EURO TECH HOLDINGS CO LTD
Form 20-F/A
July 17, 2014

FORM 20-F/A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2013

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)

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

T.C. Leung
FAX: 852-28734887
18/F Gee Change Hong Centre
65 Wong Chuk Hong Road
Hong Kong
(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.

Name of each exchange on which registered: NASDAQ
Ordinary Shares, no par

value

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

2,069,223 Ordinary Shares

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

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

Large accelerated filer	o	Accelerated filer	o	Non-accelerated filer	þ

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

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

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. o Item 17 o 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). o Yes þ No

EXPLANATORY NOTES

1. In addition to the financial statements of Euro Tech Holdings Company Limited (the "Company") attached are the financial statements of Zhejiang Tianlan Environmental Protection Technology Company Limited and Zhejiang Jia Huan Electronic Co., Ltd. ("Jia Huan"). A reason for this Amendment No. 1 to the Company's Annual Report on Form 20-F for its fiscal year ended December 31, 2013 Amendement No. 1 is to provide Jia Huan's financial statements that were omitted from that Annual Report. The only items filed with this Amendment are "Item 18. Financial Statements," "Item 19. Exhibits" and the certifications pursuant to the Sarbanes-Oxley Act of 2002 (Exhibits 12.1, 12.2, 13.1 and 13.2).
2. The Company is also filing this Amendment No. 1 to correct typographical errors in Note 10 to the Company's financial statements entitled "Interest in affiliates." Specifically, under the year 2013 the below line items now correctly state the dollar amounts set forth opposite them as follows:

	US $'000
Total liabilities	(12,623)
Total sharesholders' equity	13,568

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PART III

ITEM 18. FINANCIAL STATEMENTS

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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 (4)
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	X BRL Taxonomy Extension Presentation Linkbase Document*

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

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.

4. Incorporated by reference, previously filed as an Exhibit to Registrant's Form 20-F filed on April 29, 2014.

SIGNATURES

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

EURO TECH HOLDINGS COMPANY LIMITED
(REGISTRANT)

July 17, 2014

/s/ T.C. Leung
T.C. Leung
Chief Executive Officer and Chairman of the
Board of Directors

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EURO TECH HOLDINGS COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2013 AND 2012 AND

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

CONSOLIDATED STATEMENTS OF CASH FLOWS AND CHANGES IN SHAREHOLDERS’ EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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 as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive (loss)/income, changes in shareholders' equity and cash flows for the years ended December 31, 2013, 2012 and 2011. 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 its internal control over financial reporting. An audit includes 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, 2013 and 2012 and the consolidated results of their operations and their cash flows for the years ended December 31, 2013, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dominic. K.F. Chan & Co.
Dominic. K.F. Chan & Co.,
Certified Public Accountants
Hong Kong, China
April 29, 2014

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012

	Note	2013 US$'000	2012 US$'000
Assets			
Current assets:			
Cash and cash equivalents		5,406	7,468
Restricted cash		565	839
Accounts receivable, net	6	4,082	3,089
Prepayments and other current assets	7	1,284	848
Inventories	8	494	653
Total current assets		11,831	12,897
Property, plant and equipment, net	9 & 22(iii)	889	945
Interests in affiliates	10	9,851	9,772
Goodwill	13	1,071	1,071
Deferred tax assets	4	236	262
Total assets		23,878	24,947
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable		3,115	3,713
Other payables and accrued expenses	11	2,686	2,985
Taxes payable		200	493
Total current liabilities		6,001	7,191
Commitments and contingencies	20	-	-
Shareholders' equity:			
Ordinary share, 20,000,000 (2012: 20,000,000) shares authorised; 2,229,609 (2012: 2,229,609) shares issued	12	123	123
Additional paid-in capital		9,533	9,533
Treasury stock, 160,386 (2012: 160,386) shares at cost	14	(766)	(766)

PRC statutory reserves	15	315	311
Accumulated other comprehensive income		784	731
Retained earnings		5,883	5,905
Equity attributable to shareholders of Euro Tech		15,872	15,837
Non-controlling interest		2,005	1,919
Total shareholders' equity		17,877	17,756
Total liabilities and shareholders' equity		23,878	24,947

