its revenues from technical support operations during Fiscal 2016, 2015 and Fiscal 2014, respectively.

Customers. During Fiscal 2016, the Company distributed products to approximately 1,000 customers, located in Hong Kong, the PRC and Macau such as the Hong Kong Environmental Protection Department, Hong Kong Water Supplies Department, Government Laboratory, Drainage Services Department, and various Environmental Monitoring Centers in the PRC. The Company does not believe that any single customer is material to its operations.

Manufacturing and Product Assembly Operations

The Company, through its PRC subsidiary, Shanghai Euro Tech Limited located in the Pudong Jin Qiao Export Processing Zone of Shanghai, engages in the development, production, sales and servicing of environmental equipment, including the development of modern laboratory analyzers, on-line measuring equipment and other analyzers for chemicals. Our products are “tailor-made” for the diversified needs of equipment users. Main products

include infrared photometric oil analyzer (“IPOA”), COD analyzers, total organic carbon (“TOC”) analyzer, turbidity meters, total suspended solid analyzers, dissolved oxygen analyzers, various types of spectrophotometers as well as a full spectrum of matching chemical reagents. We also offer turbidity meters manufactured by the Company and directed at water treatment plants, environmental monitoring status, and hydrological stations. We also offer our own TOC analytical instrument that measures the degree of the pollution. We have also upgraded other existing instruments and developed a quick response COD test instrument for use on surface water, underground water and domestic and industrial wastewater. Additionally, we offer a flue gas emissions analyzer for use in environmental compliance monitoring. We also developed energy meters (devices measuring electric energy consumption and corresponding carbon dioxide emissions) and water toxicity analysis instruments. Although it takes substantial time, effort and expense to develop, test and market a product, our sales of the TOC analyzer and the flue gas emissions analyzer have been nominal to date. We have been unable to find a suitable market to sell the energy meters. We have developed evaporator for extraction of organic solvents to remove the impurities prior to chemical analysis and are developing a larger size evaporator. Our customers are analyzing environmental pollutants, toxic substances such as pesticides and drug residues in food, drugs in clinical or forensic applications. We started test sale of this product in second half of fiscal 2015 and expect to receive more orders in 2017 (sold 9 sets in 2016). We are working on the development of a handheld portable ballast water checker for quick indications of gross exceedance of the Ballast Water compliance standards. Shanghai Euro Tech Limited achieved its economic breakeven point in Fiscal 2014.

Sources of Supply

The Company distributes products manufactured by a substantial number of major American, European and Japanese corporations, including Thermo, Stanford, Hach and Hioki, which are the Company's largest suppliers, with purchases from them accounting for approximately 33%, 11%, 6% and 6% during Fiscal 2014, 39%, 11%, 6%, and 5% during Fiscal 2015, and 63%, 7%, 5% and 5% during fiscal 2016, respectively. The Company has exclusivity agreements for specified geographic areas with many of its suppliers for certain products. Those agreements do not encompass all products distributed by the Company or all of the market areas serviced by the Company. In addition, some of these agreements are memorialized not as formal contracts but rather through other acknowledgements or correspondence which may contain a vague, if any, description of the terms and conditions of such agreement or arrangement, and therefore may be unenforceable. The Company has agreements with Hach. The Company has only an Authorization Letter from Thermo granting the Company rights to sell Thermo's Mass Spec Products in Hong Kong and Macau which is valid until December 31, 2017. The Company has only an Authorization Letter from Stanford appointing the Company as Stanford's sales representative in the PRC and Hong Kong. The Company has only an Authorization Letter from Hioki appointing the Company as Hioki's sole agent in Hong Kong and Macau. Although alternative sources of supply exist, there can be no assurance that the termination of the Company's relationship with any of the above or other vendors would not have an adverse effect on operations.

Regulatory Environment

Concerns about and awareness of pollution problems and environmental issues have grown at all levels of PRC government as the PRC experienced economic growth. Environmental protection laws and strict regulations have been enacted and are buttressed by increased budget allocations for environmental regulation, monitoring and enforcement. The PRC's primary environmental protection agency is the Ministry of Environmental Protection ("MEP"), under which there are Environment Protection Bureaus in each city and county. According to information provided by MEP, there are over 2,700 monitoring stations to collect and analyze the environmental data of each city and county. MEP has identified over 14,400 major industrial polluters, including wastewater discharging enterprises, flue gas emitting enterprises, municipal wastewater treatment plants and heavy metal producing enterprises, for pollution control. MEP is considering to adding on-line toxicity as one of the parameters for on-line monitoring stations in China. The PRC government established ambitious targets in its 12th Five-Year Program (2011-2015) to slash emissions of pollutants, including sulfur dioxide emissions and COD by 8% and ammonia nitrogen and nitrogen dioxide by 10%. The PRC government passed a law requiring power distributors to combat global warming. A central government fund, financed by a national tariff increase, will subside the tariff gap between more expensive renewable energy and the national average tariff. Preferential policies also encourage construction of renewable energy projects, projects in poorer interior regions that are often rich in water, solar and wind resources. In 2015, COD, ammonia, sulfur dioxide and nitrogen oxide emissions declined by 3%, 3%, 5% and 9%, respectively. The overall objectives its 13th Five-Year Program (2016-2020) are: to improve the overall quality of the ecological environment, significantly reducing emissions of major pollutants. The Company has supplied water and air quality monitoring and analytic instruments to these monitoring stations for several years. There can be no assurance that the agencies will continue to use the Company's products for these purposes, or that other market competitors will not enter the market with superior products, distribution systems or more competitive prices. See – "Competition."

Competition

The Company faces competition from other distributors of substantially similar products as well as the manufacturers of such products, and in both foreign and Chinese markets. The Company faces its principal competition from manufacturers and other distributors of its core products located in Hong Kong and the PRC. Moreover, the Company has implemented plans to assemble products of the kind that it presently distributes (see – "Manufacturing and Product Assembly Operations"). Assembly operations have developed to the stage where some products have already been

presented to the market and the Company is in direct and unavoidable competition with certain of its vendors. There can be no assurance that the existence of this direct competition will not impair the Company's ability or such competitor's willingness to continue providing other products for continued distribution by the Company and that such a development would not materially adversely affect the Company's core business.

During Fiscal 2016, Fiscal 2015 and Fiscal 2014, the Company's gross profit margins were approximately 22%, 22% and 26%, respectively. The Company believes that it competes with the PRC manufacturers on the basis of quality and technology. The Company believes it offers foreign-manufactured products which are of higher quality and use more advanced technology than products manufactured in the PRC. The Company believes that it competes with foreign manufacturers and other distributors of their products on the basis of the Company's more extensive distribution network and an established reputation. Pact-Yixing focuses on a market of providing water and waste water treatment services to multinational companies. The Company competes in this market based upon the quality of its products and having a knowledgeable staff, but faces competition from large PRC and multinational engineering companies, that, in the Company's view, market their services based upon low pricing as opposed to quality of service.

Website

The Company has an internet platform located at http://www.chinah2o.com. The website is directed toward environmental businesses in China. The website provides environmental news, directories of western suppliers, potential clients in China, and advertisement space but has not generated sufficient external revenue and is now being operated directly through the Company instead of through a subsidiary deregistered in February 2012.

The Company, through its subsidiary, Euro Tech Trading (Shanghai) Limited, a PRC corporation, has an internet platform. The website is located at http://www.yibaynet.com.cn. The website is an instrument sourcing platform under which potential customers can ask for sales quotations and place orders via internet. It can replace some functions of the closed retail shops.

Sales and Marketing

The Company distributes products through its principal office located in Hong Kong and its representative PRC offices located in Beijing, and its wholly-owned trading/retail companies and their representative offices in Shanghai, Chongqing, Guangzhou, Shenyang and Xi'an. During Fiscal 2014, the Company had a marketing and sales force of 27 people who are paid a salary plus a sales-based commission. During Fiscal 2015, the Company had a marketing and sales force of 26 people who are paid a salary plus a sales-based commission. During Fiscal 2016, the Company had a marketing and sales force of 21 people who are paid a salary plus a sales-based commission. Our sales staff assists customers in selecting the equipment, auxiliary parts and products to suit customer specifications. We will continue to consolidate our operations by closing companies and offices that do not appear to be contributing to the Company.

Our remaining sales subsidiaries are located in: Shanghai, Chongqing, Guangzhou and Xi'an.

Our remaining representative office is located in: Beijing and Shenyang. The representative office in Beijing is a liaison office of Far East, and the representative office in Shenyang is a sales office of Shanghai Euro Tech Limited while the sales subsidiaries are actually engaged in sales of the Company's products and assisting customers in the use of our products.

Litigation

Shanghai Euro Tech Environmental Engineering Limited ("Shanghai Environmental") is a plaintiff in a civil action claim from the defendant, GuangXi Tiandong Industrial Investment Development Co., Ltd. for outstanding accounts receivable debts of approximately of US$416,000. The litigation has not been concluded, but having taken legal advice, the directors are of the opinion that no provision is required to be made in the consolidated financial statements since based on the evidence that Shanghai Environmental has a reasonable chance of recovering the whole debts.

ITEM 4C. ORGANIZATIONAL STRUCTURE

Euro Tech Holdings Company Limited (the "Company", "we", or "us") was incorporated in the British Virgin Islands on September 30, 1996.

Far East is the principal operating subsidiary of the Company. It is principally engaged in the marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems in Hong Kong and in the People's Republic of China (the "PRC").

Details of the Company's current significant subsidiaries are summarized as follows:

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Subsidiaries:			
Euro Tech (Far East) Limited	100%	Hong Kong	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Euro Tech Trading (Shanghai) Limited	100%	PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Shanghai Euro Tech Limited	100%	PRC	Manufacturing of analytical and testing equipment
Shanghai Euro Tech Environmental Engineering Company Limited	100%	PRC	Undertaking water and waste-water treatment engineering projects
Chongqing Euro Tech Rizhi Technology Co., Ltd	100%	PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd	100%	PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Guangzhou Euro Tech Environmental Equipment Co., Ltd	100%	PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
	58%	PRC	

Yixing Pact Environmental Technology Co., Ltd			Design, manufacture and operation of water and waste water treatment machinery and equipment
Pact Asia Pacific Limited	58%	British Virgin Islands	Selling of environment protection equipment, undertaking environment protection projects and providing relevant technology advice, training and services
Affiliates:			
Zhejiang Tianlan Environmental Protection Technology Co. Ltd. (Formerly known as Zhejiang Tianlan Desulfurization and Dust–Removal Co. Ltd.)	19.7%	PRC	Design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted
Zhejiang Jia Huan Electronic Co. Ltd.	20%	PRC	Design and manufacturing automatic control systems and electric voltage control equipment for electrostatic precipitators (air purification equipment)

ITEM 4D. PROPERTY, PLANT AND EQUIPMENT

The Company has various operating lease agreements for office and industrial premises. Rental expenses for the year ended December 31, 2016 were approximately US$297,000. Future minimum rental payments as of December 31, 2016, under the agreements classified as operating leases with non-cancellable terms amounted to US$341,000, of which US$225,000 are payable in the year 2017 and US$116,000 are payable within years 2018 to 2022.

The Company maintains an executive office at Unit C and D, 18/F Gee Chang Hong Centre, 65 Wong Chuk Hang Road, Hong Kong. The Company occupies approximately 7,000 square feet of office and warehouse storage space under a two year lease that expires in May 2017 with a monthly rental payment of approximately US$6,000. The warehouse storage space is used to hold products for distribution to our customers via common carriers.

The Company owns approximately 1,200 square feet of space in a building in Hong Kong. This property is now vacant, and the Company is looking to sublet it to a third party.

The Company's four field and representative offices are rented by the Company pursuant to short-term leases with an aggregate rent of approximately US$1,616 per month.

Euro Tech Trading (Shanghai) Ltd. has two offices rented pursuant to short term leases, at an aggregate monthly rent of approximately US$1,030. Shanghai Euro Tech Limited's premises are rented pursuant to a short term lease for a monthly rent of approximately US$3,136. Shanghai Euro Tech Environmental Engineering Company, Ltd.'s premises are also rented pursuant to a short term lease for a monthly rent of approximately US$1,439.

Pact occupies a 700 square meter facility in Shanghai, pursuant to a three year lease expiring in January 2017, providing for a monthly rent of approximately US$8,127.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview. The Company is engaged in two different major segments, namely trading and manufacturing and engineering.

For the trading segments, the Company is a distributor of a wide range of advanced water treatment equipment, laboratory instruments, analyzers, test kits and related supplies and power generation equipment (including recorders and power quality analyzers).

For the engineering segment, the Company, through its PRC subsidiary, Shanghai Euro Tech Limited located in the Pudong Jin Qiao Export Processing Zone of Shanghai, engages in the development, engineering, production, sales and servicing of environmental protection equipment, and energy conservation and related products. Through its majority owned subsidiaries, Pact-Yixing, its wholly-owned subsidiary, Shanghai Environmental, and its minority owned affiliates, Blue Sky and Jia Huan, the Company also engages in water and waste-water treatment engineering and air pollution control business.

ITEM 5A. OPERATING RESULTS

Background - Political and Economic Conditions in Hong Kong and the PRC

The Company's operations are located almost entirely within, and revenues are almost entirely generated from, Hong Kong and the PRC. Set forth below are the approximate percentage of the Company's sales made to customers in the PRC and Hong Kong for the fiscal years indicated:

Fiscal Year	PRC	Hong Kong
2014	58%	33%
2015	51%	48%
2016	47%	52%

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Sales to customers situated in Macau and elsewhere through Fiscal 2016 were nominal. This makes the Company particularly susceptible to changes in the political and economic climate of either Hong Kong or the PRC.

Hong Kong. Hong Kong has been one of the prime centers for commercial activity and economic development recently in Southeast Asia. On July 1, 1997, sovereignty over Hong Kong was transferred from the United Kingdom to the PRC. As provided in the Sino-British Joint Declaration and the Basic Law, the Hong Kong SAR is provided a high degree of autonomy except in foreign and defense affairs. The Basic Law provides that the Hong Kong SAR is to have its own legislature, legal and judicial system and full economic autonomy for 50 years after the transfer of sovereignty. Based on the current political conditions and the Company's understanding of the Basic Law, the Company does not believe that the transfer of sovereignty over Hong Kong has had or will have an adverse impact on its financial and operating environment. Although the Chinese government has pledged to maintain the economic and political autonomy of Hong Kong over its internal affairs, there is no assurance that such pledge will continue to be honored if there are changes in the Chinese political or economic climate. Sales in Hong Kong, expressed as a percentage of our revenue, increased by 7% in Fiscal 2013 as compared with Fiscal 2012. Sales in Hong Kong, expressed as a percentage of our revenue, increased by 1% in Fiscal 2014 as compared with Fiscal 2013. Sales in Hong Kong, expressed as a percentage of our revenue, increased by 15% in Fiscal 2015 as compared with Fiscal 2014. Sales in Hong Kong, expressed as a percentage of our revenue, increased by 4% in Fiscal 2016 as compared with Fiscal 2015. See – Item 3D. "Key Information — Risk Factors."

PRC. The PRC has been a socialist state since 1949. For more than half a century, the PRC's economy has been, and presently continues to be, a socialist economy operating under government controls promulgated under various state plans adopted by central Chinese government authorities and implemented, to a large extent, by provincial and local authorities who may set production and development targets. However, since approximately the early 1980s, the PRC's national government has undertaken certain reforms to permit greater provincial and local economic autonomy and private economic activities. Any change in political or economic conditions may substantially adversely affect these reform initiatives and, in turn, the Company. Sales in the PRC, expressed as a percentage of total revenue, decreased by 7% in Fiscal 2013 as compared with Fiscal 2012. The decrease was primarily due to a decrease in engineering revenues from the PRC as a result of competition from companies offering similar services, which we believe to be of lower quality than our services, at lower prices. Sales in the PRC, expressed as a percentage of total revenue, decreased by 8% in Fiscal 2014 as compared with Fiscal 2013. The decrease was primarily due to a decrease in engineering revenues from the PRC as a result of competition from companies offering similar services, which we believe to be of lower quality than our services, at lower prices. Sales in the PRC, expressed as a percentage of total revenue, decreased by 7% in Fiscal 2015 as compared with Fiscal 2014. The decrease was primarily due to a decrease in engineering revenues from the PRC as a result of keen competition under the current tough microeconomic environment. Sales in the PRC, expressed as a percentage of total revenue, decreased by 4% in Fiscal 2016 as compared with Fiscal 2015. The decrease was primarily due to the fact that the increase in sales in PRC were less than the overall increase in sales of the Company. See – Item 3D. "Key Information — Risk Factors."

Results from Operations

The following operating and financial review should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing elsewhere in this Annual Report. All financial data referred to in the following discussion has been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

The following table presents selected statement of operations data expressed in thousands of US$ and as a percentage of revenue for the Company's fiscal years indicated below:

	2016		2015		2014		2013		2012	
Revenue	22,478	100%	18,302	100%	18,822	100%	18,602	100%	21,645	100%
Cost of revenue	17,527	78.0%	14,259	77.9%	13,991	74.3%	13,138	70.6%	15,480	71.5%
Gross Profit	4,951	22.0%	4,043	22.1%	4,831	25.7%	5,464	29.4%	6,165	28.5%
Selling and administrative Expenses	5,602	24.9%	5,997	32.8%	5,802	30.8%	5,719	30.7%	6,224	28.8%
(Loss)/income before income Taxes	(640)	-2.8%	(1,904)	-10.4%	(879)	-4.7%	(157)	-0.8%	13	0.1%
Income taxes (expenses)/credit	(228)	-1.0%	47	0.3%	(18)	-0.1%	(73)	-0.4%	142	0.7%
Equity in income of Affiliates	1,002	4.5%	850	4.6%	605	3.2%	325	1.7%	9	0.1%
Net income/(loss)	158	0.7%	(1,007)	-5.5%	(292)	-1.6%	95	0.5%	(120)	-0.6%
Net loss/(income) attributable to Non-controlling interest	73	0.3%	391	2.1%	169	0.9%	(113)	-0.6%	(309)	-1.4%
Net income/(loss) attributable to the Company	231	1.0%	(616)	-3.4%	(123)	-0.7%	(18)	-0.1%	(429)	-2.0%

Fiscal Year Ended December 31, 2016 Compared to Fiscal Year Ended December 31, 2015

Revenue; Gross Profit and Cost of Revenue. Revenue increased by approximately US$4,176,000 or 22.8% to approximately US$22,478,000 in Fiscal 2016 from approximately US$18,302,000 in Fiscal 2015. Revenue from trading and manufacturing activities and engineering activities increased by approximately US$1,465,000 and US$2,711,000, respectively. The increase in revenues from engineering activities was principally due to receipt of a contract from a foreign mobile phone company. Pact-Yixing's revenues of approximately US$8,757,000 and US$5,994,000 were included in our revenues in Fiscal 2016 and Fiscal 2015, respectively.

Gross profits increased by approximately US$908,000 or 22.5% to approximately US$4,951,000 for Fiscal 2016 as compared to approximately US$4,043,000 for Fiscal 2015. During Fiscal 2016, the Company's cost of revenue was approximately US$17,527,000 or 78.0% of revenues, in comparison to approximately US$14,259,000, or 77.9% for Fiscal 2015. Cost of revenue expressed as a percentage of revenue increased by 0.1% in Fiscal 2016 as compared with Fiscal 2015. Pact-Yixing contributed approximately US$2,576,000 to our gross profit in Fiscal 2016, an increase of approximately US$910,000 from Fiscal 2015.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$5,602,000 in Fiscal 2016, a decrease of approximately US $395,000 or 6.6% from approximately US$5,997,000 in Fiscal 2015. The decrease was largely due to a decrease in research and development expenses resulting from BWTS. The research and development expenses decreased from approximately US$851,000 in Fiscal 2015 to approximately US$475,000 in Fiscal 2016.

Equity in Income of Affiliates. Equity in income of affiliates was approximately US$1,002,000 in Fiscal 2016, an increase of approximately US$152,000 or 17.9% from approximately US$850,000 in Fiscal 2015 because of increase in sales revenue of the affiliates.

Interest Income. Interest income in Fiscal 2016 was approximately US$18,000 as compared to approximately US$45,000 in Fiscal 2015.

Other Income. Other income decreased by approximately US$4,000, or 44%, to approximately US$5,000 in Fiscal 2016 from approximately US$9,000 in Fiscal 2015. The decrease in other income was principally due to decrease in rental income.