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

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)/INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Note	2013 US$'000	2012 US$'000	2011 US$'000
Revenues				
Trading and manufacturing		10,986	10,866	11,437
Engineering		7,616	10,779	8,776
Total revenues	22(i) & (ii)	18,602	21,645	20,213
Cost of revenues				
Trading and manufacturing		(8,422)	(8,230)	(8,810)
Engineering		(4,716)	(7,250)	(6,512)
Total cost of revenues		(13,138)	(15,480)	(15,322)
Gross profit		5,464	6,165	4,891
Selling and administrative expenses		(5,719)	(6,224)	(6,565)
Operating loss		(255)	(59)	(1,674)
Interest income		45	46	60
Other income (net)	3	54	48	82
(Loss)/gain on disposal of fixed assets		(1)	(22)	328
(Loss)/profit before income taxes, equity in income of affiliates and non-controlling interests		(157)	13	(1,204)
Income (taxes)/benefit	4	(73)	(142)	63
Equity in income of affiliates		325	9	1,131
Net profit/(loss) for the year		95	(120)	(10)
Less: net (income)/loss attributable to non-controlling interest		(113)	(309)	531
Net (loss)/income attributable to the Company		(18)	(429)	521
Other comprehensive loss				
Net profit/(loss)		95	(120)	(10)
Foreign exchange translation adjustments		181	-	215
Release of translation reserves upon disposal of a subsidiary		(74)	-	-
Comprehensive income/(loss)		202	(120)	205

Less: Comprehensive (income)/loss attributable to non-controlling interest	(167)	(309)	442
Comprehensive income/(loss) attributable to the Company	35	(429)	647

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

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EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)/INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Note	2013 US$'000	2012 US$'000	2011 US$'000
Net (loss)/income per ordinary share				
- Basic		US(0.01)	US(0.21)	US0.25
- Diluted		US(0.01)	US(0.21)	US0.25
Weighted average number of ordinary shares outstanding				
- Basic	5	2,069,223	2,070,685	2,087,922
- Diluted	5	2,069,223	2,076,315	2,102,199

*In connection with a 2 for 11 subsequent reverse stock split on January 13, 2012, the common stock and the computation of Basic and Diluted EPS are adjusted retroactively to reflect the recapitalization change.
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, 2013, 2012 AND 2011

	2013 US$'000	2012 US$'000	2011 US$'000
Cash flows from operating activities:			
Net (loss)/income	(18)	(429)	521
(Used in)/ adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	108	130	182
Loss/(gain) on disposal of property, plant and equipment	1	22	(328)
Non-controlling interest in profits/(loss) of subsidiaries	113	309	(531)
Equity in profit/(loss) of affiliates	(325)	(9)	(1,131)
Deferred tax assets	26	25	(18)
Decrease/(increase) in current assets:			
Accounts receivable, net	(993)	655	(70)
Prepayments and other current assets	(436)	925	(150)
Inventories	159	(70)	737
Increase/(decrease) in current liabilities:			
Accounts payable	(598)	838	(271)
Other payables and accrued expenses	(299)	327	(671)
Taxation payable	(293)	71	(185)
Net cash (used in)/provided by operating activities	(2,555)	2,794	(1,915)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(51)	(41)	(63)
Proceeds on disposal of property, plant and equipment	1	2	491
Purchase of non-controlling interest of subsidiaries	-	-	(238)
Dividend received from affiliates	246	-	779
Investments in affiliates	-	-	(435)
Restricted cash for issuance of bank guarantees	274	(593)	563
Dividend paid to non-controlling interest	(134)	-	-
Net cash provided by/(used in) investing activities	336	(632)	1,097
Cash flows from financing activities:			
Purchase of treasury stock	-	(33)	(94)
Net cash used in financing activities	-	(33)	(94)
Effect of exchange rate changes on cash and cash equivalents	157	-	121
Net (decrease)/increase in cash and cash equivalents	(2,062)	2,129	(791)
Cash and cash equivalents, beginning of year	7,468	5,339	6,130

Cash and cash equivalents, end of year	5,406	7,468	5,339
Supplementary information	US$'000	US$'000	US$'000
Interest received	45	46	60
Income taxes paid	340	8	176