Income Taxes. Tax expenses of approximately US$228,000 in Fiscal 2016 as compared to tax credit of approximately US$47,000 in Fiscal 2015. This change was primarily the result of an increase in net taxable income for Fiscal 2016.

Net Income. Profit from continuing operations was approximately US$231,000 in Fiscal 2016 as compared to loss from continuing operations of approximately US$616,000 in Fiscal 2015. This change was primarily due to an increase in sales revenue, decrease in selling and administrative expenses and increase in profit contribution from affiliates.

Fiscal Year Ended December 31, 2015 Compared to Fiscal Year Ended December 31, 2014

Revenue; Gross Profit and Cost of Revenue. Revenue decreased by approximately US$520,000 or 2.8% to approximately US$18,302,000 in Fiscal 2015 from approximately US$ 18,822,000 in Fiscal 2014. Revenue from trading and manufacturing activities increased by approximately US$609,000, while revenue from engineering activities decreased by approximately US$1,129,000. The decrease in revenues from engineering activities was principally due to keen competition under the tough economic environment in PRC. Pact-Yixing's revenues of

approximately US$5,994,000 and US$ 7,060,000 were included in our revenues in Fiscal 2015 and Fiscal 2014, respectively.

Gross profits increased by approximately US$908,000 or 22.5% to approximately US$4,951,000 for Fiscal 2016 as compared to approximately US$4,043,000 for Fiscal 2015. During Fiscal 2016, the Company's cost of revenue was approximately US$17,527,000 or 78.0% of revenues, in comparison to approximately US$14,259,000, or 77.9% for Fiscal 2015. Cost of revenue expressed as a percentage of revenue increased by 0.1% in Fiscal 2016 as compared with Fiscal 2015. Pact-Yixing contributed approximately US$2,576,000 to our gross profit in Fiscal 2016, an increase of approximately US$910,000 from Fiscal 2015.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$5,997,000 in Fiscal 2015, a slight increase of approximately US $195,000 or 3.4% from approximately US$ 5,802,000 in Fiscal 2014. The increase was largely due to increase in the research and development expenses resulting from BWTS. The research and development expenses increased from approximately US$631,000 in Fiscal 2014 to approximately US$851,000 in Fiscal 2015. Such increase was offset by the reduction of selling and administrative expenses other than research and development expenses.

Equity in Income of Affiliates. Equity in income of affiliates was approximately US$850,000 in Fiscal 2015, an increase of approximately US$245,000 or 40% from approximately US$ 605,000 in Fiscal 2014 because of increase in sales revenue of the affiliates.

Interest Income. Interest income in Fiscal 2015 was approximately US$45,000 as compared to approximately US$27,000 in Fiscal 2014.

Other Income. Other income decreased by approximately US$56,000 or 86% to approximately US$9,000 in Fiscal 2015 from approximately US$ 65,000 in Fiscal 2014. The decrease in other income was principally due to increase in currency exchange loss of approximately US$63,000.

Income Taxes. Taxes credit of approximately US$47,000 in Fiscal 2015 as compared to tax expenses of approximately US$18,000 in Fiscal 2014. This change was primarily the result of decrease net taxable income for Fiscal 2015.

Net Income. Loss from continuing operations increased by approximately US$493,000 or 400% to approximately US$616,000 in Fiscal 2015 from approximately US$123,000 in Fiscal 2014. This was primarily due to decrease in revenue from engineering activities and research and development expenses for BWTS.

ITEM 5B. LIQUIDITY AND CAPITAL RESOURCES

The Company has primarily used its own funds to finance accounts receivable, inventories, and capital expenditures including purchases of property, office furniture and equipment, computers and calibration equipment. The Company has historically met its cash requirements from cash flows from operations, short-term borrowings, bank lines of credit, and long-term mortgage bank loans. The Company expects, but can make no assurances that its present cash reserves, cash from operations and existing available bank credit facilities exercises would be sufficient to fund its future capital expenditure requirements. Working capital at the end of Fiscal 2016 and Fiscal 2015 were approximately US$ 3,101,000 and US$ 3,698,000, respectively.

As of December 31, 2016, we had approximately US$3,751,000 in cash and cash equivalents, compared to approximately US$2,480,000 in cash and cash equivalents as of December 31, 2015. Net cash provided by / (used in) operating activities was US$153,000 for the year ended December 31, 2016 as compared to (US$2,972,000) for the year ended December 31, 2015 and (US$470,000) for the year ended December 31, 2014. Net cash provided by / (used in) investing activities was US$390,000 for the year ended December 31, 2016 as compared to US$675,000 for the year ended December 31, 2015 and (US$64,000) for the year ended December 31, 2014. Net cash provided by / (used in) financing activities was US$720,000 for the year ended December 31, 2016 as a result of short term bank loan to finance trade purchases, as compared to (US$20,000) for the year ended December 31, 2015 and (US$0) for the year ended December 31, 2014.

During Fiscal 2016, the Company generated approximately US$720,000 in financing activities as a result of short term bank loan to finance trade purchases.

The Company had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Company could have accessed up to approximately US$1,660,000 at December 31, 2016. The aforementioned available credit facilities were obtained on the conditions that, among other things, the Company not create a charge or lien on its other assets in favor of third parties without such bank's consent, and the Company maintaining a certain level of net worth. These credit facilities were obtained on the conditions that, among other things, the Company pledge rented out property of approximately 1,200 square feet in Hong Kong as security, not create a charge or lien on its other assets in favor of third parties without such bank's consent, and the Company maintaining a certain level of net worth.

Cash increased from approximately US$2,480,000 at the end of Fiscal 2015 to US$3,751,000 at the end of Fiscal 2016. The principal reason for the increase in cash was the net cash inflow from operating, investing and financing

activities.

The Company's net accounts receivable decreased from approximately US$4,500,000 at the end of Fiscal 2015 to US$4,393,000 at the end of Fiscal 2016. The amount of receivables subject to collection is expected to be received under normal commercial trading terms.

The Company's inventory decreased from approximately US$557,000 at the end of Fiscal 2015 to US$344,000 at the end of Fiscal 2016.

The Company's capital expenditures were approximately US$60,000 and US$21,000 in Fiscal 2016 and Fiscal 2015, respectively. Capital expenditures during Fiscal 2016 and Fiscal 2015 were incurred primarily in connection with the purchase of office equipment, furniture and fixtures. The Company continues to develop new products, for example, non-chemical ballast water treatment system. If such products developments are indeed made, the Company may expect to incur significantly larger capital expenditures, for which the Company presently intends, but as to which no assurance can be made, to use existing cash reserves, cash from operations and available bank credit facilities.

Goodwill

Goodwill related to the engineering segment which is profitable. As of December 31, 2016, we completed the annual impairment test. Based on the result of the first step of the test, the Company determined that there was no impairment of goodwill.

Anticipated Future Resources and Uses of Cash

The Company has historically funded its working capital, capital expenditure, investing and expansions needs from operations, available bank credit facilities and proceeds from the issuances of our ordinary shares and expects to continue funding these requirements from operations and available bank credit facilities. The Company may use its funds to form strategic alliances with third parties, invest in product research and development, or expand its sales offices or, with third parties, seek to acquire new products or form strategic alliances. The Company expects, but can make no assurances that its present cash reserves, cash from operations and existing available bank credit facilities would be sufficient to fund its future cash requirements.

Inflation

The Company believes generally that past declining rates of inflation in the PRC have had a positive effect on its results from operations. As a result of the recent rise in the rate of inflation in the PRC, we anticipate increases in the overhead costs of our PRC affiliates and offices. The Company believes, although no assurance can be given, that as credit restrictions are gradually lifted, it will be able to increase prices in the market for its products and thus realize increased profit margins.

Critical Accounting Policies and Estimate

Basis of Consolidation

The consolidated financial statements include the accounts of Euro Tech Holdings Company Limited and its subsidiaries (the "Group"). The financial statements of variable interest entities ("VIEs"), as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation, are included in the consolidated financial statements, if applicable. All material intercompany balances and transactions have been eliminated on consolidation.

Subsidiaries and affiliates

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

An investment in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are accounted for

using the equity method of accounting.

Revenue Recognition

The Group's main source of revenue is the sale of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems. The Company recognises revenue when the product is delivered and the title is transferred. For certain products where installation is necessary, revenue is recognised upon completion of installation. Revenue earned from customer support services, which represents a minor percentage of total revenues, is recognised when such services are provided.

Revenues and profits in long term fixed price contracts or engineering income are recognised using the percentage of completion method in accordance with FASB ASC Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. This approach primarily based on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognised in the period they are determined. Revenues recognised in excess of amounts billed are classified as costs and estimated earnings in excess of billings on uncompleted contracts. Essentially all of such amounts are expected to be billed and collected within one year and are classified as current assets. Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. When reasonably dependable estimates cannot be made, construction contract revenues are recognised using the completed contract method.

Taxation

The Group accounts for income and deferred tax under the provision of FASB ASC Subtopic 740-10, Income Taxes, under which deferred taxes are recognised for all temporary differences between the applicable tax balance sheets and the consolidated balance sheet. Deferred tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realised within a reasonable period of time.

In accordance with ASC 740-10, the Company recognises tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits. The Company did not have such uncertain tax positions in 2016, 2015 and 2014.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income for the period that includes the enactment date.

Impairment

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, which requires impairment losses to be recorded for property, plant and equipment to be held and used in operations when indicators of impairment are present. Reviews are regularly performed to determine whether the carrying value of assets is impaired. The Group determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There was no impairment losses recorded during each of the three years ended December 31, 2016.

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, goodwill is not amortized, but rather is subject to an annual impairment test. Goodwill is tested for impairment at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. The Company performs its annual impairment analysis of goodwill in the fourth quarter of the year, or more often if there are indicators of impairment present.

The provisions of ASC 350 require that a two-step impairment test be performed on goodwill at the level of the reporting units. In the first step, or Step 1, the Company compares the fair value of each reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and the Company is not required to perform further testing. If the carrying value of the net assets exceeds the fair value, then the Company must perform the second step, or Step 2, of the impairment test in order to determine the implied fair value of goodwill. To determine the fair value used in Step 1, the Company uses discounted cash flows. If and when the Company is required to perform a Step 2 analysis, determining the fair value of its net assets and its off-balance sheet intangibles would require it to make judgments that involve the use of significant estimates and assumptions.

Foreign Currency Translation

The Company maintains its books and records in United States dollars. Its subsidiaries and affiliates maintain their books and records either in Hong Kong dollars or Chinese Renminbi ("functional currencies"). Foreign currency transactions during the year are translated into the respective functional currencies at the applicable rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currencies using the exchange rates prevailing at the balance sheet dates. Gains or losses from foreign currency transactions are recognised in the consolidated statements of income during the year in which they occur. Translation adjustments on subsidiaries' equity are included as accumulated comprehensive income or loss.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

Related Parties

Related parties are affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal ownersof the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance was deferred by ASU 2015-14, issued by the FASB in August 2015, and this new accounting guidance will be effective for the interim and annual period beginning after December 31, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This new accounting guidance will be effective for interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This new accounting guidance will be effective for the interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

In January 2016, the FASB has issued Accounting Standards Update ("ASU") No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing U.S. GAAP by: (1) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (2) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (3) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and. (4) Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. he Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In April 2016, FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer

comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, FASB issued ASU No. 2016-12—Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

ITEM 5C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

During Fiscal 2016, Fiscal 2015 and Fiscal 2014, the Company expensed approximately US$475,000, US$852,000 and US$631,000, respectively, on the research and development of its products.

ITEM 5D. TREND INFORMATION

There are increasing demands in the PRC for clean water, clean air, greater industrial pollution controls, waste management and electricity. We also see additional distributors competing with us. However, given the political situation in the PRC, trends could quickly disappear and we do not know if they will continue in the future. We note that, as evidenced by our acquisition of Pact-Yixing, we are placing greater emphasis on developing our engineering solution business in an effort to capitalize on these increased demands (clean water, pollution controls and waste management).

The Company believes that the expenses incurred in product development may result in increases in revenue but such increases are unlikely to allow for a recovery of the expenses for approximately the next two years.

ITEM 5E. OFF BALANCE SHEET ARRANGEMENTS

None.

ITEM 5F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Payments Due By Period

Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating Leases	US$ 341,000	US$ 225,000	US$ 116,000	—	—
Total Contractual Cash Obligations	US$ 341,000	US$ 225,000	US$ 116,000	—	—

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 6A. DIRECTORS AND SENIOR MANAGEMENT

Information concerning the Directors and Executive Officers of the Company are as follows:

Name	Age	Position
T.C. Leung	73	Chairman of the Board of Directors and Chief Executive Officer
Jerry Wong	58	Director and Chief Financial Officer
Alex Sham	53	Director
Y.K. Liang	87	Director
Fu Ming Chen	68	Director
Vincent Pak Kan Wong	67	Director

Set forth below is a brief background of the executive officers and directors based upon the information supplied by them to the Company:

T.C. Leung has been Chief Executive Officer and Chairman of the Board of Directors of both the Company and Far East since their inception. Before establishing Far East, Mr. Leung was an engineer for English Electric in England, from 1965 to 1968, and Lockheed Aircraft in Hong Kong, from 1968 to 1970. Mr. Leung also served as managing director of Eurotherm (Far East) Ltd. (“Eurotherm”) between 1971 and 1992. From 1988 until he retired in February 2005, Mr. Leung had also served as managing director of Eurotherm Hong Kong. Mr. Leung received a Master’s degree in Business Administration from the University of East Asia, Macau in 1986 and is a Chartered Engineer, a title bestowed upon a member of the Council of Engineering Institutions in the United Kingdom.

Jerry Wong has served as Director and Chief Financial Officer of Far East since 1994 and has been with Far East since 1987. Mr. Wong has been the Chief Financial Officer and a Director of the Company since its inception. From 1985 until 1987, Mr. Wong worked for MUA Agencies Ltd., a subsidiary of a Hong Kong publicly listed company engaged in the insurance business, as deputy manager of its secretarial, legal and accounting department. From 1981 until 1985, Mr. Wong served as a senior accountant in Price Waterhouse-Hong Kong. He is a Fellow of the Association of Chartered Certified Accountants in the United Kingdom and a Certified Public Accountant in Hong

Kong.

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Alex Sham has been a Director of the Company since its inception. Mr. Sham joined Far East in 1988 and has been its Sales Manager since 1993 and became a Director of Far East in 1996. Mr. Sham received a Bachelor of Science in Applied Chemistry from Hong Kong Baptist University in 1990. Prior to joining Far East, Mr. Sham was employed by the Environmental Protection Department of the Hong Kong Government from 1986 until 1988. Mr. Sham received a Master's Degree in Business Administration from the University of Adelaide in 2003.

Y.K. Liang has been a Director of the Company since February 1998. Mr. Liang was a director of Wong Liang Consultants Ltd. ("Consultants") and a member of the certified public accounting firm of Y.K. Liang & Co. ("LCO"). Mr. Liang has been a director of Sammy Lau CPA Limited for more than the past five years. Consultants is a general business consulting firm.

Fu Ming Chen has been a Director of the Company since August 24, 2015. Mr. Chen has a background in accounting and tax. He served as the Finance and Tax Manager of Shanghai Huaxiang Woolen Dressing Co., Ltd. from 1995 to 2013. Prior to that, from 1978 to 1994, he served as the Chief Accountant at Gulu Chemical Factory, where he was a member of the senior management. He held a County Township Audit Certificate issued by Shanghai ChuanSha County People's Government from 1991 to 2001 which authorized him to carry out audit of Township and Village Enterprises in Shanghai ChuanSha County on behalf of local tax authority. He also holds a Certificate of Accounting Professional – Intermediate Level Accountant as well as a Higher Professional Education Certificate issued by Shanghai Television University. The Board believes Mr. Chen's qualifications to sit on the Board include his significant experience with accounting and tax, as well as his leadership of business organizations.

Vincent Pak Kan Wong became a Director of the Company on March 30, 2015. He has a background in accounting and business management. He served as the Deputy Company Secretary of John Swire & Sons (HK) Ltd, which specializes in divisions of property, beverages, industrial, offshore oil and shipping services from 2007 to 2013. From 2004 to 2006, he served as the General Manager of Guangmei Foods Co. Ltd. He is also a director of Primroses Park Ltd., which is a property investment holding company in the United Kingdoms. He is an Associate Member of The Chartered Association of Certified Accountants, FCCA and Hong Kong Institute of Certified Public Accountants.

Directors of the Company serve until the next annual meeting of shareholders of the Company and until their successors are elected and duly qualified. Officers of the Company are elected annually by the Board of Directors and serve at the discretion of the Board of Directors.

Currently to our knowledge, there is no material legal proceeding involving any director, officer or holder of more than five percent of the Company's Ordinary Shares.

There are no family relationships between any of the above. There was no arrangement or understanding with any major shareholders, customers, suppliers or others pursuant to which any person above was selected as a director or member of senior management.

Key Employees

George Hayek, Managing Director. He is the founder of Pact-Yixing and is a civil engineer (1967) and post-graduate certificate holder in sanitary engineering and environmental management from the American University of Beirut and the University of California at Irvine (in 1971 and 1988, respectively). Since 1971, he has occupied several key posts in water and waste-water treatment companies in the USA, the UK, Spain, Cyprus, The Middle East, Southeast Asia and the last 14 years in the PRC. From 1998 to date, he has been the managing director of Pact. His international experience helped Pact in securing most of the contracts with European and American multinational industries in the PRC.

David YL Leung is the General Manager of Yixing Pact Environmental Technology Ltd, Shanghai. His responsibility includes management of engineering, sales, marketing, projects, and procurement. Before joining PACT, he was the Business Development Manager of Euro Tech (Far East) Ltd, the parent company of Yixing Pact in Hong Kong, and has been working for the parent company for more than 10 years. Mr. Leung has gained a solid sales and marketing experience in distributing power, analytical and scientific testing equipment in Hong Kong and Macau. He has also worked for a high tech Japanese company focused on power and electrical testing instrument in Japan from 2000 and 2001 as a trainee. Mr. Leung is an environmental studies graduate from Carleton University, Ottawa, Canada (1997) with a special focus on Environmental Impact Assessment, and a Master of Management graduate from Macquarie Graduate School of Management, Sydney Australia (2010). Mr. David YL Leung is the son of Mr. T.C. Leung, the Company's Chief Executive Officer and Chairman.

ITEM 6B. EXECUTIVE COMPENSATION.

From the Company and its subsidiaries, for services rendered in all capacities to the Company and its subsidiaries during Fiscal 2016, T.C. Leung, the Chairman of the Board and Chief Executive Officer received a yearly salary of US$195,000, Jerry Wong, Chief Financial Officer received a yearly salary of US$108,000 and George Hayek, a Key Employee of the Company, received a yearly salary of US$66,000. David YL Leung, a Key Employee of the Company receives an annual salary of US$130,000 and is reimbursed for actual travel and lodging expenses in Shanghai. There is no other information with respect to the compensation paid by the Company and its subsidiaries, for services rendered in all capacities to the Company and its subsidiaries during Fiscal 2016 to the Chairman of the Board and Chief Executive Officer and a Key Employee of the Company. No other executive officer or employee received in excess of US$ 100,000 as compensation during Fiscal 2016.

Compensation of Directors. Directors of the do not receive compensation for their services as directors; however, Board of Directors authorize the payment of compensation to the Directors for their attendance at regular and annual meetings of the Board and for attendance at committee meetings of the Board as is customary for similar companies. Directors are reimbursed for their reasonable out-of-pocket expenses in connection with their duties to the Company. .

Pension Plan. Prior to December 1, 2000, the Company had only one defined contribution pension plan for all its Hong Kong employees. Under this plan, all employees were entitled to pension benefits equal to their own contributions 50% to 100% of individual fund account balances contributed by the Company, depending on their years of service with the Company. The Company was required to make specific contributions at approximately 10% of the basic salaries of the employees to an independent fund management company.

With the introduction of the Mandatory Provident Fund Scheme, a defined contribution scheme managed by an independent trustee on December 1, 2000, each of the Company and its employees who joined the Company subsequently makes monthly contributions to the scheme at 5% of the employee's cash income as defined under the Mandatory Provident Fund legislation. Contributions of both the Company and its employees are subject to a cap of monthly relevant income of HK$25,000 or HK$30,000 (effective from 1 June 2015) and thereafter contributions are voluntary and are not subject to any limitation. The Company and its employees made their first contributions in December 2000.