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, 2013, 2012 AND 2011

	Number of ordinary share	Ordinary share US$'000	Additional paid-in capital US$'000	Treasury stock US$'000	Accumulated other com-prehensive income US$'000	PRC statutory reserves US$'000	Retained earnings US$'000	Non-controlling interest US$'000	Total US$'000
Balance as of January 1, 2011	2,229,628	123	9,533	(639)	605	275	5,849	2,355	18,101
Net loss							521	(531)	(10)
Other comprehensive income:									
Foreign exchange translation adjustment	-	-	-	-	126	-	-	89	215
Purchase of treasury stock	-	-	-	(94)	-	-	-	-	(94)
Appropriation of reserves	-	-	-	-	-	(1)	1	-	-
Dividend paid/payable to non-controlling interest	-	-	-	-	-	-	-	(76)	(76)
Purchase of non-controlling interest	-	-	-	-	-	-	-	(227)	(227)
Balance as of December 31, 2011	2,229,628	123	9,533	(733)	731	274	6,371	1,610	17,909
Net loss	-	-	-	-	-	-	(429)	309	(120)
Purchase of treasury stock	-	-	-	(33)	-	-	-	-	(33
Appropriation of reserves	-	-	-	-	-	37	(37)	-	-
Cancellation of fractional shares	(19)	-	-	-	-	-	-	-	-
Balance as of December 31, 2012	2,229,609	123	9,533	(766)	731	311	5,905	1,919	17,756

Net loss	-	-	-	-	-	-	(18)	113	95
Other comprehensive income: Foreign exchange translation adjustment	-	-	-	-	127	-	-	54	181
Appropriation of reserves	-	-	-	-	-	4	(4)	-	-
Dividend paid/payable to non-controlling interest	-	-	-	-	-	-	-	(134)	(134)
Disposal of a subsidiary	-	-	-	-	-	-	-	53	53
Release of translation reserves upon disposal of a subsidiary	-	-	-	-	(74)	-	-	-	(74)
Balance as of December 31, 2013	2,229,609	123	9,533	(766)	784	315	5,883	2,005	17,877

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 equityownership	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
ChinaH2O.com Limited***	100%	Hong Kong	Internet content provider and provision of marketing services for environmental industry to the Company and its subsidiaries
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

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities (Continued)

Name	Percentage of equityownership	Place of incorporation	Principal activities
Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd	100%	TThe 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%	TThe 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%*	TThe PRC	Design, manufacture and operation of water and waste water treatment machinery and equipment
Pact Asia Pacific Limited**	58%*	The British Virgin Islands	Producing and 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.)	20%	TThe PRC	Design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted
	20%	TThe PRC	

Zhejaing Jia Huan Electronic Co. Ltd.	Design and manufacturing automatic control systems and electric voltage control equipment for electrostatic precipitators (air purification equipment)

* In the year 2011, the Company additionally acquired 5% equity interest of these two companies.

** The subsidiary of Pact Asia Pacific Limited, Pact Environmental Equipment Co., Ltd was deregistered on January 11, 2013.

*** The subsidiary was deregistered on February 17, 2012.

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 certain retail shops established in the PRC qualified as variable interest entities as defined in ASC 810-10. The retail shops are 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 these retail shops and, accordingly, consolidated their financial statements. The Company has a controlling financial interest in these retail shops 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 shops’ residual returns. Total assets and liabilities of these consolidated VIEs total US$5,182 and US$4,744, as of December 31, 2013 and US$14,204 and US$3,581, as of December 31, 2012, respectively. The cumulative losses on consolidating these VIEs in the Group’s consolidated statement of income in 2013 were US$302,893 (2012: losses of US$275,232 and 2010: 2011: losses of US$244,024), including taxes of US$1,018 (2012: US$1,262 and 2011: US$2,222). The assets of the entities consist mainly of cash and bank balances, trade and other receivables, inventories and property, plant and equipment. The creditors of these VIEs do not have a recourse to the general credit of the Group. The Group will provide for all necessary financing for the VIEs.

(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

Investments 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 costs (“R&D” costs) are expensed as incurred. The R&D costs amounted to approximately US$427,000, US$930,000 and US$200,000 for the years ended December 31, 2013, 2012 and 2011 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$12,000, US$21,000 and US$61,000 for the years December 31, 2013, 2012 and 2011 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 2013, 2012 and 2011.

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.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(g) Cash and Cash Equivalents

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

(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.

(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

EURO TECH HOLDINGS 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, 2013.

(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.

(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.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(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 Company's exposure to foreign currency risks.

The Company measured the fair value of the contracts in accordance with ASC No. 820, "Fair Value Measurement and Disclosure" ("ASC 820") at Level 2. Level 2- includes other inputs that are directly or indirectly observable in the marketplace. As of December 31, 2013 the Group does not have any open contracts.