As stipulated by the rules and regulations in the PRC, the Company contributes to state-sponsored retirement plans for its employees in the PRC. The Company contributes approximately 14% to 21% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended December 31, 2016, the aggregate contribution of the Company to the aforementioned pension plans and retirement benefit schemes was approximately US$314,000.

Company Option Plans.

Effective November 22, 2014, the Company entered into a stock option contract with a Business Development Manager of Yixing-Pact, granting the optionee the right to purchase 20,692 Ordinary Shares, 1% of the Company's issued and outstanding shares, at an exercise price of $3.44 per share. The exercise price was determined by the average closing price of the Company's Ordinary Shares as reported by NASDAQ for a ten day period prior to the end of the Business Development Manager's probationary period on November 22, 2014, the effective date of the stock option contract. The stock options granted are exercisable three years after the effective date and terminate five years after the effective date. In the event of the optionee's termination, except for his resignation, the options may be exercisable within three months of the termination. In the event of optionee's death, retirement or disability, he or his legal representative shall have up to one year to exercise the option.

Changes in outstanding options under various plans mentioned above were as follows:

	As of December 31,					
	2016		2015		2014	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding, beginning of year	20,692	3.44	20,692	3.44	-	-
Granted	-	-			20,692	3.44
Cancelled/Expired	(20,692)	(3.44)	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding, end of year	-	-	20,692	3.44	20,692	3.44
Exercisable, end of year	-	-	-	-	-	-

As of December 31, 2015, there were 20,692 options outstanding.

As of December 31, 2016, there were no options outstanding.

ITEM 6C. BOARD PRACTICES

The term of each of the Company's directors expires at the election and qualification of their successors at the next annual meeting of the Company's shareholders, anticipated to be held in September of this year. All of the Company's six directors were re-elected at the Company's last annual meeting of shareholders in August 2016. The Board has a standing Audit Committee to assist the Board in carrying out its duties. The Audit Committee has a written charter approved by the Board. The chair of the Audit Committee determines the meeting agenda of the Audit Committee. The Audit Committee members receive materials in advance of Committee meetings allowing them to prepare for the meeting.

The Company had two meetings of its Board of Directors during Fiscal 2016, while its Audit Committee had four meetings during Fiscal 2016.

The Audit Committee assists the Board in monitoring the Company's financial accounting, controls, planning and reporting. Among its duties, the Audit Committee:

- reviews the Company's auditing, accounting and financial reporting process;
- reviews the adequacy of the Company's internal controls;
- reviews the independence, fee arrangements, audit scope, and performance of the Company's independent auditors, and recommends the appointment or replacement of independent auditors to the Board of Directors;
- reviews and approves all non-audit work, if any, to be performed by the auditors;
- reviews the scope of our internal auditing and the adequacy of the organizational structure and qualifications of the internal auditing staff;
- reviews, before release, the audited financial statements and operating and financial review and prospects contained in the Company's Annual Report on Form 20-F, and recommends that the Board of Directors submit these items to the shareholders' meeting for approval;
- provides an open avenue of communication among the Company's independent auditors, financial and senior management, the internal audit function and the Board of Directors;
- reviews and updates the Company's Code of Business Conduct and Ethics and ensure that there is a system to enforce same and that this Code complies with all applicable rules and regulations;
- ensures that the Company's management and auditors assess current financial reporting issues and practices; and
- reviews and pre-approves both audit and non-audit services to be provided by the Company's auditors.

The Audit Committee is currently composed of Y.K. Liang, Vincent Pak Kan Wong and Fu Ming Chen. The Audit Committee's "financial expert" is Y.K. Liang. The Board has determined that the membership of the Audit Committee meets the current independence requirements of the NASDAQ listing standards as same applies to private foreign issuers and the applicable rules and regulations of the SEC because they are not currently employed by us, and do not fall into any of the enumerated categories of who cannot be considered independent in NASDAQ's listing standards.

ITEM 6D. EMPLOYEES

At April 11, 2017, the Company (exclusive of Yixing-Pact) had approximately 64 full-time employees. At December 31, 2016, 2015 and 2014, staffing levels were approximately as follows:

	2016	2015	2014
Marketing and sales	21	26	27
Administrative	28	30	30
Technical	16	19	22
Total full time employees	65	75	79

At April 11, 2017, Pact-Yixing had approximately 47 full-time employees. As of December 31, 2016, 2015 and 2014, respectively, staffing levels were approximately as follows: Engineers - 41, 41 and 39; Administrative Persons - 8, 8 and 12.

The Company is not subject to any collective bargaining agreement and believes that its relations with its employees are good. The Company's Management consists of its officers and directors.

ITEM 6E. SHARE OWNERSHIP

With respect to the share ownership of the directors and senior management of the Company, reference is made to Items 7. "Major Shareholders" and 7B. "Related Party Transactions."

ITEM 7A. MAJOR SHAREHOLDERS

The following table sets forth, as of April 11, 2017, certain information concerning beneficial ownership of the Company's voting shares that date, with respect to (i) each person known to the Company to own 5% or more of the outstanding Ordinary Shares, (ii) each director and executive officer of the Company, and (iii) all officers and directors of the Company as a group. Based upon 2,061,909 shares of the Company's Ordinary Shares outstanding as of April 20, 2017. The Company's major shareholders do not have different voting rights.

	Amount and Nature of Beneficial Ownership(4)	Approximate Percentage Of Ordinary Shares Owned
T.C. Leung (1)	1,059,924	51.4%
Alex Sham(1)	53,722	2.6%
Jerry Wong(1)	34,866	1.7%
Y.K. Liang(1)	*	*
Fu Ming Chen(1)	*	*
Vincent Pak Kan Wong (1)	*	*
All Executive Officers And Directors of the Company as a group (6 persons)	1,148,512	55.7%

* Denotes Nil

(1) The address for the Company's officers and directors is c/o Euro Tech (Far East) Ltd., Unit D, 18/F Gee Chang Hong Centre, 65 Wong Chuk Hang Road, Hong Kong.

ITEM 7B. RELATED PARTY TRANSACTIONS

See – Item 6B. Compensation.

ITEM 8. FINANCIAL INFORMATION

ITEM 8A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Item 8A.1 See – Item 18.

Item 8A.2 See – Item 18.

Item 8A.3 See – Report of Independent Registered Public Accounting Firms, pages F-2 and F-3.

Item 8A.4 We have complied with this requirement.

Item 8A.5 Not applicable.

Item 8A.6 Not applicable.

Item 8A.7 Legal Proceedings. See – Item 4B. Business Overview-Litigation.

Item 8A.8 Dividend Policy.

The Company has not paid cash dividends to date. The payment of cash dividends, if any, in the future is within the discretion of the Board of Directors. The payment of cash dividends, if any, in the future will depend upon the Company's earnings, capital requirements and financial conditions and other relevant factors. The Company's Board of Directors does not presently intend to declare any cash dividends in the foreseeable future, but instead intends to retain all earnings, if any, for use in the Company and Far East's business operations.

ITEM 8B. SIGNIFICANT CHANGES

There has not been any significant change since the date of the annual financial statements included in this Report.

ITEM 9. THE OFFERING AND LISTING

ITEM 9A. LISTING DETAILS

The Company has one class of securities presently registered: Ordinary Shares. These securities are presently traded on the NASDAQ's Capital Market under the trading symbols "CLWT".

The high and low prices for the Ordinary Shares in the periods indicated, as reported by NASDAQ, are set forth below:

Years Ended December 31,	Low	High
	US$	US$
2012	1.98	6.30
2013	2.40	6.75
2014	2.56	6.24
2015	2.04	4.41
2016		

Quarters Ended	Low	High
	US$	US$
March 31, 2015	2.04	4.41
June 30, 2015	2.61	2.73
September 30, 2015	2.41	2.60
December 31, 2015	2.76	2.896
March 31, 2016	3.01	3.17
June 30, 2016	3.99	1.45
September 30, 2016	4.43	2.07
December 31, 2016	4.08	2.28
March 31, 2017	4.15	3.39

The Following Months	Low	High
	US$	US$

October 2016	3.11	2.28
November 2016	4.08	2.35
December 2016	4.00	3.15
January 2017	4.15	3.39
February 2017	3.95	3.45
March 2017	3.90	3.45

Based upon information received from its transfer agent, the Company believes that it has approximately 35 shareholders of record including 905 beneficial owners of its Ordinary Shares held in nominee names by large clearing houses.

ITEM 9C. MARKETS

See – Item 9A. “Listing Details.”

ITEM 10. ADDITIONAL INFORMATION

ITEM 10B. MEMORANDUM AND ARTICLES OF ASSOCIATION

On January 1, 2005, the BVI Business Companies Act, as amended, (the "BC ACT") came into force, with the objective of replacing the now repealed International Business Companies Act (the "IBC" Act) over a 2 year transitional period. The Company was incorporated under the IBC Act, on January 1, 2007, the Company was automatically re-registered under the BC Act as a BVI Business Company. Companies that were automatically re-registered on January 1, 2007 were not required to submit a new Memorandum and Articles of Association and certain key sections of the IBC Act were "grandfathered" into the BC Act: these are known as the "Transitional Provisions". The Transitional Provisions ensure that well established and recognized concepts from the IBC Act, such as " authorized capital:, "capital accounts" and "surplus accounts , remain relevant until such time as that company elects to adopt and register a New Memorandum and Articles of Association that fully conform with the BC Act. In November 2011 and January 2012, the Company filed an Amended and Restated Memorandum and Articles of Association with the Registry of Corporate Affairs of the BVI Financial Services Commission that on November 29, 2011 and January 30, 2012 that became as of filing with the BVI authorities to, among other things, (i) not apply the Transitional Provisions and (ii)remove these concepts from the Company's charter documents eliminating a layer of requirements that would otherwise apply to share divisions (splits), combinations (reverse splits), redemptions and dividends. The Company's accounting treatment of share capital need not change. Changes in the Company's Amended and Restated Memorandum are summarized in the Company's Forms 6-K filed with the SEC on November 30, 2011 and February 6,2012.The foregoing Forms 6-K are hereby incorporated by reference as if fully stated herein. Set forth below is a summary of certain terms of the Amended and Restated Memorandum and Articles of Association and the BC Act relating to the Company's securities. This description and the descriptions contained in the Forms 6-K incorporated by reference does not purport to be complete and is qualified in its entirety by reference to BVI statutory law and the Amended and Restated Memorandum and Articles of Association.

Holders of the Company's Ordinary Shares are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors. Holders of Ordinary Shares do not have cumulative voting rights in the election of directors. All shares of Ordinary Shares are equal to each other with respect to liquidation and dividend rights. In the event of the liquidation of the Company, all assets available for distribution to the holders of Ordinary Shares are distributable among them according to their respective share holdings. All of the outstanding shares of Ordinary Shares of the Company are duly authorized, validly issued, fully paid and non-assessable.

Pursuant to the Company's Memorandum and Articles of Association and pursuant to the laws of the BVI, the Company's Memorandum and Articles of Association may be amended by a resolution of the Board of Directors without shareholder approval. This includes amendments to increase or reduce the authorized capital stock of the Company or to increase or reduce the par value of its shares. The ability of the Company to amend its Memorandum and Articles of Association without shareholder approval could have the effect of delaying, deterring or preventing a change in control of the Company without any further action by the shareholders including but not limited to, a tender offer to purchase the Common Stock at a premium over then current market prices.

Under United States law, majority and controlling shareholders generally have certain "fiduciary" responsibilities to the minority shareholders. Shareholder action must be taken in good faith and actions by controlling shareholders which are obviously unreasonable may be declared null and void. The BVI law protecting the interests of the minority shareholders is not as protective in all circumstances as the law protecting minority shareholders in United States jurisdictions. While BVI law does not permit a shareholder of a BVI company to sue its directors derivatively, i.e., in the name of and for the benefit of the Company, and to sue the Company and its directors for his benefit and the benefit of others similarly situated, the circumstances in which any such action may be brought that may be available in respect of any such action may result in the rights of shareholders of a British Virgin Island company being more

limited than those rights of shareholders in a United States company.

The Board of Directors of the Company, without further shareholder action, may issue shares of Preferred Stock in any number of series and may establish as to each such series the designation and number of shares to be issued and the relative rights and preferences of the shares of each series, including provisions regarding voting powers, redemption, dividend rights, rights upon liquidation and conversion rights. The issuance of shares of Preferred Stock by the Board of Directors could adversely affect the rights of holders of Ordinary Shares by, among other matters, establishing preferential dividends, liquidation rights and voting power. The Company has not issued any shares of Preferred Stock and has no present intention to issue shares of Preferred Stock. The issuance thereof could discourage or defeat efforts to acquire control of the Company through acquisition of Ordinary Shares.

Share Register and Voting Restrictions. The Company maintains a share register at its registered office in the BVI. The Company's registered number is 200960. The objects of the Company are to engage in any act or activity that is not prohibited under any law of the BVI. Under the Articles, the Company is not required to treat the holder of a registered share in the Company as a shareholder until that person's name has been entered in the share register. The holders of Ordinary Shares have one vote for each Ordinary Share held of record. The holders of Preferred Shares have such voting powers, full or limited, or no voting powers and such restrictions as may be stated and expressed in the resolution providing for the issuance of the Preferred Shares.

Shareholders Meeting. The directors of the Company may convene meetings of the shareholders of the Company at such times and in such manner and places within or outside the BVI as the directors consider necessary or desirable. Upon the written request of the shareholders holding ten (10%) percent or more of the outstanding voting shares in the Company the directors must convene a meeting of shareholders.

A shareholder may participate at a meeting of shareholders by telephone or other electronic means, as long as all shareholders participating in the meeting are able to hear each other.

A meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than fifty (50%) percent of the votes of the shares or class series of shares entitled to vote on resolutions of shareholders to be considered at the meeting. If a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall stand adjourned to the next business day at the same time and place or to such other time and place as the directors may determine, and if at the adjourned meeting there are present in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitled to vote on the resolutions to be considered by the meeting, those present shall constitute a quorum but otherwise the meeting shall be dissolved.

Any action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing or by written electronic communication by a majority or greater number of shares entitled to vote, without the need for any notice, but if not a unanimous writing, a copy of such resolution shall be sent to all non-consenting shareholders.

Pre-emptive Rights. The holders of Ordinary Shares and Preferred Shares are not entitled to any pre-emptive or similar rights.

Conflict of Interests. No agreement or transaction between the Company and one or more of its directors or any person in which any director has a financial interest or to whom any director is related, including as a director of that other person, is void and avoidable for this reason only, or by reason only that the director is present at the meeting of directors, or at the meeting of the committee of directors that approves the agreement or transaction, or that the vote or consent of the director is counted for that purpose, if the material facts of the interest of each director in the agreement or transaction and his interest in or relationship to any other party to the agreement or transaction are disclosed in good faith, or are known by the other directors. A director who has an interest in any particular business to be considered at a meeting of directors or shareholders may be counted for purposes of determining whether the meeting is duly constituted.

Generally, no purchase, redemption or other acquisition of shares shall be made unless the directors determine that immediately after purchase, redemption or other acquisition the Company will be able to satisfy its liabilities as they become due in the ordinary course of its business and the realizable value of the assets of the Company will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital and, in the absence of fraud, the decision of the directors as to the realizable value of the assets of the Company is conclusive, unless a question of law is involved.

Duration, Liquidation, Merger. The Company shall continue until wound-up and dissolved by a resolution of shareholders, or under the terms of any insolvency or liquidation laws in force in the BVI. Under BVI law the Company may merge with another company, including a parent company or subsidiary, incorporated in the BVI, or in a jurisdiction outside of the BVI where the laws of that jurisdiction permit the merger. A merger must be authorized by the directors of the Company and approved by the shareholders.

Board of Directors. The business and affairs of the Company are managed by the directors who may exercise all such powers of the Company as are not by BVI law or by the Company's Articles reserved to the shareholders of the Company.

ITEM 10C. MATERIAL CONTRACTS

During the two year period prior to the filing of this Report, the Company did not enter into any material contracts.

ITEM 10D. EXCHANGE CONTROLS

There are no exchange control restrictions on payment of dividends on the Company's Ordinary Shares or on the conduct of the Company's operations either in Hong Kong, where the Company's principal executive offices are located, or the BVI, where the Company is incorporated. There are no BVI laws which impose foreign exchange controls on the Company or that effect the payment of dividends, interest, or other payments to non-resident holders of the Company's securities. BVI laws and the Company's Memorandum and Articles of Association impose no limitations on the right of non-resident or foreign owners to hold the Company's securities or vote the Company's Ordinary Shares. The PRC government has established a unified exchange rate system and system of exchange controls to which the Company is subject.

ITEM 10E. TAXATION

BVI

The Company is exempted from taxation in the BVI.

HONG KONG

The Company's subsidiaries organized in Hong Kong, Far East and Euro Tech (China) Limited, provide for Hong Kong profits tax at a rate of 16.5% in 2015 on the basis of their income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for profits tax purposes.

PRC

Euro Tech Trading (Shanghai) Limited ("ETTS"), a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 25% after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. As of December 31, 2016, ETTS had an assessable loss carried forward of US$764,808 as agreed by the local tax authority to offset its profit for the forth coming years. Such loss will expire in 5 years.

In accordance with the relevant income tax laws and regulations applicable to foreign investment enterprises in the PRC, Shanghai Euro Tech Limited ("SET"), a subsidiary of the Company, provides for the PRC Enterprise Income Tax of 25% for 2015. As of December 31, 2016, SET had an assessable loss carried forward of US$256,664 as agreed by the local tax authority to offset its profit for the forth coming years. Such loss will expire in 5 years.

According to the relevant PRC tax rules and regulations, Shanghai Euro Tech Environmental Engineering Limited ("SETEE") provides for the PRC Enterprise Income Tax of 25%. As of December 31, 2016, SETEE had an assessable loss carried forward of US$1,074,609 as agreed by the local tax authority to offset its profit for the forth coming years. Such loss will expire in 5 years. Chongqing Euro Tech Rizhi Technology Co., Ltd, Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd and Guangzhou Euro Tech Environmental Equipment Co., Ltd provide for PRC Enterprise Income Tax at a rate of 25%, after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

According to the relevant PRC tax rules and regulations, Yixing-Pact Environmental Technology Co., Ltd is registered in Shanghai as a Foreign Owned Enterprise that is entitled to Enterprise Income Tax rate of 25%.

Variable Interest Entities ("VIEs") of the Company provide for PRC Enterprise Income Tax at a rate of 25% after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

Under the New Enterprise Income Tax Law and the implementation rules, profits of the PRC subsidiaries earned on or after January 1, 2008 and distributed by the PRC subsidiaries to foreign holding company are subject to a withholding tax at a rate of 10% unless reduced by tax treaty. Aggregate undistributed earnings of the Company's subsidiaries located in the PRC that are available for distribution to the Company of approximately US$1.2 million at December 31, 2016 are intended to be reinvested, and accordingly, no deferred taxation has been made for the PRC dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. Distributions made out of pre January 1, 2008 retained earnings will not be subject to the withholding tax.

The principle reconciling items from income tax computed at the statutory rates and at the effective income tax rates are as follows:

	2016	2015	2014
	US$'000	US$'000	US$'000
Computed tax using respective companies' statutory tax rates	(136)	(177)	(194)
Change in valuation allowances	350	455	93
Under-provision for income tax in prior years	-	(69)	-
Nondeductible expenses	14	(256)	119
Total provision/(credit) for income tax at effective tax rate	228	(47)	18

PRC statutory reserves.

Under the relevant PRC laws and regulations, the PRC subsidiaries are required to appropriate certain percentage of their respective net income to two statutory funds i.e. the statutory reserve fund and the statutory staff welfare fund. The PRC subsidiaries can also appropriate certain amount of their net income to the enterprise expansion fund.

(i) Statutory reserve fund.

Pursuant to applicable PRC laws and regulations, the PRC subsidiaries are required to allocate at least 10% of the companies' net income to the statutory reserve fund until such fund reaches 50% of their respective registered capital. The statutory reserve fund can be utilized upon the approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

Under the PRC laws and regulations, the Company's PRC subsidiaries are restricted in their ability to transfer certain of their net assets to the Company in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital and statutory reserves, as determined pursuant to PRC generally accepted accounting principles, totaling US$3,520,000 as at December 31, 2016.

(ii) Statutory staff welfare fund.

Pursuant to applicable PRC laws and regulations, the PRC subsidiaries are required to allocate certain amount of their respective net income to the staff welfare funds determined by the Company. The staff welfare funds can only be used to provide staff welfare facilities and other collective benefits to their employees. This fund is non-distributable other than upon liquidation of the PRC subsidiaries.

(iii) Enterprise expansion fund.

The expansion fund shall only be used to make up losses, expand the PRC respective subsidiaries' production operations, or increase the capital of the subsidiaries. The expansion fund can be utilized upon approval by relevant authorities, to convert into registered capital and issue bonus capital to existing investors, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

UNITED STATES

The following discussion is a summary of the material United States federal income tax considerations that may be relevant to the purchase, holding, ownership, disposition or sale of our ordinary shares.

This discussion is general in nature and does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual circumstances, including investors subject to special U.S. taxation rules.

A U.S. Holder holding or considering acquiring or disposing of our ordinary shares is urged to consult his or her own tax advisor concerning the U.S. federal, state, local and non-U.S. income and other tax consequences of the holding, ownership, purchase, disposition or sale of our ordinary shares in light of such U.S. Holder's particular circumstances.

A "U.S. Holder" for purposes of this discussion is a beneficial owner of ordinary shares that is, for U.S. federal income tax purposes: (a) a citizen or resident of the United States; (b) a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or (d) a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person. If a partnership holds our ordinary shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding our ordinary shares is urged to consult its own tax advisor regarding an investment in our ordinary shares.

Passive foreign investment company rules. A passive foreign investment company ("PFIC") for any taxable year in which either (a) at least 75% of our gross income is passive income or (b) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income.

The annual PFIC determination to be made by a U.S. Holder of our ordinary shares is an inherently factual determination and there is limited guidance regarding the application of the PFIC rules to specific situations. Although the determination of PFIC status is subject to factual uncertainties because it depends upon the valuation of our ordinary shares as well as our goodwill and other assets and income. In addition, as the determination of PFIC status is made on an annual basis and depends on variables over which we have limited control, there can be no assurance that

we will not be classified as a PFIC for 2016 or any future calendar years.

If we are determined to be a PFIC for any taxable year, a U. S. Holder could be treated as owning a proportionate share of some of our subsidiaries and, in the absence of certain elections, will subject to special rules that will have a penalizing effect on certain “excess distributions” (as defined).

A U. S Holder that holds our Ordinary Shares in any year in which we are classified as a PFIC may make a “deemed sale” election with respect to such ordinary shares in a subsequent taxable year in which we are not classified as a PFIC. If you make a valid deemed sale election with respect to your Ordinary Shares, you will be treated as having sold all of your Ordinary Shares for their fair market value on the last day of the last taxable year in which we were a PFIC and such Ordinary Shares will no longer be treated as PFIC stock. You will recognize gain (but not loss), which will be subject to tax as an “excess distribution” received on the last day of the last taxable year in which we were a PFIC. Your basis in the Ordinary Shares would be increased to reflect gain recognized, and your holding period would begin on the day after we ceased to be a PFIC.

Also, a U. S. Holder may be required to file certain forms with the U.S. Treasury Department.

A U.S. Holder will generally recognize capital gain or loss upon the sale or other disposition of our Ordinary Shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ordinary shares. Any capital gain or loss will be long-term if the Ordinary Shares have been held for more than one year and will generally be United States source gain or loss for United States foreign tax credit purposes.

Certain U.S. Holders are required to report information to the Internal Revenue Service relating to an interest in "specified foreign financial assets," including shares issued by a non-United States corporation, for any year in which the aggregate value of all specified foreign financial assets exceeds $50,000 (or a higher dollar amount prescribed by the Internal Revenue Service), subject to certain exceptions. These rules also impose penalties if a holder is required to submit such information to the Internal Revenue Service and fails to do so.

ITEM 10H. DOCUMENTS ON DISPLAY

The documents that are exhibits to or incorporated by reference in this annual report can be read at the U.S. SEC's public reference facilities at 100 F Street, N.E., Washington, DC 20549-2001 or on the Commission's website: www.sec.gov.

ITEM10I. SUBSIDIARY INFORMATION

For information on the Company's subsidiaries see – Item 4C. The separate financial statements of Blue Sky and Jia Huan, as required under Regulation S-X 210.3-09, entities in which the Company owns a 20% equity interest are attached hereto.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary risk exposures arise from changes in interest rates and foreign currency exchanges rates.

Foreign Currency Risks

The Company is exposed to risk from changing foreign currency exchange rates. The Company's sales are denominated either in HK dollar or RMB. The majority of the Company's expenses and cost of revenue are denominated in HK dollars, followed by RMB, U.S. dollars, Japanese yen and the Euro. The Company is subject to a variety of risks associated with changes among the relative value of the U.S. dollar, HK dollar, RMB, Japanese yen and the Euro. The Company does not currently adequately hedge its foreign exchange positions. Any material increase in the value of the HK dollar, RMB, Japanese yen and the Euro relative to the U.S. dollar would increase the Company's expenses and cost of revenue and therefore would have a material adverse effect on the Company's business, financial condition and results of operations.

Inflation

The Company cannot accurately determine the precise effect of inflation on its operations; however, it does not believe inflation has had a material effect on sales or results of operations during the past several years. Efforts by the PRC to curb inflation may also curb economic growth, increase our overhead costs and adversely affect our sales. If the PRC rate of inflation continues to increase, the Chinese government may introduce further measures intended to reduce the inflation rate in the PRC. Any such measures adopted by the Chinese government may not be successful in reducing or slowing the increase in the PRC's inflation rate. Sustained or increased inflation in the PRC may have an adverse impact on the PRC's economy and may materially and adversely affect our business and financial results.

The Company is currently not exposed to material future earnings or cash flow exposures from changes in interest rates on debt obligations as the Company had no bank indebtedness in Fiscal 2015. The Company does not currently anticipate entering into interest rate swaps and/or similar instruments.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITYHOLDERS

In November 2011 and February 2012 the Company restated its Memorandum and Articles of Association. In January of 2012, the Company combined or reverse split each eleven of its outstanding Ordinary Shares into two shares of its Ordinary Shares. The reason for the foregoing was to comply with NASDAQ Listing Rules.

On September 20, 2011, the Company received a deficiency letter from NASDAQ that the Company was no longer in compliance with NASDAQ's listing maintenance rule for failing to have a bid price of at least US$ 1.00 per share for the prior thirty trading days. In order to regain compliance, in January 2012, the Company effected a combination or reverse split of its Ordinary Shares.

To facilitate the combination, Company changed the par value of its Ordinary Shares from US$ 0.01 per share to no par value.

The Company had been originally incorporated under the International Business Companies Act (the "IBC" Act). On January 1, 2005 the BVI Business Companies Act, (as amended, the "BC Act") came into force, with the objective of replacing the IBC Act over a 2 year transitional period.

On January 1, 2007, the Company was automatically re-registered under the BC Act as a BVI Business Company. Companies that were so automatically re-registered were not required to submit new Memorandum and Articles of Association and certain key sections of the IBC Act were "grandfathered" into the BC Act. See – Item 10B. Memorandum and Articles of Association. In December 2011 and January 2012, the Company filed Amended and Restated Memorandum and Articles of Association with the Registry of Corporate Affairs of the BVI Financial Services Commission to, among other things, (i) not apply the Transitional Provisions and (ii) remove these concepts from the Company's charter documents eliminating a layer of requirements that would otherwise apply to share divisions (splits), combinations (reverse splits), redemptions and dividends. The Company's accounting treatment of share capital need not change. Changes in the Company's Amended and Restated Memorandum are summarized in the Company's Forms 6-K filed with the SEC on November 30, 2011 and February 6, 2012.

ITEM 15. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include controls and procedures designed to ensure that information is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer has concluded that our disclosure controls and procedures were effective as of December 31, 2016.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, they used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2016, our internal control over financial reporting is effective.

Notwithstanding the foregoing, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems were determined to be effective they may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(c) Not Applicable

(d) Changes in Internal Controls

There were no changes in our internal controls that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Committee includes one non-employee director who meets the independence and “financial expert” requirements and two other members who meet the independence requirements of the NASDAQ listing standards and the rules and regulations of the SEC. The Committee includes Mr. Y.K. Liang the “financial expert” on that committee. See Mr. Liang’s biographical data in “Item 6A. Directors and Senior Management” contained in this Report.

Our Audit Committee is comprised of Messrs. Y.K. Liang, Vincent Pak Kan Wong, and Fu Ming Chen.. Our board of directors has determined Mr. Y.K. Liang as an "audit committee financial expert" as such term is defined in Item 407 of Regulation S-K promulgated by the SEC. Our board of directors has also determined both Vincent Pak Kan Wong, and Fu Ming Chen are independent directors as defined in Rule 10A-3 of the Exchange Act and the NASDAQ listing rules.

ITEM 16B. CODE OF ETHICS

Our Board of Directors has adopted a code of business conduct and ethics that applies to our directors, officers and employees, including certain provisions that specifically apply to our chief executive officer, chief financial officer and any other persons who perform similar functions for us. The Company agrees to undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request addressed to our offices set forth on the cover page of this Report.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Centurion ZD CPA Ltd. (fka DCAW (CPA) Ltd. as successor to Dominic K. F. Chan & Co.) and Dominic K. F. Chan & Co. (“DKFC”) who were the principal external auditors for fiscal years 2016 and 2015, respectively.

	For the Year Ended December 31	
	2016	2015
	US$	US$
Audit fees(1)	121,000	111,000
Audit-related fees(2)	Nil	Nil
Tax fees(3)	Nil	Nil
All other fees	Nil	Nil

Our Audit Committee has adopted a pre-approval policy for the engagement of our independent accountant to perform permitted audit and non-audit services. Under this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the Audit Committee pre-approves annually a range of specific audit and non-audit services in the categories of Audit Service, Audit-Related Services, Tax Services and other services that may be performed by our independent accountants, and the maximum pre-approved fees that may be paid as compensation for each pre-approved service in those categories. Any proposed services exceeding the maximum pre-approved fees require specific approval by the Audit Committee.

(1) "Audit fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements.

(2) "Audit-related fees" means the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under "Audit fees." Services comprising the fees disclosed under the category of "Audit-related fees" involve principally the performance of certain agreed upon procedures for the years ended December 31, 2016 and 2015, respectively.

(3) "Tax fees" means the aggregated fees billed in each of the years listed for professional services rendered by our principal auditors for tax compliance, tax advice and tax planning.

ITEM 16D. EXEMPTIONS FROM LISTING STANDARDS

The Company is a "Controlled Company" as defined in NASDAQ's corporate governance rules as a majority of our shares are owned by a "control group" consisting of T.C. Leung and Pearl Venture Ltd., who have disclosed their "control group" status in their filings with the Commission. So long as that "controlled company" status remains in effect, the Company will be exempt from certain of NASDAQ corporate governance rules that, including among other things, would require: (a) a majority of our directors be independent; (b) the compensation of our chief executive officer be determined or recommended by independent directors; and (c) director nominations be determined or recommended by independent directors.

The Company believes it is in compliance with NASDAQ's corporate governance rules as in effect and intends to comply with the changes to said rules no later than the date that they become effective.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASERS

None.

Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

On April 30, 2016, our former independent registered public accounting firm, Dominic K.F. Chan & Co. (“DKFC”) merged (the “Merger”) with AWC (CPA) Limited and formed DCAW (CPA) Limited (“DCAW”), which is registered with the Public Company Accounting Oversight Board (PCAOB).

As a result of the Merger, DKFC resigned as the Company’s independent registered public accounting firm on April 30, 2016. On May 11, 2016, the Company engaged DCAW as its independent registered public accounting firm. The engagement of DCAW was approved by the Company’s board of directors on May 11, 2016. On November 14, 2016, DCAW changed the name to Centurion ZD CPA Limited (“Centurion”).

The reports of DKFC on our financial statements for the fiscal years ended December 31, 2014 and 2015 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2014 and 2015, and in the subsequent interim periods through November 14, 2016, there were no disagreements with DKFC and DCAW on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedure which, if not resolved to the satisfaction of DKFC and DCAW, would have caused DKFC and DWAC to make reference to the matter in its report.

PART III

ITEM 18. FINANCIAL STATEMENTS

The following financial statements are filed as part of this annual report on Form 20-F.

Euro Tech Holdings Company Limited

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets

Consolidated statements of income

Consolidated statements of cash flows and changes in shareholders' equity

Zhejiang Tianlan Environmental Protection Technology Company Limited

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets

Consolidated statements of income

Consolidated statements of cash flows and changes in shareholders' equity

Zhejiang Jia Huan Electronic Co., Ltd.

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets

Consolidated statements of income

Consolidated statements of cash flows and changes in shareholders' equity

ITEM 19. EXHIBITS

Lists of Exhibits

Exhibit No.	Description
3.1	Amended and Restated Memorandum and Articles of Association (1)
3.2	Amendments to Exhibit 3.1 (2)
4.11	Registrant's Audit Committee Charter (3)
8.1	List of Subsidiaries *
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
101 ..INS*	XBRL Instance Document
101 ..SCH*	XBRL Taxonomy Extension Schema Document
101 ..CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101 ..DBF*	XBRL Taxonomy Extension Definition Linkbase Document
101 ..LAB*	XBRL Taxonomy Extension Label Linkbase Document
101 ..PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this Annual Report on Form 20-F.

1. Incorporated by reference, previously filed as an Exhibit to Registrant's Form 6-K on November 30, 2011.
2. Incorporated by reference, previously filed as an Exhibit to Registrant's Form 6-K on February 6, 2012.
3. Incorporated by reference, previously filed as an Exhibit to Registrant's Form 20-F filed on August 19, 2002

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorize the undersigned to sign this annual report on its behalf.

EURO TECH HOLDINGS COMPANY LIMITED
(REGISTRANT)

April 26, 2017 By: /s/ T.C. Leung
T.C. Leung
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

EURO TECH HOLDINGS COMPANY LIMITED

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EURO TECH HOLDINGS COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2016 AND 2015

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME / (LOSS),

CONSOLIDATED STATEMENTS OF CASH FLOWS AND CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

F-2

Report of Independent Registered Public Accounting Firm

To the Directors and Stockholders of

Euro Tech Holdings Company Limited

We have audited the accompanying consolidated balance sheet of Euro Tech Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income / (loss), changes in shareholders' equity and cash flows for each of the years in the three-years period ended December 31, 2016. These financial statements are 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 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for each of the years in the three-years period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Centurion ZD CPA Ltd.

Centurion ZD CPA Ltd. (fka DCAW (CPA) Ltd. as successor to Dominic K.F. Chan & Co.)

Certified Public Accountants

Hong Kong, April 26, 2017

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	Note	2016	2015
		US$'000	US$'000
Assets			
Current assets:			
Cash and cash equivalents		3,751	2,480
Restricted cash		284	475
Accounts receivable, net	6	4,393	4,500
Prepayments and other current assets	7	815	500
Inventories	8	344	557
Total current assets		9,587	8,512
Property, plant and equipment, net	9 & 22(iii)	771	773
Interests in affiliates	10	11,489	10,712
Goodwill	13	1,071	1,071
Deferred tax assets	4	186	202
Total assets		23,104	21,270
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable		3,173	3,054
Loans payable		720	-
Other payables and accrued expenses	11	2,258	1,626
Taxes payable		335	134
Total current liabilities		6,486	4,814

Commitments and contingencies	20	-	-
Shareholders' equity:			
Ordinary share, 20,000,000 (2015: 20,000,000) shares authorized; 2,229,609 (2015: 2,229,609) shares issued	12	123	123
Additional paid-in capital		9,551	9,551
Treasury stock, 167,700 shares at cost as of December 31, 2016 and 2015, respectively	14	(786)	(786)
PRC statutory reserves	15	352	315
Accumulated other comprehensive income		857	799
Retained earnings		5,338	5,144
Equity attributable to shareholders of Euro Tech		15,435	15,146
Non-controlling interest		1,183	1,310
Total shareholders' equity		16,618	16,456
Total liabilities and shareholders' equity		23,104	21,270

The accompanying notes are an integral part of these consolidated financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Note	2016	2015	2014
		US$'000	US$'000	US$'000
Revenues				
Trading and manufacturing		13,721	12,256	11,647
Engineering		8,757	6,046	7,175
Total revenues	22(i) & (ii)	22,478	18,302	18,822
Cost of revenues				
Trading and manufacturing		(11,331)	(9,577)	(9,060)
Engineering		(6,196)	(4,682)	(4,931)
Total cost of revenues		(17,527)	(14,259)	(13,991)
Gross profit		4,951	4,043	4,831
Finance costs		(19)	(4)	-
Selling and administrative expenses		(5,602)	(5,997)	(5,802)
Operating loss		(670)	(1,958)	(971)
Interest income		18	45	27
Other income, net	3	5	9	65
Gain on disposal of fixed assets		7	-	-
(Loss) before income taxes, equity in income of affiliates and non-controlling interests		(640)	(1,904)	(879)
Income taxes (expenses) / credit	4	(228)	47	(18)
Net gain on deemed disposal of affiliate		24	-	-
Equity in income of affiliates		1,002	850	605
Net profit / (loss) for the year		158	(1,007)	(292)
Less: net loss attributable to non-controlling interest		73	391	169
Net profit / (loss) attributable to the Company		231	(616)	(123)
Other comprehensive income / (loss)				
Net profit / (loss)		158	(1,007)	(292)
Foreign exchange translation Adjustments		4	(63)	(15)

Comprehensive income / (loss)	162	(1,070)	(307)
Less: Comprehensive loss attributable to non-controlling interest	127	477	176
Comprehensive income / (loss) attributable to the Company	289	(593)	(131)

The accompanying notes are an integral part of these consolidated financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS) (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Note	2016	2015	2014
		US$'000	US$'000	US$'000
Net income / (loss) per ordinary share				
- Basic		$US0.11	$(US0.30)	$(US0.06)
- Diluted		$US0.11	$(US0.30)	$(US0.06)
Weighted average number of ordinary shares outstanding				
- Basic	5	2,061,909	2,063,738	2,069,223
- Diluted	5	2,061,909	2,063,738	2,069,223

* The Company had net loss during the year ended December 31, 2015 and 2014, result in anti-diluted the net loss per ordinary share.

The accompanying notes are an integral part of these consolidated financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	2016	2015	2014
	US$'000	US$'000	US$'000
Cash flows from operating activities:			
Net income / (loss)	231	(616)	(123)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	55	56	88
Gain on disposal of property, plant and equipment	(7)	-	-
Net gain on deemed disposal of affiliate	(24)	-	-
Stock-based compensation expenses	-	16	2
Non-controlling interest in (loss) of subsidiaries	(73)	(391)	(169)
Equity in profit of affiliates	(1,002)	(850)	(605)
Deferred tax assets	16	25	9
Decrease / (increase) in current assets:			
Accounts receivable, net	107	(232)	(186)
Prepayments and other current assets	(315)	89	695
Inventories	213	(14)	(49)
Increase / (decrease) in current liabilities:			
Accounts payable	119	(507)	446
Other payables and accrued expenses	632	(475)	(585)
Taxation payable	201	(73)	7
Net cash generated by / (used in) by operating activities	153	(2,972)	(470)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(60)	(21)	(10)
Proceeds on disposal of property, plant and equipment	10	-	-
Dividend received from affiliates	249	292	302
Restricted cash for issuance of bank guarantees	191	404	(314)
Dividend paid to non-controlling interest	-	-	(42)
Net cash provided by / (used in) investing activities	390	675	(64)
Cash flows from financing activities:			
Increase in loans payable	720	-	-
Purchase of treasury stock	-	(20)	-
Net cash provided by / (used in) financing activities	720	(20)	-
Effect of exchange rate changes on cash and cash equivalents	8	(60)	(15)
Net increase/(decrease) in cash and cash equivalents	1,271	(2,377)	(549)
Cash and cash equivalents, beginning of year	2,480	4,857	5,406
Cash and cash equivalents, end of year	3,751	2,480	4,857

	US$'000	US$'000	US$'000
Supplemental disclosure of cash flow information:			
Interest received	18	45	27
Income taxes paid	70	1	3
Supplemental disclosure of non–-cash activities:			
Net gain on deemed disposal of affiliate	24	-	-

The accompanying notes are an integral part of these consolidated financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Number of ordinary share	Ordinary share	Additional paid-in capital	Treasury stock	Accumulated other com-prehensive income	PRC statutory reserves	Retained earnings	Non-controlling interest	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance as of January 1, 2014	2,229,609	123	9,533	(766)	784	315	5,883	2,005	17,877
Net loss	-	-	-	-	-	-	(123)	(169)	(292)
Other comprehensive loss: Foreign exchange translation adjustment	-	-	-	-	(8)	-	-	(7)	(15)
Dividend paid/payable to non-controlling interest	-	-	-	-	-	-	-	(42)	(42)
Stock-based compensation expense	-	-	2	-	-	-	-	-	2
Balance as of December 31, 2014	2,229,609	123	9,535	(766)	776	315	5,760	1,787	17,530
Net loss	-	-	-	-	-	-	(616)	(391)	(1,007)
Purchase 7,314 shares of treasury stock	-	-	-	(20)	-	-	-	-	(20)
Other comprehensive loss: Foreign exchange translation adjustment	-	-	-	-	23	-	-	(86)	(63)
Stock-based compensation expense	-	-	16	-	-	-	-	-	16
	2,229,609	123	9,551	(786)	799	315	5,144	1,310	16,456

Balance as of December 31, 2015									
Net income	-	-	-	-	-	-	231	(73)	158
Other comprehensive income: Foreign exchange translation adjustment	-	-	-	-	58	-	-	(54)	4
Appropriation of reserves	-	-	-	-	-	37	(37)	-	-
Balance as of December 31, 2016	2,229,609	123	9,551	(786)	857	352	5,338	1,183	16,618

The accompanying notes are an integral part of these consolidated financial statements.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1
Organisation and principal activities

Euro Tech Holdings Company Limited (the "Company") was incorporated in the British Virgin Islands on September 30, 1996.

Euro Tech (Far East) Limited ("Far East") is the principal operating subsidiary of the Company. It is principally engaged in the marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems in Hong Kong and in the People's Republic of China (the "PRC").

Details of the Company's significant subsidiaries and affiliates are summarised as follows:

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Subsidiaries:			
Euro Tech (Far East) Limited	100%	Hong Kong	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Euro Tech (China) Limited	100%	Hong Kong	Inactive
Euro Tech Trading (Shanghai) Limited	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Shanghai Euro Tech Limited	100%	The PRC	Manufacturing of analytical and testing equipment
Shanghai Euro Tech Environmental Engineering Company Limited	100%	The PRC	Undertaking water and waste-water treatment engineering projects
Chongqing Euro Tech Rizhi Technology Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1
Organisation and principal activities (Continued)

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Guangzhou Euro Tech Environmental Equipment Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Yixing Pact Environmental Technology Co., Ltd	58%	The PRC	Design, manufacture and operation of water and waste water treatment machinery and equipment
Pact Asia Pacific Limited	58%	The British Virgin Islands	Selling of environment protection equipment, undertaking environment protection projects and providing relevant technology advice, training and services
Affiliates:			
Zhejiang Tianlan Environmental Protection Technology Co. Ltd. (“Blue Sky”)	19.7% *	The PRC	Design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted
Zhejiang Jia Huan Electronic Co. Ltd.	20%	The PRC	Design and manufacturing automatic control systems and electric voltage control equipment for electrostatic precipitators (air purification equipment)

* The Group interest in Blue Sky has been counted for as an affiliate using the equity method as the Group has representation in both the Board and Executive Committee of Blue Sky, and the ability to participate in the decision-making process.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies

(a)
Basis of Consolidation

The consolidated financial statements include the accounts of Euro Tech Holdings Company Limited and its subsidiaries (the "Group"). The financial statements of variable interest entities ("VIEs"), as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 810-10, Consolidation, are included in the consolidated financial statements, if applicable. All material intercompany balances and transactions have been eliminated on consolidation.

The Group identified that a retail shop established in the PRC qualified as variable interest entities as defined in ASC 810-10. This retail shop was principally engaged in the retailing business of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems. The Company is the primary beneficiary of this retail shop and, accordingly, consolidated their financial statements. The Company has a controlling financial interest in this retail shop and is subject to a majority of the risk of loss from the retailing activities, and is entitled to receive a majority of the retail shop's residual returns. Total assets and liabilities of this consolidated VIE total US$9,179 and US$1,626, as of December 31, 2015, respectively. This VIE had ceased operation since October 2016.

(b)
Subsidiaries and affiliates

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

An investment in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are accounted for using the equity method of accounting.

(c)
Revenue Recognition

The Group's main source of revenue is the sale of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems. The Company recognises revenue when the product is delivered and the title is transferred. For certain products where installation is necessary, revenue is recognised upon completion of installation. Revenue earned from customer support services, which represents a minor percentage of total revenues, is recognised when such services are provided.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(c)
Revenue Recognition (Continued)

Revenues and profits in long term fixed price contracts or engineering income are recognised using the percentage of completion method in accordance with FASB ASC Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. This approach primarily based on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognised in the period they are determined. Revenues recognised in excess of amounts billed are classified as costs and estimated earnings in excess of billings on uncompleted contracts. Essentially all of such amounts are expected to be billed and collected within one year and are classified as current assets. Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. When reasonably dependable estimates cannot be made, construction contract revenues are recognised using the completed contract method.

(d)
Research and Development Costs

Research and development expenses include payroll, employee benefits and other related expenses associated with product development. Research and development expenses also include third-party development and programming costs. Such costs included in research and development expense until the point that technological feasibility is reached. Once technological feasibility is reached, such costs are capitalized and amortized to the cost of revenue over the estimated lives of the products.

Research and development costs (“R&D” costs) are expensed as incurred. The R&D costs amounted to approximately US$475,000, US$852,000 and US$631,000 for the years ended December 31, 2016, 2015 and 2014 respectively and were included in “Selling and Administrative” expenses in the Group’s consolidated statements of income.

(e)
Advertising and promotional expenses

Advertising and promotional expenses (“A&P” expenses) are expensed as incurred. The A&P expenses amounted to approximately US$13,000, US$17,000 and US$44,000 for the years December 31, 2016, 2015 and 2014 respectively and were included in “Selling and Administrative” expenses in the Group’s consolidated statements of income.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(f)
Taxation

The Group accounts for income and deferred tax under the provision of FASB ASC Subtopic 740-10, Income Taxes, under which deferred taxes are recognised for all temporary differences between the applicable tax balance sheets and the consolidated balance sheet. Deferred tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realised within a reasonable period of time.

In accordance with ASC 740-10, the Company recognises tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits. The Company did not have such uncertain tax positions in 2016, 2015 and 2014.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income for the period that includes the enactment date.

(g)
Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits with original maturities of three months or less, all of which are unrestricted as to withdrawal and uninsured.

(h)
Restricted Cash

Restricted cash represents cash deposits retained with banks in the PRC for issuance of performance guarantees to the customers. The amount is expected to be released within one year after the balance sheet date.

(i)
Receivables and Other Assets

Receivables and other assets are recorded at their nominal values. Doubtful debt allowances are provided for identified individual risks for these line items. If the loss of a certain part of the receivables is probable, doubtful debt allowances are provided to cover the expected loss. Receivables are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(j)
Inventories

Inventories are stated at the lower of cost, on the first-in, first-out method, or market value. Costs include purchase and related costs incurred in bringing each product to its present location and condition. Market value is calculated

based on the estimated normal selling price, less further costs expected to be incurred for disposal. Allowance is made for obsolete, slow moving or defective items, where appropriate.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(k)
Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Gains or losses on disposal are reflected in current operations. Major expenditures for betterments and renewals are capitalised. All ordinary repair and maintenance costs are expensed as incurred. Depreciation of property, plant and equipment is computed using the straight-line method over the assets' estimated useful lives as follows:

Office premises	47 to 51 years
Leasehold improvements	over terms of the leases or the useful lives whichever is less
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	4 years
Testing equipment	3 years

(l)
Impairment

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, which requires impairment losses to be recorded for property, plant and equipment to be held and used in operations when indicators of impairment are present. Reviews are regularly performed to determine whether the carrying value of assets is impaired. The Group determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There was no impairment losses recorded during each of the three years ended December 31, 2016.

(m)
Operating Leases

Leases where substantially all the risks and rewards of ownership of the leased assets remain with the lessors are accounted for as operating leases. Rental payments under operating leases are charged to expense on the straight-line basis over the period of the relevant leases.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(n)
Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of the net tangible and intangible assets acquired. Under ASC 350, goodwill is not amortized, but rather is subject to an annual impairment test. Goodwill is tested for impairment at the reporting unit level by comparing the fair value of the reporting unit with its carrying value. The Company performs its annual impairment analysis of goodwill in the fourth quarter of the year, or more often if there are indicators of impairment present.

The provisions of ASC 350 require that a two-step impairment test be performed on goodwill at the level of the reporting units. In the first step, or Step 1, the Company compares the fair value of each reporting unit to its carrying value. If the fair value exceeds the carrying value of the net assets, goodwill is considered not impaired, and the Company is not required to perform further testing. If the carrying value of the net assets exceeds the fair value, then the Company must perform the second step, or Step 2, of the impairment test in order to determine the implied fair value of goodwill. To determine the fair value used in Step 1, the Company uses discounted cash flows. If and when the Company is required to perform a Step 2 analysis, determining the fair value of its net assets and its off-balance sheet intangibles would require it to make judgments that involve the use of significant estimates and assumptions.

(o)
Foreign Currency Translation

The Company maintains its books and records in United States dollars. Its subsidiaries and affiliates maintain their books and records either in Hong Kong dollars or Chinese Renminbi (“functional currencies”). Foreign currency transactions during the year are translated into the respective functional currencies at the applicable rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currencies using the exchange rates prevailing at the balance sheet dates. Gains or losses from foreign currency transactions are recognised in the consolidated statements of income during the year in which they occur. Translation adjustments on subsidiaries’ equity are included as accumulated comprehensive income or loss.

(p)
Derivative Instruments and Hedging Activities

ASC 815, "Derivatives and Hedging" ("ASC 815"), as amended, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income (loss). If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings. The Company uses derivatives to hedge certain cash flow foreign currency exposures in order to further reduce the Group's exposure to foreign currency risks.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(q)
Fair Value Measurement

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Group holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group adopted ASC 820, Fair Value Measurements and Disclosures, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually).

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short term maturities of these instruments.

The fair values of current financial assets and liabilities carried at amortized cost approximate their carrying amounts.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(r)
Comprehensive Income

The Group has adopted FASB ASC Subtopic 220-10, Comprehensive Income, which requires the Group to report all changes in equity during a period, except for those resulting from investment by owners and distribution to owners, in the financial statements for the period in which they are recognised. The Group has presented comprehensive income, which encompasses net income and foreign currency translation adjustments, in the consolidated statement of changes in shareholders' equity.

(s)
Ordinary Share

On November 22, 2011, the Company filed Amended and Restated Memorandum and Articles of Association with the Registry of Corporate Affairs of the BVI Financial Services Commission that on November 29, 2011 became effective as of the filing date to amend the Company's ordinary shares of US$0.01 par value capital stock to no par value capital stock. Treasury stock is accounted for using the cost method. When treasury stock is reissued, the value is computed and recorded using a weighted-average basis.

(t)
Net income per Ordinary Share

Net income per ordinary share is computed in accordance with FASB ASC Subtopic 260-10, Earnings Per Share, by dividing the net income by the weighted average number of shares of ordinary share outstanding during the period. The Company reports both basic earnings per share, which is based on the weighted average number of ordinary shares outstanding, and diluted earnings per share, which is based on the weighted average number of ordinary shares outstanding and all dilutive potential ordinary shares outstanding.

Outstanding stock options are the only dilutive potential shares of the Company.

(u)
Stock-based Compensation

The Group accounts for stock-based compensation in accordance with ASC 718, "Compensation-Stock Compensation" ("ASC 718"). ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of operations.

The Group recognizes compensation expenses for the value of its awards, based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(v)
Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

(w) Related Parties

Related parties are affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

(x)
Segment Information

The Company’s segment reporting is prepared in accordance with FASB ASC Subtopic 280-10, Segment Reporting. The management approach required by ASC 280-10 designates that the internal reporting structure that is used by management for making operating decisions and assessing performance should be used as the source for presenting the Company’s reportable segments. The Company categorises its operations into two business segments: Trading and manufacturing, and Engineering.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(y) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance was deferred by ASU 2015-14, issued by the FASB in August 2015, and this new accounting guidance will be effective for the interim and annual period beginning after December 31, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This new accounting guidance will be effective for interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This new accounting guidance will be effective for the interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(y) Recent Accounting Pronouncements (Continued)

In January 2016, the FASB has issued Accounting Standards Update ("ASU") No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing U.S. GAAP by: (1) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (2) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (3) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and. (4) Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. he Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(y) Recent Accounting Pronouncements (Continued)

In April 2016, FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, FASB issued ASU No. 2016-12—Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies (Continued)

(y) Recent Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

The Company has considered all new accounting pronouncements and has concluded that there are no new pronouncements that may have a material impact on results of operations, financial condition, or cash flows, based on current information.

3
Other income, net

	2016	2015	2014
	US$'000	US$'000	US$'000
Exchange (loss), net	(75)	(75)	(12)
Rental income	80	84	77
	5	9	65

4
Income taxes

The Company is exempt from taxation in the British Virgin Islands ("BVI").

Euro Tech (Far East) Limited and Euro Tech (China) Limited provided for Hong Kong profits tax at a rate of 16.5% in year 2016 (2015 and 2014: 16.5%) on the basis of their income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for profits tax purposes.

Euro Tech Trading (Shanghai) Limited ("ETTS"), a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 25% (2015 and 2014: 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. As of December 31, 2016, ETTS had an assessable loss carried forward of US$746,808 as agreed by the local tax authority to offset its profit for the forth coming years (2015: US$588,103 and 2014: US$506,117). Such loss will expire in 5 years.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4
Income taxes (Continued)

Shanghai Euro Tech Limited ("SET"), a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 25% (2015 and 2014: 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. As of December 31, 2016, SET had an assessable loss carried forward of US$256,664 as agreed by the local tax authority to offset its profit for the forth coming years (2015: US$284,173 and 2014: US$390,290). Such loss will expire in 5 years.

Shanghai Euro Tech Environmental Engineering Limited ("SETEE"), a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 25% (2015 and 2014: 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. As of December 31, 2016, SETEE had an assessable loss carried forward of US$1,074,609 as agreed by the local tax authority to offset its profit for the forth coming years (2015: US$1,363,392 and 2014: US$1,635,072). Such loss will expire in 5 years.

Yixing Pact Environmental Technology Co. ("Yixing), a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 25% (2015 and 2014: 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. As of December 31, 2016, Yixing had an assessable loss carried forward of US$ Nil as agreed by the local tax authority to offset its profit for the forth coming years (2015: US$994,025). Such loss will expire in 5 years.

Chongqing Euro Tech Rizhi Technology Co., Ltd ("CQ"), Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd ("RZ") and Guangzhou Euro Tech Environmental Equipment Co., Ltd ("GZ") provide for PRC Enterprise Income Tax at a rate of 25%, after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. CQ, RZ and GZ had an assessable loss carried forward of US$124,025, US$60,980 and US$320,545 respectively as agreed by the local tax authority to offset its profit for the forth coming years (2015: US$139,068, US$76,029 and US$385,183). Such loss will expire in 5 years.

VIEs of the Group provide for PRC Enterprise Income Tax at a rate of 25% (2015 and 2014: 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

Under the New Enterprise Income Tax Law and the implementation rules, profits of the PRC subsidiaries earned on or after January 1, 2008 and distributed by the PRC subsidiaries to foreign holding company are subject to a withholding tax at a rate of 10% unless reduced by tax treaty. Aggregate undistributed earnings of the Company's subsidiaries located in the PRC that are available for distribution to the Company of approximately US$1.2 million at December 31, 2016 (2015: US$1.1 million and 2014: US$2.2 million) are intended to be reinvested, and accordingly, no deferred taxation has been made for the PRC dividend withholding taxes that would be payable upon the distribution of those amounts to the Company. Distributions made out of pre January 1, 2008 retained earnings will not be subject to the withholding tax.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4
Income taxes (Continued)

Loss before income taxes:

	2016	2015	2014
	US$'000	US$'000	US$'000
The PRC and Hong Kong	(640)	(1,904)	(879)

The provision / (credit) for income taxes consist of:

	2016	2015	2014
	US$'000	US$'000	US$'000
Current tax expenses:			
The PRC and Hong Kong	212	(72)	8
Total current provision / (credit)	212	(72)	8
Deferred tax expenses:			
The PRC and Hong Kong	16	25	10
Total deferred provision	16	25	10

The principal reconciling items from income tax computed at the statutory rates and at the effective income tax rates are as follows:

	2016	2015	2014
	US$'000	US$'000	US$'000
Computed tax using respective companies' statutory tax rates	(136)	(177)	(194)

Change in valuation allowances	350	455	93
Under-provision for income tax in prior years	-	(69)	-
Non-deductible expenses	14	(256)	119
Total provision / (credit) for income tax at effective tax rate	228	(47)	18

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4
Income taxes (Continued)

The components of deferred tax assets are as follows:

	2016	2015
	US$'000	US$'000
Tax losses	838	1,159
Temporary differences	(2)	1
Less: Valuation allowances	(650)	(958)
Net deferred tax assets	186	202

5
Net income per ordinary share

The calculation of the basic and diluted net income per ordinary share is based on the following data:

	2016	2015	2014
	Number of shares		
Weighted average number of ordinary shares for the purposes of basic net income per share	2,061,909	2,063,738	2,069,223
Effect of dilutive potential ordinary shares:			
Stock options	-	-	-
Weighted average number of ordinary shares for the purposes of diluted net income per share	2,061,909	2,063,738	2,069,223

6
Accounts receivable, net

	2016	2015
	US$'000	US$'000
Accounts receivable	4,431	4,557
Less: Allowance for doubtful debts	(38)	(57)
	4,393	4,500

The following is an age analysis of past due account receivables as of December 31, 2016 and 2015:

	2016	2015
	US$'000	US$'000
Current	1,789	2,762
30-59 days past due	1,072	633
60-89 days past due	852	635
Greater than 90 days	680	470
	4,393	4,500

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7
Prepayments and other current assets

Prepayment and other current assets mainly represent deposits for purchases and services, rental and utilities deposits, and prepaid expenses.

	2016	2015
	US$'000	US$'000
Cost & estimated earnings in excess of billings	343	144
Deposit paid	70	57
Prepayment	221	59
Other receivables	156	214
Other tax recoverable	25	26
	815	500

8
Inventories

	2016	2015
	US$'000	US$'000
Raw materials	97	131
Work in progress	29	39
Finished goods	218	387
	344	557

Management continuously reviews obsolete and slow moving inventories and assesses the inventory valuation to determine if the provision is deemed appropriate. For the year ended December 31, 2016, and 2015 provision for obsolete and slow moving inventories amounted to US$53,000 and US$5,000, respectively, which were charged to cost of revenue in Consolidated Statements of Income.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9
Property, plant and equipment

	2016	2015
	US$'000	US$'000
Office premises	1,866	1,866
Leasehold improvements	155	157
Furniture, fixtures and office equipment	581	635
Motor vehicles	188	155
Testing equipment	30	30
	2,820	2,843
Less: Accumulated depreciation	(2,049)	(2,070)
	771	773

	2016	2015	2014
	US$'000	US$'000	US$'000
Depreciation charge	55	56	88

10
Interests in affiliates

Investments in affiliates are accounted for using the equity method of accounting.

The Company is holding 19.7% equity interests in Zhejiang Tianlan Environmental Protection Technology Co. Ltd. A company incorporated in the PRC, with total cost of investment US$5,540,000. Blue Sky provides a comprehensive service for design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted from various boilers and industrial furnaces of power plants, steel works and chemical plants since 2000.

Blue Sky has recently received approval from the National Equities Exchange and Quotations ("NEEQ") to list its shares on the New Third Board in the People's Republic of China ("PRC") on November 17, 2015.

The Group interest in Blue Sky has been counted for as an affiliate using the equity method as the Group has representation in both the Board and Executive Committee of Blue Sky, and the ability to participate in the decision-making process.

During the year, the Group's equity in Blue Sky was diluted subsequent to the issuance of new ordinary shares by Blue Sky to other shareholders. A net profit on deemed disposal of an affiliate of USD24,000 had been recognized in the consolidated statement of operations and comprehensive income for that year.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10
Interests in affiliates (Continued)

A summary of the financial information of the affiliate, Zhejiang Tianlan Environmental Protection Technology Co. Ltd, is set forth below:

	2016	2015
Balance Sheet:	US$'000	US$'000
Current assets	46,297	57,432
Non-current assets	25,847	26,587
Total assets	72,144	84,019
Total liabilities	(45,372)	(58,149)
Total shareholders' equity	26,772	25,870

	2016	2015
Operating results:	US$'000	US$'000
Net sales	43,226	66,899
Operating income	3,841	4,260
Net income	3,473	3,458

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10
Interests in affiliates (Continued)

The Company is holding 20% equity interests in Zhejiang Jia Huan Electronic Co. Ltd. ("Jia Huan"), a company incorporated in the PRC, with total cost of investment US$2,486,000. Jia Huan provides a comprehensive service for environmental protection business since 1969 and is based in Jin Hua, Zhejiang.

A summary of the financial information of the affiliate, Zhejiang Jia Huan Electronic Co. Ltd, is set forth below:

	2016	2015
Balance Sheet:	US$'000	US$'000
Current assets	22,021	22,693
Non-current assets	4,079	4,717
Total assets	26,100	27,410
Total liabilities	(11,694)	(13,627)
Total shareholders' equity	14,406	13,783

	2016	2015
Operating results:	US$'000	US$'000
Net sales	16,684	18,481
Operating income	1,586	1,316
Net income	1,564	788

11
Other payables and accrued expenses

Other payables and accrued expenses mainly represent deposits received from customers and accruals for operating expenses.

	2016	2015
	US$'000	US$'000
Dividend payables	79	84
Deposit received from customer	1,113	558
Rental deposit received	14	18
Other payables	994	764
Other tax payables	58	202
	2,258	1,626

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12
Ordinary share

During the years ended December 31, 2016 and 2015, there was no movement with the Company's issued ordinary shares and outstanding shares.

13
Goodwill

The Company accounts for acquisitions of subsidiaries in accordance with FASB ASC Subtopic 805-10, Business Combinations. Goodwill represents the excess of acquisition cost over the estimated fair value of net assets acquired in relation to the acquisition of Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited in 2005.

As of December 31, 2016, the Company completed the annual impairment test (i.e. comparing the carrying amount of the net assets, including goodwill, with the fair value of the Company as of December 31, 2016). Based on management's assessment, the Company determined that there was no impairment of goodwill as of December 31, 2016 and 2015.

14
Treasury stock

The Company authorised a stock buyback program in August 2010 pursuant to which up to 54,546 shares, but not to exceed US$450,000 in value, of the Company's ordinary share could be purchased in the open market from time to time as market and business conditions warrant. The Company repurchased a total of 6,482 shares of ordinary share during 2010 for considerations of approximately US$49,000. The Company repurchased a total of 16,935 shares of ordinary share during 2011 for total consideration of approximately US$94,000. The Company repurchased a total of 8,639 shares of ordinary share during 2012 for total consideration of approximately US$33,000.

The Company authorised a stock buyback program in January 2015 pursuant to which up to 60,000 shares, but not to exceed US$150,000 in value, of the Company's ordinary share could be purchased in the open market from time to time as market and business conditions warrant. The Company repurchased a total of 7,314 shares of ordinary share during 2015 for total consideration of approximately US$20,000.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15
PRC statutory reserves

Under the relevant PRC laws and regulations, the PRC subsidiaries are required to appropriate certain percentage of their respective net income to two statutory funds i.e. the statutory reserve fund and the statutory staff welfare fund. The PRC subsidiaries can also appropriate certain amount of their net income to the enterprise expansion fund.

(i)
Statutory reserve fund

Pursuant to applicable PRC laws and regulations, the PRC subsidiaries are required to allocate at least 10% of the companies' net income to the statutory reserve fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised upon the approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund be maintained at a minimum of 25% of the companies' registered capital.

Under the PRC laws and regulations, the Company's PRC subsidiaries are restricted in their ability to transfer certain of their net assets to the Company in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital and statutory reserves, as determined pursuant to PRC generally accepted accounting principles, totaling US$3,520,000 as at December 31, 2016 (2015:US$3,457,000 and 2014: US$3,357,000).

(ii)
Statutory staff welfare fund

Pursuant to applicable PRC laws and regulations, the PRC subsidiaries are required to allocate certain amount of the companies' net income to the staff welfare fund determined by the Company. The staff welfare fund can only be used to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the PRC subsidiaries.

(iii)
Enterprise expansion fund

The expansion fund shall only be used to make up losses, expand the PRC subsidiaries' production operations, or increase the capital of the subsidiaries. The expansion fund can be utilised upon approval by relevant authorities, to convert into registered capital and issue bonus capital to existing investors, provided that such fund be maintained at a minimum of 25% of the companies' registered capital.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16
Stock options

2014 Officers' Stock Option and Incentive Plan

Effective November 22, 2014, the Company entered into a stock option contract with a Business Development Manager of Yixing Pact Environmental Technology Co., Ltd, granting the optionee the right to purchase 20,692 Ordinary Shares, 1% of the Company's issued and outstanding shares, at an exercise price of $3.44 per share. The exercise price was determined by the average closing price of the Company's as reported by NASDAQ for a ten day period prior to the end of the Business Development Manager's probationary period on November 22, 2014, the effective date of the stock option contract. The stock options granted are exercisable three years after the effective date and terminate five years after the effective date. In the event of the optionee's termination, except for his resignation, the options may be exercisable within three months of the termination. In the event of optionee's death, retirement or disability, he or his legal representative shall have up to one year to exercise the option.

The Company estimate the fair value of the options granted under the Binomial pricing model.

Changes in outstanding options under various plans mentioned above were as follows:

	2016		2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		US$		US$		US$
Outstanding, beginning of year	20,692	3.44	20,692	3.44	-	-
Granted			-	-	20,692	3.44
Cancelled/Expired	(20,692)	(3.44)	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding, end of year	-	-	20,692	3.44	20,692	3.44
Exercisable, end of year	-	-	-	-	-	-

As of December 31, 2016, 2015 and 2014, there was no unrecognised stock-based compensation expense related to unvested stock options.

The Group adopted the provisions of ASC 718-10, which requires us to recognise expense related to the fair value of our stock-based compensation awards, including employee stock options.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16
Stock options (Continued)

The Binomial option-pricing model is used to estimate the fair value of the options granted. This requires the input of subjective assumptions, including the expected volatility of stock price, expected option term, expected risk-free rate over the expected option term and expected dividend yield rate over the expected option term. Because changes in subjective input assumptions can materially affect the fair value estimate, in directors' opinion, the existing model may not necessarily provide a realisable measure of the fair value of the stock options. Expected volatility is based on historical volatility in the 180 days prior to the issue of the options. Expected option term and dividend yield rate are based on historical trends. Expected risk-free rate is based on US Treasury securities with similar maturities as the expected terms of the options at the date of grant.

17
Pension plan

Prior to December 1, 2000, the Group had only one defined contribution pension plan for all its Hong Kong employees. Under this plan, all employees were entitled to pension benefits equal to their own contributions plus 50% to 100% of individual fund account balances contributed by the Group, depending on their years of service with the Group. The Group was required to make specific contributions at approximately 10% of the basic salaries of the employees to an independent fund management company.

With the introduction of the Mandatory Provident Fund Scheme, a defined contribution scheme managed by an independent trustee on 1st December, 2000, the Group and its employees who joined the Group subsequently make monthly contributions to the scheme at 5% of the employee's cash income as defined under the Mandatory Provident Fund legislation. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 or HK$30,000 (effective from 1 June 2015). Contributions to the plan vest immediately.

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contribution range from 14% to 21% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the years ended December 31, 2016, 2015 and 2014, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately US$314,000, US$458,000 and US$378,000 respectively.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18
Risk factor and Derivative Instruments

Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange rate risk and credit risk.

(i)
Credit risk

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any customers. Derivative counterparties and cash transactions are limited to high credit quality banks.

Financial risk factors (continued)

(ii)
Foreign exchange risk

The Group operates in Hong Kong, the PRC and trades with both local and overseas customers, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to purchases in, Hong Kong dollar, Renminbi and Euro. Foreign exchange risk arises from committed and unmatched future commercial transactions, such as confirmed import purchase orders and sales orders, recognised assets and liabilities, and net investment in the PRC operations. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain foreign currency exposures.

The Group's prevailing risk management policy is to hedge the net committed transactions (mainly sales and import purchases) in each major currency.

The Company's policy generally permits the use of derivatives if they are associated with underlying assets or liabilities, forecasted transactions, or legally binding rights or obligations. There were no such derivatives during the years ended December 31, 2016, 2015 and 2014.

19
Related party transactions

Other than compensation to directors and stock options available to the directors, there were no transactions with other related parties in the years 2016, 2015 and 2014.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20
Commitments and contingencies

(i)
Operating leases

The Group has various operating lease agreements for office and industrial premises. Rental expenses for the years ended December 31, 2016, 2015 and 2014 were approximately US$297,000, US$297,000 and US$293,000, respectively. Future minimum rental payments as of December 31, 2016, under agreements classified as operating leases with non-cancellable terms amounted to US$341,000 of which US$225,000 are payable in the year 2017 and US$116,000 are payable within years 2018 to 2022.

(ii)
Banking facilities

As at December 31, 2016, 2015 and 2014, the Group had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Group can draw up to approximately US$1,660,000, US$1,660,000 and US$1,660,000 respectively, of which approximately US$956,000, US$85,000 and US$68,000 was utilised for issuance of bank guarantees.

(iii)
Non-controlling interest put option

The Group granted the non-controlling interest of Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited a put option, which is effective from 2009, requiring the Group to acquire part or all remaining shares of these two companies at a purchase price per share calculated by 5.2 times of their average net income for the three prior fiscal years divided by total number of shares outstanding at the time of exercise of such option.

(iv)
Litigation

Shanghai Euro Tech Environmental Engineering Limited (“SETEE”)

SETEE is a plaintiff in a civil action claiming from the defendant for outstanding debts of approximately of USD 416,000. The litigation has not been concluded, but having taken legal advice, the directors are of the opinion that no provision is required to be made in the consolidated financial statements since based on the evidence that SETEE has a reasonable chance of recovering the whole debts.

21
Fair value of financial instruments

The carrying values of financial instruments, which consist of cash and cash equivalents, accounts receivable and accounts payable, bills receivable, bills payable, other payables and balances with related companies approximate their fair values due to the short-term nature of these instruments.

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22
Segment information

(i)
The Group reports under two segments: Trading and manufacturing, and Engineering.

Operating income represents total revenues less operating expenses, excluding other expense, interest and income taxes. The identifiable assets by segment are those used in each segment's operations. Intersegment transactions are not significant and have been eliminated to arrive at consolidated totals.

	2016	2015	2014
	US$'000	US$'000	US$'000
Revenue			
Trading and manufacturing	13,721	12,256	11,647
Engineering	8,757	6,046	7,175
	22,478	18,302	18,822
Operating loss			
Trading and manufacturing	(346)	(187)	(214)
Engineering	(209)	(1,624)	(640)
Unallocated corporate expenses	(115)	(147)	(117)
	(670)	(1,958)	(971)

	2016	2015	2014
	US$'000	US$'000	US$'000
Depreciation:			
Trading and manufacturing	43	46	67
Engineering	12	10	21
	55	56	88
Capital Expenditures, Gross			
Trading and manufacturing	12	11	2
Engineering	48	10	8
	60	21	10

	2016	2015
	US$'000	US$'000
Assets		
Trading and manufacturing	5,463	5,050
Engineering	17,641	16,220
	23,104	21,270
Liabilities		
Trading and manufacturing	3,208	2,468
Engineering	3,278	2,346
	6,486	4,814

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22
Segment information (Continued)

(ii)
Geographical analysis of revenue by customer location is as follows:

	2016	2015	2014
	US$'000	US$'000	US$'000
Revenue -			
The PRC	10,604	9,327	10,950
Hong Kong	11,687	8,726	6,177
Others	187	249	1,695
	22,478	18,302	18,822

(iii)
Long-lived assets (1)

Geographical analysis of long-lived assets is as follows:

	2016	2015
	US$'000	US$'000
Hong Kong	480	501
The PRC	291	272
	771	773

(1)
Long-lived assets represent property, plant and equipment, net.

(iv) Major suppliers

Details of individual suppliers accounting for more than 5% of the Group's purchases are as follows:

	2016	2015	2014

Supplier A	63%	39%	33%
Supplier B	7%	11%	11%
Supplier C	5%	6%	6%
Supplier D	5%	5%	6%

EURO TECH HOLDINGS COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22
Segment information (Continued)

(v) Major customers

Details of individual customers accounting for more than 5% of the Group's revenue are as follows:

	2016	2015	2014
Customer A	13%	11%	-
Customer B	6%	-	-
Customer C	6%	-	-
Customer D	-	11%	-
Customer E	-	6%	-
Customer F	-	5%	-

23 Subsequent events

The Company has evaluated all events or transactions that occurred through the date the consolidated financial statements were issued, and has determined that there were no material recognizable nor subsequent events or transactions which would require recognition or disclosure in the consolidated financial statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION
TECHNOLOGY COMPANY LIMITED

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Report of Independent Registered Public Accounting Firm

To the Directors and Stockholders of

Zhejiang Tianlan Environmental Protection Technology Company Limited

We have audited the accompanying consolidated balance sheet of Zhejiang Tianlan Environmental Protection Technology Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the each of the years ended in the three-years period ended December 31, 2016. These financial statements are 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 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for each of the years in the three-years period December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Centurion ZD CPA Ltd.

Centurion ZD CPA Ltd. (fka DCAW (CPA) Ltd. as successor to Dominic K.F. Chan & Co.)

Certified Public Accountants

Hong Kong, April 26, 2017

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	Note	2016	2015
		RMB'000	RMB'000
Assets			
Current assets:			
Cash and cash equivalents		33,545	35,635
Accounts receivable, net	7	165,100	207,907
Prepayments and other current assets	8	111,057	119,558
Other tax receivables	5	215	5
Inventories	9	13,105	12,111
Total current assets		323,022	375,216
Property, plant and equipment, net	10	149,840	161,731
Intangible asset, net	11	1,375	1,548
Land use right, net	12	5,747	5,896
Deferred tax assets	4	5,864	4,527
Other non-current asset	6	17,512	-
Total assets		503,360	548,918
Liabilities and shareholders' equity			
Current liabilities:			
Short term borrowings	13	25,000	45,000
Accounts payable		117,939	176,981
Other payables and accrued expenses	14	51,183	40,775

Other taxes payable	5	7,490	8,423
Income tax payable		3,262	994
Total current liabilities		204,874	272,173
Non-Current liabilities:			
Long term borrowings	15	111,691	107,732
Commitments and contingencies	21	-	-
Total liabilities		316,565	379,905
Shareholders' equity:			
Share capital 81,372,000 (2015: 80,172,000) shares issued		81,372	80,172
Capital reserve	17	26,480	24,217
PRC statutory reserves	16	11,636	9,094
Retained earnings		65,394	53,928
Equity attributable to shareholders of Zhejiang Tianlan Environmental Protection Technology Company Limited		184,882	167,411
Non-controlling interest		1,913	1,602
Total shareholders' equity		186,795	169,013
Total liabilities and shareholders' equity		503,360	548,918

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME / (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Note	2016	2015	2014
		RMB'000	RMB'000	RMB'000
Revenue		289,086	419,275	396,424
Cost of revenue		(202,869)	(331,875)	(313,776)
Gross profit		86,217	87,400	82,648
Selling and administrative expenses		(60,528)	(60,702)	(66,343)
Operating income		25,689	26,698	16,305
Loss on disposal of a subsidiary		(35)	-	-
Interest income		70	166	148
Interest expenses		(1,577)	(4,710)	(6,272)
Other income, net	3	3,456	2,773	4,595
Income before income taxes		27,603	24,927	14,776
Income taxes	4	(4,961)	(3,174)	(768)
Net income and total comprehensive income		22,642	21,753	14,008
Net (income) / loss and total comprehensive (income) / loss attributable to non-controlling interest		586	(82)	(8)
		23,228	21,671	14,000

Net income and total comprehensive income attributable to shareholders of
Zhejiang Tianlan Environmental Protection Technology Company Limited

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities:			
Net income	22,642	21,753	14,008
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	14,144	8,473	2,985
Amortisation of intangible asset	575	193	239
Amortisation of land use right	149	149	149
Written off of motor vehicles	-	5	-
Loss on disposal of property, plant and equipment	15	-	225
(Gain) on disposal of intangible asset	-	-	(150)
Deferred tax assets	(1,337)	(177)	(1,391)
Other non-current asset	(17,512)	-	-
(Increase) / decrease in current assets:			
Accounts receivable, net	42,807	(51,299)	(9,481)
Prepayments and other current assets	8,501	57,251	(19,654)
Other tax receivables	(20)	1,045	(1,045)
Inventories	(994)	3,943	(1,078)
Increase / (decrease) in current liabilities:			
Accounts payable	(59,042)	(57)	77,861
Other payables and accrued expenses	10,408	(72,663)	37,075
Other taxes payable	(933)	(479)	1,034
Income tax payable	2,268	934	(449)
Net cash provided by / (used in) operating activities	21,481	(30,929)	100,328
Cash flows from investing activities:			
Purchase of intangible asset	(402)	-	-
Purchase of property, plant and equipment	(3,368)	(8,285)	(117,966)
Sales proceed from a subsidiary (note 1)	1,000	-	-
Sales proceed form intangible assets	-	-	420
Sales proceed from property, plant and equipment	1,100	-	923
Net cash (used in) investing activities	(1,670)	(8,285)	(116,623)
Cash flows from financing activities:			

Proceeds from issuance of shares	3,360	-	-
Repayment of bank borrowings	(70,000)	(174,900)	(104,690)
Advance of short bank borrowings	50,000	122,000	137,900
Dividend paid to owners	(9,220)	(9,180)	(9,180)
Advance of long term borrowings	3,959	107,732	-
Net cash (used in) / provided by financing activities	(21,901)	45,652	24,030
Net (decrease) / increase in cash and cash equivalents	(2,090)	6,438	7,735
Cash and cash equivalents, beginning of year	35,635	29,197	21,462
Cash and cash equivalents, end of year	33,545	35,635	29,197

Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	70	166	148
Interest paid	1,577	6,429	6,272
Income tax paid	4,245	3,310	2,263

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Share capital	Capital reserve	PRC statutory reserves	Retained earnings	Non-controlling interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2014	61,200	43,189	5,517	40,194	1,512	151,612
Net income	-	-	-	14,000	8	14,008
Dividend paid	-	-	-	(9,180)	-	(9,180)
Appropriation of reserves	-	-	1,304	(1,304)	-	-
Balance as of December 31, 2014	61,200	43,189	6,821	43,710	1,520	156,440
Net income	-	-	-	21,671	82	21,753
Dividend paid	-	-	-	(9,180)	-	(9,180)
Appropriation of reserves	-	-	2,273	(2,273)	-	-
Issue share capital by transfer from statutory reserves	18,972	(18,972)	-	-	-	-
Balance as of December 31, 2015	80,172	24,217	9,094	53,928	1,602	169,013
Net income	-	-	-	23,228	(586)	22,642
Dividend paid	-	-	-	(9,220)	-	(9,220)
Appropriation of reserves			2,542	(2,542)	-	-
Deemed disposal of subsidiary	-	103	-	-	897	1,000
Issue share capital	1,200	2,160	-	-	-	3,360
Balance as of December 31, 2016	81,372	26,480	11,636	65,394	1,913	186,795

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1
Organisation and principal activities

Zhejiang Tianlan Environmental Protection Technology Company Limited (the "Company") was incorporated in Hangzhou City, Zhejiang Province, the People's Republic of China ("PRC") on May 18, 2000. The Company is a limited company by shares with an operating period up to August 5, 2037.

The Company provides a comprehensive service for design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted from various boilers and industrial furnaces of power plants, steel works and chemical plants since 2000.

The Company has recently received approval from the National Equities Exchange and Quotations ("NEEQ") to list its shares on the New Third Board in the People's Republic of China ("PRC") on November 17, 2015.

Details of the Company's subsidiaries are summarised as follows:

Name	Percentage of equity ownership		Place of incorporation	Principal activities
	2016	2015		
Zhejiang Tianlan Environmental Engineering and Design Company Limited	100%	100%	PRC	Provision of maintenance services of environmental protection equipment
Hangzhou Tianlan Environmental Protection Equipments Company Limited	51%	51%	PRC	Manufacturing and installation services of environmental protection equipment
Shihezi Tianlan Environmental Protection Technology Company Limited	100%	100%	PRC	Provision of maintenance services of environmental protection equipment
Da Tong Tianlan Environmental Protection Technology Service Company Limited *	-%	100%	PRC	Provision of maintenance services of environmental protection equipment
Hangzhou Tianlian Environmental Testing Technology Company Limited **	80%	100%	PRC	Provision of testing services of environmental protection equipment

* On April 19, 2016, the board of director approved the de-registration of subsidiary. The subsidiary was closed on August 25, 2016.
** The Company was incorporated on October 28, 2015. On April 17, 2016, the board of director approved the sales of 1,000,000 ordinary shares at a price RMB 1.00 per shares, which in the aggregate amount the gross proceeds of RMB 1,000,000 to the third parties.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies

(a)
Basis of Consolidation

The consolidated financial statements include the accounts of Zhejiang Tianlan Environmental Protection Technology Company Limited and its subsidiaries (the “Group”). In preparing the consolidated financial statements presented herewith, all significant intercompany balances and transactions have been eliminated on consolidation.

(b)
Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

An investment in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are accounted for using the equity method of accounting.

(c)
Revenue Recognition

The Group’s main source of revenue is the construction and installation services of environmental protection equipment for flue gas desulphurization, dust removal and flue gas denitration. Revenues are recorded under the percentage of completion method in accordance with FASB ASC Subtopic 605-35, Revenue Recognition — Construction-Type and Production-Type Contracts. This approach primarily based on contract costs incurred to date compared with total estimated contract costs. Changes to total estimated contract costs or losses, if any, are recognised in the period they are determined. Revenues recognised in excess of amounts billed are classified as costs and estimated earnings in excess of billings on uncompleted contracts. Essentially all of such amounts are expected to be billed and collected within one year and are classified as current assets. Billings in excess of costs and estimated earnings on uncompleted contracts are classified as current liabilities. When reasonably dependable estimates cannot be made, construction contract revenues are recognised using the completed contract method.

(d)
Research and Development Costs

Research and development expenses include payroll, employee benefits and other related expenses associated with product development. Research and development expenses also include third-party development and programming costs. Such costs re included in research and development expense until the point that technological feasibility is reached. Once technological feasibility is reached, such costs are capitalized and amortized to the cost of revenue over the estimated lives of the products.

Research and development costs (“R&D” costs) are expensed as incurred. The R&D costs amounted to approximately RMB13,808,000, RMB18,895,000 and RMB21,796,000 for the years ended December 31, 2016, 2015 and 2014 respectively and were included in “Selling and Administrative” expenses in the Group’s consolidated statements of income.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(e)
Advertising and promotional expenses

Advertising and promotional expenses ("A&P" expenses) are expensed as incurred. The A&P expenses amounted to approximately RMB58,000, RMB24,000 and RMB11,000 for the years December 31, 2016, 2015 and 2014 respectively and were included in "Selling and Administrative" expenses in the Group's consolidated statements of income.

(f)
Taxation

The Group accounts for income and deferred tax under the provision of FASB ASC Subtopic 740-10, Income Taxes, under which deferred taxes are recognised for all temporary differences between the applicable tax balance sheets and the consolidated balance sheet. Deferred tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realised within a reasonable period of time.

In accordance with ASC-740-10, the Company recognises tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits. The Company did not have such uncertain tax positions in 2016, 2015 and 2014.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income for the period that includes the enactment date.

(g)
Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits with original maturities of three months or less, all of which are unrestricted as to withdrawal and uninsured.

(h)
Receivables and Other Assets

Receivables and other assets are recorded at their nominal values. Doubtful debt allowances are provided for identified individual risks for these line items. If the loss of a certain part of the receivables is probable, doubtful debt allowances are provided to cover the expected loss. Receivables are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

According to construction contracts signed with the customers, an amount ranged from 5%-20% of contract sum will only be receivable one year after the final inspection report issued by relevant department of Ministry of Environmental Protection. As of December 31, 2016, accounts receivable in more than one year amounted to RMB46,624,000 (2015: RMB57,623,000).

(i)
Inventories

Inventories are stated at the lower of cost or market determined using the weighted average method which approximates cost and estimated net realizable value. Cost of work in progress and finished goods comprise direct material, direct production costs and an allocated portion of production overhead costs based on normal operating capacity.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(j)
Property, Plant and Equipment and Land Use Right

Property, plant and equipment are stated at cost less accumulated depreciation. Gains or losses on disposal are reflected in current operations. Major expenditures for betterments and renewals are capitalised. All ordinary repair and maintenance costs are expensed as incurred. Land in the PRC is owned by the PRC government. The government in the PRC, according to PRC Law, may sell the right to use the land for a specific period for time. Thus, all of the Company's land purchases in the PRC are considered to be leasehold land and classified as land use right.

Depreciation of property, plant and equipment and amortization of land use right are computed using the straight-line method over the assets' estimated useful lives as follows:

Land use right	Over terms of the leases
Office premises	47-50 years, with 5% residual value
Leasehold improvements	over terms of the leases or the useful lives whichever is less, with 5% residual value
Plant and machineries	5 to 10 years, with 5% residual value
Furniture, fixtures and office equipment	3 to 5 years, with 5% residual value
Motor vehicles	1 to 8 years, with 5% residual value

(k)
Intangible Assets

The Company amortizes its intangible assets with definite lives over their estimated useful lives and reviews these assets for impairment. The Company is currently amortizing its acquired intangible assets with definite lives over periods generally ranging between five to twenty years.

(l)
Impairment

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, which requires impairment losses to be recorded for property, plant and equipment to be held and used in operations when indicators of impairment are present. Reviews are regularly performed to determine whether the carrying value of assets is impaired. The Group determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There were no impairment losses recorded during each of the three years ended December 31, 2016.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(m)
Government grant income

Government grant income consisted of receipt of funds to subsidize the investment cost of information technology system development and market development in China. No present or future obligation arises from the receipt of such amount.

Government grants are recognized in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in consolidated statement of operations on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in consolidated statement of operations over the useful life of the asset by way of reduced depreciation expenses.

(n)
Operating Leases

Leases where substantially all the risks and rewards of ownership of the leased assets remain with the lessors are accounted for as operating leases. Rental payments under operating leases are charged to expense on the straight-line basis over the period of the relevant leases.

(o)
Comprehensive Income

The Group has adopted FASB ASC Subtopic 220-10, Comprehensive Income, which requires the Group to report all changes in equity during a period, except for those resulting from investment by owners and distribution to owners, in the financial statements for the period in which they are recognised. The Group has presented comprehensive income, which encompasses net income, in the consolidated statement of changes in shareholders' equity.

(p)
Share capital

Paid in capital refers to the registered capital paid up by the shareholders of the Company.

On December 17, 2015, the Company increased the number of registered shares by 18,972,000 shares. The paid up capital were increased by RMB 18,972,000 transferred from the capital reserves, which is agreed by the shareholders and the board of directors.

At the year end of December 31, 2015, there were 80,172,000 shares were issued.

On June 2, 2016, the Company increased the number of paid up shares by 1,200,000 at a price RMB 2.80 per shares, which in the aggregative amount the gross proceeds of RMB 3,360,000 to the existing shareholders.

At the year end of December 31, 2016, there were 81,372,000 shares were issued.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(q)
Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management’s best knowledge of current events and actions that the Group may undertake in the future, actual results may be different from the estimates.

(r)
Related Parties

Entities are considered to be related to the Group if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Group. Related parties also include principal owners of the Group, its management, members of the immediate families of principal owners of the Group and its management and other parties with which the Group may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

(s)
Fair Value Measurement

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(s)
Fair Value Measurement - Continued

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Group holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group adopted ASC 820, Fair Value Measurements and Disclosures, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually).

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short term maturities of these instruments.

The fair values of current financial assets and liabilities carried at amortized cost approximate their carrying amounts.

(t) Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance was deferred by ASU 2015-14, issued by the FASB in August 2015, and this new accounting guidance will be effective for the interim and annual period beginning after December 31, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This new accounting guidance will be effective for interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(t) Recent Accounting Pronouncements - Continued

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This new accounting guidance will be effective for the interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statement

In January 2016, the FASB has issued Accounting Standards Update (“ASU”) No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing U.S. GAAP by: (1) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (2) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (3) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and. (4) Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. he Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(t)
Recent Accounting Pronouncements – Continued

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In April 2016, FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, FASB issued ASU No. 2016-12—Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(t)
Recent Accounting Pronouncements – Continued

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

The Company has considered all new accounting pronouncements and has concluded that there are no new pronouncements that may have a material impact on results of operations, financial condition, or cash flows, based on current information.

3
Other income, net

	2016	2015	2014
	RMB’000	RMB’000	RMB’000
Gain on disposal of intangible asset	-	-	150
(Loss) / Gain on disposal of property, plant and equipment	(15)	-	7

Subsidy income	3,360	2,617	4,163
Sales of scrapped materials	3	6	6
Investment income	412	-	-
Others	(304)	150	269
	3,456	2,773	4,595

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4
Income taxes

According to relevant PRC tax laws and regulations, entities incorporated in the PRC are subject to Enterprise Income Tax ("EIT") at a statutory rate of 25% or reduced national EIT rates of 15% for certain High and New Technology Enterprises ("HNTE") on PRC taxable income. Zhejiang Tianlan Environmental Protection Technology Company Limited and Hangzhou Tianlan Environmental Protection Equipment Company Limited are classified as HNTE which enjoyed a preferential tax rate of 15%.

During the year ended December 31, 2016 and 2015, the PRC tax laws and regulations have launched a tax reduction scheme for small enterprises, Hangzhou Tianlan Environmental Engineering and Design Company Limited, Shihezi Tianlan Environmental Protection Technology Company Limited, Da Tong Tianlan Environmental Protection Technology Service Company Limited and Hangzhou Tianlan Environmental Testing Technology Company Limited are entitled to enjoy this tax benefit. It, thus, subjects to Enterprise Income Tax rate of 10% only.

The provision for income taxes consists of:

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Current PRC EIT:			
Domestic	6,298	3,351	2,159
Income taxes	6,298	3,351	2,159
Deferred tax benefit:	(1,337)	(177)	(1,391)
Total deferred taxes	(1,337)	(177)	(1,391)

The principal reconciling items from income tax computed at the statutory rates and at the effective income tax rates are as follows:

	2016	2015	2014
	RMB'000	RMB'000	RMB'000

Income before income taxes	27,603	24,927	14,776
Computed tax using respective companies' statutory tax rates	4,078	3,767	2,216
(Over)-provision for income tax in prior years	57	-	(2,418)
Permanent difference	(82)	-	-
Temporary differences	(1,337)	(177)	1,575
Tax effect of revenue not subject to tax	(901)	(1,068)	(695)
Tax effect of expenses not deductible for tax purposes	2,732	596	90
Tax effect of unused tax losses not recognized	414	56	-
Total provision for income tax at effective tax rate	4,961	3,174	768

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4
Income taxes - Continued

The components of deferred tax assets are as follows:

	2016	2015
	RMB'000	RMB'000
Tax losses	-	-
Allowance for doubtful debts	5,864	4,527
Net deferred tax assets	5,864	4,527

5
Other taxes payable

Other taxes payable comprises mainly Valued-Added Tax ("VAT") and Business Tax ("BT"). The Group is subject to output VAT levied at the rate of 17% or 11% of the revenue from sales of equipment. The input VAT paid on purchases of materials and other direct inputs can be used to offset the output VAT levied on operating revenue to determine the net VAT payable or recoverable. BT is charged at a rate of 5% and 3% on the revenue from technique services and installation services respectively.

6
Other non-current assets

Other non-current assets represent deposits for sales and lease back agreement amounted to approximately to RMB17,512,000 (2015: RMB Nil).

7
Accounts receivable, net

2016	2015
RMB'000	RMB'000

Accounts receivable	204,166	238,325
Less: Allowance for doubtful debts	(39,066)	(30,418)
	165,100	207,907

The following is an age analysis of past due account receivables as of December 31, 2016 and 2015:

	2016	2015
	RMB'000	RMB'000
Within 1 year	118,476	150,345
1 year – 2 years	31,340	44,393
2 years – 3 years	9,387	8,588
3 years – 4 years	4,593	3,881
4 years – 5 years	240	700
Greater than 5 years	1,064	-
	165,100	207,907

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7
Accounts receivable, net (Continued)

At December 31, 2016, the trade receivables pledged as security for the Company's bank loans and third party's loans amounted to approximately RMB25,474,000 (2015: RMB27,566,000).

8
Prepayments and other current assets

Prepayment and other current assets mainly represent deposits for bidding projects, deposits for purchases and services and prepaid expenses.

	2016	2015
	RMB'000	RMB'000
Cost and estimated earnings in excess of billing	70,786	97,640
Prepayment	24,100	13,828
Other receivables	14,851	8,090
Other current assets	1,320	-
	111,057	119,558

The other current assets also include cost of estimated earnings in excess of billing.

Cost and estimated earnings in excess of billings

	2016	2015
	RMB'000	RMB'000
Contracts costs incurred plus estimated earnings	389,534	160,634
Less: Progress billings	(318,748)	(62,994)
Cost and estimated earnings in excess of billings	70,786	97,640

9
Inventories

	2016	2015
	RMB'000	RMB'000
Raw materials	5,606	6,586
Work in progress	7,269	5,525
Finished goods	230	-
	13,105	12,111

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10
Property, plant and equipment

	2016	2015
	RMB'000	RMB'000
Building and leasehold improvements	56,665	56,696
Furniture, fixtures and office equipment	9,660	9,919
Motor vehicles	4,451	3,780
Plant and machineries	115,349	114,617
Construction in progress	211	-
	186,336	185,012
Less: Accumulated depreciation	(36,496)	(23,281)
	149,840	161,731

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Depreciation charge	14,144	8,473	2,985

At December 31, 2016, the net book value of property, plant and equipment pledged as security for the Company's bank loans and third party's loans amounted to approximately RMB109,041,000 (2015: RMB120,830,000).

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11
Intangible assets, net

	2016	2015
	RMB'000	RMB'000
Patents	2,400	2,400
Others	567	165
	2,967	2,565
Less: Accumulated amortisation	(1,592)	(1,017)
	1,375	1,548

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Amortisation expense	575	193	239

The following table represents the total estimated amortization of intangible assets for the five succeeding fiscal years to December 31, 2016:

For the Twelve Months Ending December 31,	Estimated Amortization Expenses
	RMB'000
2017	172

2018	172
2019	172
2020	172
2021	172
Thereafter	515
	1,375

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12
Land use right, net

	2016	2015
	RMB'000	RMB'000
Land use right	7,361	7,361
Less: Accumulated amortisation	(1,614)	(1,465)
	5,747	5,896

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Amortisation expense	149	149	149

At December 31, 2016, the land use right pledged as security for the Company's bank loans and third party's loans amounted to approximately RMB1,691,000 (2015: RMB1,737,000).

13
Short term borrowings

	2016	2015
	RMB'000	RMB'000
Bank loan borrowed by the Company (note i)	20,000	40,000

Bank loan borrowed by a subsidiary of the Company (note ii)	5,000	5,000
	25,000	45,000

(i)
The bank loan is denominated in Renminbi and repayable within 1 year. The bank loan borrowed by the Company as of December 31, 2016 bear interest at fixed rates 4.57% (2015: 4.62% to 6.47%) per annum. Interest paid during the year ended December 31, 2016 was approximately RMB1,221,000 (2015: RMB3,768,000 and 2014: RMB4,688,000).

(ii)
The bank loan is denominated in Renminbi and repayable within 1 year. The bank loan borrowed by a subsidiary of the Company as of December 31, 2016 bear interest at fixed rates 5.22% (2015: 7.28%) per annum and are secured by the subsidiary's office premises and leasehold improvements and land use right. Interest paid during the year ended December 31, 2016 was approximately RMB154,000 (2015: RMB369,000 and 2014: Nil).

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14
Other payables and accrued expenses

	2016	2015
	RMB'000	RMB'000
Deposit received from customers	35,225	26,749
Accrued expenses	10,116	12,104
Other payables	1,227	1,118
Deferred income	4,610	799
Amount due to a related company	5	5
	51,183	40,775

15
Long Term borrowing

	2016	2015
	RMB'000	RMB'000
Loan borrowed by the Company	111,691	170,732

(i)
On May 15, 2015, the Company signed a sales and lease back agreement with lessor A with total principal of RMB 66,700,000 and repayable within 5 years. The third party loan is denominated in Renminbi. The third party loan borrowed by the Company as of December 31, 2016 is bear interest at fixed rates 5.27% (2015: 5.27%) per annum and is secured by the Company's machinery A. Interest paid during the year ended December 31, 2016 was approximately RMB2,011,000 (2015: RMB1,719,000 and 2014: Nil) and was incurred in "Cost of revenue" in the Group's consolidated statements of income.

(ii)
On December 9, 2015, the Company signed a sales and lease back agreement with lessor B with total principal of RMB 87,560,000 and repayable within 5 years. The third party loan is denominated in Renminbi. The third party loan

borrowed by the Company as of December 31, 2016 is bear interest at fixed rates 4.83% (2015: 4.83%) per annum and are secured by the Company's machinery B and the franchise, income and account receivables generated from Machinery B. A. Interest paid during the year ended December 31, 2016 was approximately RMB3,192,000 (2015: Nil and 2014: Nil) and was incurred in "Cost of revenue" in the Group's consolidated statements of income.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16
PRC statutory reserves

Under the relevant PRC laws and regulations, the Group is required to appropriate certain percentage of their respective net income to two statutory funds, namely the statutory reserve fund and the statutory staff welfare fund.

(i)
Statutory reserve fund

Pursuant to applicable PRC laws and regulations, the Group is required to allocate at least 10% of the companies' net income to the statutory reserve fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised upon the approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund be maintained at a minimum of 25% of the companies' registered capital.

(ii)
Statutory staff welfare fund

Pursuant to applicable PRC laws and regulations, the Group is required to allocate certain amount of the companies' net income to the staff welfare fund determined by the Company. The staff welfare fund can only be used to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the Group.

17 Capital reserve

Capital reserve represents capital contributions from shareholders in excess of the paid-in capital amount.

18
Pension plan

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes approximately ranging from 12% to 14% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the years ended December 31, 2016, 2015 and 2014, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB3,905,000, RMB3,850,000 and RMB3,027,000 respectively.

19
Risk factors

The Group's activities expose itself mainly to credit risk.

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any customers.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLDIATED FINANCIAL STATEMENTS

20
Related party

Amounts due from / (to) owners

There were no transactions with related parties in the years 2016 and 2015 other than those disclosed in elsewhere in the financial statements.

21
Commitments and contingencies

(i)
Operating leases

The Group has no rental expense during the year ended December 31, 2016 (2015 and 2014: RMB Nil). As of December 31, 2016, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2016.

(ii)
Litigation

The Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of the management, is likely to have a material adverse effect on the business, financial

22
Subsequent events

On December 22, 2016, the board of director approved the issuance and allotment of 1,200,000 ordinary shares at a price RMB 6.00 per shares, which in the aggregative amount the gross proceeds of RMB 7,200,000 to the existing shareholders. The shares were transferred on New Third Board at March 31, 2017. The share allotment was no material effect to the consolidated financial statement of the Company as at December 31, 2016.

On April 19, 2017, the Company reached an agreement to acquire 35% share of a PRC company, the acquisition price is RMB 1 and the Company is requested to invest RMB10,500,000 to the associate.

The Company has evaluated all events or transactions that occurred through the date the consolidated financial statements were issued, and has determined that there were no material recognizable nor subsequent events or transactions which would require recognition or disclosure in the consolidated financial statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

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Report of Independent Registered Public Accounting Firm

To the Directors and Stockholders of

Zhejiang Jiahuan Electronic Company Limited

We have audited the accompanying consolidated balance sheet of Zhejiang Jiahuan Electronic Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income / (loss), changes in shareholders' equity and cash flows for each of the years in the three-years period ended December 31, 2016. These financial statements are 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 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated balance sheet of the Company and its subsidiaries as of December 31, 2016 and 2015 and the consolidated results of their operations and their cash flows for each of the years in the three-years period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Centurion ZD CPA Ltd.

Centurion ZD CPA Ltd. (fka DCAW (CPA) Ltd. as successor to Dominic K.F. Chan & Co.)

Certified Public Accountants

Hong Kong, April 26, 2017

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	Note	2016	2015
		RMB'000	RMB'000
Assets			
Current assets:			
Cash and cash equivalents		6,595	7,303
Restricted cash		1,498	1,490
Accounts receivable, net	5	91,037	99,832
Notes receivables		11,064	700
Other receivables	6	15,442	17,472
Inventories	8	28,005	21,463
Total current assets		153,641	148,260
Property, plant and equipment, net	9	21,861	23,788
Land use right, net	10	6,288	6,451
Intangible asset, net	11	242	508
Long term investment	7	69	69
Total assets		182,101	179,076
Liabilities and shareholders' equity			
Current liabilities:			
Short term bank loans	13	28,200	39,400

Note payable		4,750	3,595
Accounts payable		27,595	27,130
Other payables and accrued expenses	12	13,911	10,223
Income tax payable		1,466	2,892
Total current liabilities		75,922	83,240
Other long term liabilities	15	5,671	5,790
Shareholders' equity:			
Share capital 80,000,000 (2015: 11,250,000) shares issued		80,000	11,250
Capital reserves		(1,399)	8,542
PRC statutory reserves	16	3,095	20,931
Retained earnings		18,812	49,323
Total shareholders' equity		100,508	90,046
Total liabilities and shareholders' equity		182,101	179,076

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Note	2016	2015	2014
		RMB'000	RMB'000	RMB'000
Revenue		111,585	115,515	99,908
Cost of revenue		(65,304)	(76,473)	(72,490)
Gross profit		46,281	39,042	27,418
Selling and administrative expenses		(35,671)	(30,792)	(21,090)
Operating income		10,610	8,250	6,328
Non-operating income		922	-	-
Non-operating expense		(1,518)	-	-
Interest expenses		(2,752)	(3,861)	(2,209)
Other income, net	3	4,592	1,408	1,075
Other expenses, net		(5)	-	-
Income before income taxes		11,849	5,797	5,194
Income taxes	4	(1,387)	(861)	(484)
Net income and total comprehensive income		10,462	4,936	4,710

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Cash flows from operating activities:			
Net income	10,462	4,936	4,710
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	2,211	2,296	2,408
Loss on sale of property, plant and equipment	147		
Written off of property, plant and equipment	-	32	-
Amortisation of intangible asset	266	83	-
Amortisation of land use right	163	163	163
Other gains	-	(282)	-
(Increase) / decrease in current assets:			
Accounts receivable, net	8,795	(25,939)	(6,448)
Restricted cash	(8)	(21)	-
Note receivables	(10,364)	5,004	(322)
Other receivables	2,030	(3,072)	(6,074)
Inventories	(6,542)	10,786	5,909
Increase / (decrease) in current liabilities:			
Accounts payable	465	2,269	1,767
Note payable	1,155	3,595	-
Other payables and accrued expenses	3,688	(3,145)	2,131
Income tax payable	(1,426)	1,121	405
Other long-term liability	(119)	(133)	(73)
Net cash provided by / (used in) operating activities	10,923	(2,307)	4,576
Cash flows from investing activities:			
Purchase of intangible asset	-	(591)	-
Purchase of property, plant and equipment	(613)	(258)	(664)
Proceeds from property, plant and equipment	182	-	-
Net cash (used in) investing activities	(431)	(849)	(664)
Cash flows from financing activities:			
Repayment of bank borrowings	(39,400)	(50,400)	(50,300)
Advance of bank borrowings	28,200	63,200	50,100
(Decrease) / Increase in amount due to shareholders	-	(5,470)	(3,200)
Dividend paid to owners	-	-	(2,250)

Net cash (used in) / provided by financing activities	(11,200)	7,330	(5,650)
Net (decrease) / increase in cash and cash equivalents	(708)	4,174	(1,738)
Cash and cash equivalents, beginning of year	7,303	3,129	4,867
Cash and cash equivalents, end of year	6,595	7,303	3,129

Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	54	44	17
Interest paid	(2,752)	(3,861)	(2,209)
Income tax paid	(2,813)	-	(79)
Income tax refund	-	260	-

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	Share capital	Capital reserves	PRC statutory reserves	Retained earnings	Non-controlling interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of January 1, 2014	11,250	8,542	20,931	41,927	283	82,933
Net income and total comprehensive income	-	-	-	4,710	-	4,710
Dividend paid	-	-	-	(2,250)	-	(2,250)
Balance as of December 31, 2014	11,250	8,542	20,931	44,387	283	85,393
Net income and total comprehensive income	-	-	-	4,936	-	4,936
Disposal of Non-controlling interest	-	-	-	-	(283)	(283)
Balance as of December 31, 2015	11,250	8,542	20,931	49,323	-	90,046
Issued share	27,777	(9,941)	(17,836)	-	-	-
Net income and total comprehensive income	-	-	-	10,462	-	10,462
Dividend paid	40,973	-	-	(40,973)	-	-
Balance as of December 31, 2016	80,000	(1,399)	3,095	18,812	-	100,508

The accompanying notes are an integral part of these consolidated financial statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1
Organisation and principal activities

Zhejiang Jiahuan Electronic Company Limited (the "Company") was established in the People's Republic of China ("PRC") as a limited liability company. The principal activities of the Company are design, manufacturing and sales of automatic control systems and electric voltage control equipment for electrostatic precipitators (air purification equipment).

Details of the Company's subsidiaries are summarised as follows:

Name	Percentage of equity ownership		Place of incorporation	Principal activities
	2016	2015		
Jinhua Jiahuan Puzhau New Energy Technology Co., Ltd*	-	-	PRC	Dormant
Zhejiang Jiahuan Xinyu Environmental Production Co., Ltd	100%	100%	PRC	Manufacturing and installation services of environmental production equipment

*The Company has been deregistered on September 1, 2015.

2
Summary of significant accounting policies

(a)
Basis of Consolidation

The consolidated financial statements include the accounts of Zhejiang Jiahuan Electronic Company Limited and its subsidiaries (the "Group"). In preparing the consolidated financial statements presented herewith, all significant intercompany balances and transactions have been eliminated on consolidation.

(b)
Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors; to cast a majority of votes at the meeting of the board of directors or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders

An investment in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20-50 percent ownership), are accounted for using the equity method of accounting.

(c)
Revenue Recognition

Revenue from sale of automatic control systems, electric voltage control equipment, environmental equipment, and solar and wind power equipment is recognized when the product is delivered and the title is transferred. For certain products where installation is necessary, revenue is recognized upon completion of installation.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies

(d)
Research and Development Costs

Research and development expenses include payroll, employee benefits and other related expenses associated with product development. Research and development expenses also include third-party development and programming costs. Such costs re included in research and development expense until the point that technological feasibility is reached. Once technological feasibility is reached, such costs are capitalized and amortized to the cost of revenue over the estimated lives of the products.

Research and development costs (“R&D” costs) are expensed as incurred. The R&D costs amounted to approximately RMB8,814,000, RMB6,982,000 and RMB4,981,000 for the years ended December 31, 2016, 2015 and 2014 respectively and were included in “Selling and Administrative” expenses in the Group’s consolidated statements of income.

(e)
Taxation

The Group accounts for income and deferred tax under the provision of FASB ASC Subtopic 740-10, Income Taxes, under which deferred taxes are recognised for all temporary differences between the applicable tax balance sheets and the consolidated balance sheet. Deferred tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realised within a reasonable period of time.

In accordance with ASC-740-10, the Company recognises tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits. The Company did not have such uncertain tax positions in 2016, 2015 and 2014.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applicable for taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in income for the period that includes the enactment date.

(f)
Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits with banks.

(g)
Investments

Investments comprise marketable securities which are classified as available-for-sale securities and are carried at fair value with unrealized gains and losses, et of taxes, reported as a separate component of shareholders' equity (deficit). The Company determines any realized gains or losses on the sale of marketable securities on a specific identification method, and records such gains and losses as a component of other income (expense), net in the consolidated statement of income.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies – Continued

(h)
Receivables and Other Assets

Receivables and other assets are recorded at their nominal values. Doubtful debt allowances are provided for identified individual risks for these line items. If the loss of a certain part of the receivables is probable, doubtful debt allowances are provided to cover the expected loss. Receivables are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(i)
Inventories

Inventories are stated at the lower of cost or market determined using the first-in, first-out method. Costs included purchase and related costs incurred in bringing each product to its present location and condition. Market value is calculated based on the estimated normal selling price, less further costs expected to be incurred for disposal. Provision is made for obsolete, slow moving or defective items, where appropriate.

(j)
Property, Plant and Equipment and Land Use Right

Property, plant and equipment are stated at cost less accumulated depreciation. Gains or losses on disposal are reflected in current operations. Major expenditures for betterments and renewals are capitalised. All ordinary repair and maintenance costs are expensed as incurred.

Land in the PRC is owned by the PRC government. The government in the PRC, according to PRC Law, may sell the right to use the land for a specific period for time. Thus, all of the Company's land purchases in the PRC are considered to be leasehold land and classified as land use right.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalisation of these costs creases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and read for its intended use.

Depreciation of property, plant and equipment and amortization of land use right are computed using the straight-line method over the assets' estimated useful lives as follows:

Land use right	50 years
Buildings	20 years
Plant and machinery	5 to 20 years
Office equipment	3 to 10 years
Motor vehicles	5 to 10 years

(k)

Intangible Assets

The Company amortizes its intangible assets with definite lives over their estimated useful lives and reviews these assets for impairment. The Company is currently amortizing its acquired intangible assets with definite lives over periods generally ranging between five to twenty years.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies – Continued

(l)
Impairment

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, which requires impairment losses to be recorded for property, plant and equipment to be held and used in operations when indicators of impairment are present. Reviews are regularly performed to determine whether the carrying value of assets is impaired. The Group determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There were no impairment losses recorded during each of the three years ended December 31, 2016, December 31, 2015 and December 31, 2014.

(m)
Comprehensive Income

The Group has adopted FASB ASC Subtopic 220-10, Comprehensive Income, which requires the Group to report all changes in equity during a period, except for those resulting from investment by owners and distribution to owners, in the financial statements for the period in which they are recognised. The Group has presented comprehensive income, which encompasses net income, in the consolidated statement of changes in shareholders' equity.

(n)
Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future, actual results may be different from the estimates.

(o)
Related Parties

Entities are considered to be related to the Group if the parties, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Group. Related parties also include principal owners of the Group, its management, members of the immediate families of principal owners of the Group and its management and other parties with which the Group may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or

operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies – Continued

(p)
Recent Issue Accounting Standard

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance was deferred by ASU 2015-14, issued by the FASB in August 2015, and this new accounting guidance will be effective for the interim and annual period beginning after December 31, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the required presentation of debt issuance costs from an asset on the balance sheet to a deduction from the related debt liability. This new accounting guidance will be effective for interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

In April 2015, the FASB issued ASU 2015-05, Customers' Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies the circumstances under which a cloud computing customer would account for the arrangement as a license of internal-use software under ASC 350-40. This new accounting guidance will be effective for the interim and annual period beginning after December 31, 2017. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated and Combined Financial Statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(p)
Recent Issue Accounting Standard - continued

In January 2016, the FASB has issued Accounting Standards Update ("ASU") No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing U.S. GAAP by: (1) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (2) Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; (3) Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and. (4) Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. he Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In April 2016, the FASB released ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. While aimed at reducing the cost and complexity of the accounting for share-based payments, the amendments are expected to significantly impact net income, EPS, and the statement of cash flows. Implementation and administration may present challenges for companies with significant share-based payment activities. The ASU is effective for public companies in annual periods beginning after December 15, 2016, and interim periods within those years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(p)
Recent Issue Accounting Standard - continued

In April 2016, FASB issued Accounting Standards Update No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, the FASB issued ASU No. 2016-11 Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815); Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting, which is rescinding certain SEC Staff Observer comments that are codified in Topic 605, Revenue Recognition, and Topic 932, Extractive Activities—Oil and Gas, effective upon adoption of Topic 606. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In May 2016, FASB issued ASU No. 2016-12—Revenue from Contracts with Customers (Topic 606); Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to provide guidance on the presentation and classification of certain cash receipts and cash payments on the statement of cash flows. The guidance specifically addresses cash flow issues with the objective of reducing the diversity in practice. The guidance will be effective for the Company in fiscal year 2018, but early adoption is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control, to provide guidance on the evaluation of whether a reporting entity is the primary beneficiary of a VIE by amending how a reporting entity, that is a single decision maker of a VIE, treats indirect interests in that entity held through related parties that are under common control. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2
Summary of significant accounting policies - Continued

(p)
Recent Issue Accounting Standard - continued

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows: Restricted Cash". The amendments address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

The Company has considered all new accounting pronouncements and has concluded that there are no new pronouncements that may have a material impact on results of operations, financial condition, or cash flows, based on current information.

(q)
Fair Value Measurement

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Group holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Group adopted ASC 820, Fair Value Measurements and Disclosures, for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually).

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts

receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short term maturities of these instruments.

The fair values of current financial assets and liabilities carried at amortized cost approximate their carrying amounts.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3
Other income, net

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Government grant	3,115	200	73
Rental income (i)	1,271	901	850
Interest income	54	44	17
Sundry income	152	263	135
	4,592	1,408	1,075

(i)
Rental income under operating leases is recognized on a straight-line basis over the term of the relevant lease.

4
Income taxes

According to relevant PRC tax laws and regulations, entities incorporated in the PRC are subject to Enterprise Income Tax ("EIT") at a statutory rate of 25% or reduced national EIT rates for certain High and New Technology Enterprises ("HNTE") on PRC taxable income. Zhejiang Jiahuan Electronic Company Limitedis classified as HNTE which enjoyed a preferential tax rate of 15%.

The provision for income taxes consists of:

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Income taxes	1,387	861	484

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4
Income taxes (continued)

The principal reconciling items from income tax computed at the statutory rates and at the effective income tax rates are as follows:

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Income before income taxes	11,849	5,797	5,194
Computed tax using respective companies' statutory tax rates	2,326	1,119	1,299
Tax effect on revenue not subject to tax	(930)	(447)	(537)
(Over) / under provision for income tax in prior years	(9)	189	(278)
Total provision for income tax at effective tax rate	1,387	861	484

No deferred tax assets or liabilities has been recognized in the financial statements as the Company did not have material temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as at 31 December, 2016, and 2015.

5
Accounts receivable, net

	2016	2015
	RMB'000	RMB'000
Accounts receivable, gross	91,069	99,864
Less: Allowance for doubtful debts	(32)	(32)
Accounts receivable, net	91,037	99,832

2016 2015

	RMB'000	RMB'000
Allowance for doubtful debts:		
Balance at beginning	(32)	(131)
Charged to statement of income		
Recovered	-	99
Balance at end		
	(32)	(32)

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ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6
Prepayments and other current assets

Prepayment and other current assets mainly represent deposits for bidding projects, deposits for purchases and services and prepaid expenses.

	2016	2015
	RMB'000	RMB'000
Prepayments and other receivables	11,994	13,039
Deposits	3,448	4,433
	15,442	17,472

7
Long term investment

	2016			
		Gross unrealized		Fair
	Amortized cost	Gains	Losses	Value
	RMB'000	RMB'000	RMB'000	RMB'000
Long term investment:				
Unlisted investment	69	-	-	69

2015			
		Gross unrealized	Fair
	Amortized cost	Gains	Losses	Value
	RMB'000	RMB'000	RMB'000	RMB'000
Long term investment:				
Unlisted investment	69	-	-	69

The balance of investments has their market values close to their book balance.

8
Inventories

	2016	2015
	RMB'000	RMB'000
Raw materials	6,529	5,603
Work in progress	11,264	7,840
Finished goods	10,212	8,020
	28,005	21,463

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9
Property, plant and equipment

	2016	2015
	RMB'000	RMB'000
Buildings	34,724	34,493
Plant and machinery	7,014	7,011
Office equipment	1,206	1,148
Motor vehicles	467	979
	43,411	43,631
Less: Accumulated depreciation	(21,550)	(19,843)
	21,861	23,788

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Depreciation charge	1,707	2,296	2,408

Buildings with carrying amount of approximately RMB34,724,000 and RMB34,493,000 as of December 31, 2016 and 2015 respectively were pledged, along with the land use right as discussed below, to secure the Company's short-term bank loans.

10
Land use right, net

	2016	2015

	RMB'000	RMB'000
Land use right	7,987	7,987
Less: Accumulated amortisation	(1,699)	(1,536)
	6,288	6,451

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Amortisation expense	163	163	163

Land use right with a carrying amount of approximately RMB6,288,000 and RMB6,451,000 as of December 31, 2016 and 2015 was pledged, along with the buildings discussed above, to secure the Company's short-term bank loans.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11
Intangible asset, net

	2016	2015
	RMB'000	RMB'000
Software	591	591
	591	591
Less: Accumulated depreciation	(349)	(83)
	242	508

	2016	2015	2014
	RMB'000	RMB'000	RMB'000
Amortization expenses	266	83	-

12
Other payables and accrued expenses

	2016	2015
	RMB'000	RMB'000
Deposit received from customers	10,979	8,768
Accrued expenses	2,795	1,210

Other payables	137	245
	13,911	10,223

13
Short term bank loans

The short term loans as of December 31, 2016 bear interest at fixed rates ranging from 4.568% to 6.630% per annum with maturity dates from January 11, 2016 to August 6, 2016 and are secured by the Company's buildings and land use right. Interest paid during the years ended December 31, 2016 and 2015 were approximately RMB2,752,000 and RMB3,861,000 respectively.

14
Dividends to shareholders

In the fiscal year ended December 31, 2016 the Company declared dividend of RMB40,973,000 to the shareholders for increase share capital. (2015: RMBNil)

15
Other long term liabilities

Other long term liabilities represent accrued staff benefits and subsidies received from the government in relation to an agreement to meet certain profit and turnover targets until the balance can be recognised as reserves of the Group. As the targets are yet to be met, the balance remained in other long term liabilities.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16
PRC statutory reserves

Under the relevant PRC laws and regulations, the Group is required to appropriate certain percentage of their respective net income to two statutory funds, namely the statutory reserve fund and the statutory staff welfare fund.

(i)
Statutory reserve fund

Pursuant to applicable PRC laws and regulations, the Group is required to allocate at least 10% of the companies' net income to the statutory reserve fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised upon the approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund be maintained at a minimum of 25% of the companies' registered capital.

(ii)
Statutory staff welfare fund

Pursuant to applicable PRC laws and regulations, the Group is required to allocate certain amount of the companies' net income to the staff welfare fund determined by the Company. The staff welfare fund can only be used to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the Group.

17
Pension plan

As stipulated by the rules and regulations in the PRC, the Group contributes to the state-sponsored retirement plans for its employees in Mainland China. The Group contributes approximately 26% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year ended December 31, 2016 and 2015, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB1,799,000 and RMB1,594,000 respectively.

18
Commitments and contingencies

(i)
Operating leases

The Group has no rental expense during the year ended December 31, 2016 (2015 and 2014: RMB Nil). As of December 31, 2016, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2016.

(ii)
Litigation

The Company is not currently a party to any legal proceeding, investigation or claim which, in the opinion of the management, is likely to have a material adverse effect on the business, financial

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19
Future Minimum rental receivable

As at the end of the reporting period, the Company's total future minimum rental under non-cancellable operating leases are receivable as follows:-

	2016	2015
	RMB'000	RMB'000
Within 1 year	791	750
After 1 year but within 5 years	-	785
After 5 years	-	-
	791	1,535

20
Risk factors

The Group's activities expose itself mainly to credit risk.

The Group has no significant concentration of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any customers.

21
Fair value of financial instruments

The carrying values of financial instruments, which consist of cash and cash equivalents, accounts receivable and accounts payable, bills receivable, bills payable, other payables and balances with related companies approximate their fair values due to the short-term nature of these instruments.

22
Subsequent events

The Company has evaluated all events or transactions that occurred through the date the consolidated financial statements were issued, and has determined that there were no material recognizable nor subsequent events or transactions which would require recognition or disclosure in the consolidated financial statements.