(q) 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.

(r) 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.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(s) 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.

(t) 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.

(u) 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.

(v) 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.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(w) 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.

(x) Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, “Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.” The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Companies should apply these amendments for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company has included the required disclosures from ASU 2013-02 in the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04: Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This standard requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the provisions of ASU 2013-04 to have a material effect on our 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)

(x) Recent Accounting Pronouncements (continued)

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This standard applies to the release of the cumulative translation adjustment into net income when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages (i.e. step acquisitions) involving a foreign entity. The amendments in this are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the provisions of ASU 2013-05 to have a material effect on our financial position, results of operations or cash flows.

In July 2013, the FASB issued ASU 2013-10, "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." The amendments in this ASU permit the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments apply to all entities that elect to apply hedge accounting of the benchmark interest rate under Topic 815. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(x) Recent Accounting Pronouncements (continued)

In January 2014, the FASB issued ASU 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Other income, net

	2013 US$'000	2012 US$'000	2011 US$'000
Exchange (loss)/gain, net	(18)	(17)	26
Rental income	72	65	56
	54	48	82

4 Income taxes

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

On March 16, 2007, the PRC National People's Congress passed the Enterprise Income Tax Law ("Income Tax Law"), which became effective January 1, 2008 and applies a unified income tax rate for foreign invested enterprises and domestic enterprise. The Income Tax Law is effective immediately for companies previously subject to higher taxation rates and provides a five-year transition period from its effective date for those enterprises which were established before the effective date of the new tax law and previously entitled to a preferential tax treatment.

On December 26, 2007, the State Council and on February 20, 2008 the Ministry of Finance issued implementation guidelines ("Guidelines") setting out how the transition of tax rates will occur. The Guidelines state that those enterprises which enjoyed a preferential tax rate of 15% are eligible for a graduated rate increase to 25% over the 5-year period beginning from January 1, 2008. The applicable rates under such an agreements for such enterprises are 18%, 20%, 22%, 24% and 25% for 2009, 2010, 2011, 2012, 2013 and thereafter, respectively. In addition, foreign investment manufacturing enterprises which have not fully utilised any preferential tax treatments, such as tax holidays or reduced rates of taxation, will be able to continue to receive them during the transitional period. The Group has applied the applicable rates in relation to deferred tax balances.

Euro Tech (Far East) Limited, Euro Tech (China) Limited and ChinaH2O.com Limited provided for Hong Kong profits tax at a rate of 16.5% in year 2013 (2012 and 2011: 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% (2012: 25%, 2011: 24%), 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, 2013, ETTS had an assessable loss carried forward of US$374,902 as agreed by the local tax authority to offset its profit for the forth coming years (2012: US$287,675). Such loss will expire in 5 years.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes (Continued)

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, is exempt from the PRC Enterprise Income Tax for two years starting from 2008, after offsetting losses brought forward, if any, followed by a 50% reduction for the next three years thereafter. As of December 31, 2013, SET had an assessable loss carried forward of US$580,835 as agreed by the local tax authority to offset its profit for the forth coming years (2012: US$482,340). Such loss will expire in 5 years.

According to the relevant PRC tax rules and regulations, Shanghai Euro Tech Environmental Engineering Limited (“SETEE”) is exempt from the PRC Enterprise Income Tax for two years starting from 2007, after offsetting losses brought forward, if any, followed by a 50% reduction for the next three years thereafter. As of December 31, 2013, SETEE had an assessable loss carried forward of US$1,409,408 as agreed by the local tax authority to offset its profit for the forth coming years (2012: US$1,418,936). 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 Foreign Owned Enterprise that are entitled to Enterprise Income Tax rate of 25% (2012 and 2011: 25%).

VIEs of the Group provide for PRC Enterprise Income Tax at a rate of 25% (2012 and 2011: 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$2.0 million at December 31, 2013 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)/profit before income taxes/(benefit):

	2013 US$'000	2012 US$'000	2011 US$'000
The PRC and Hong Kong	(157)	13	(1,204)

The provision for income taxes consists of:

	2013 US$'000	2012 US$'000	2011 US$'000
Current tax expenses:			
The PRC and Hong Kong	47	117	(46)
Total current provision	47	117	(46)
Deferred tax benefit:			
The PRC and Hong Kong	26	25	(17)
Total deferred provision	26	25	(17)

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

	2013 US$'000	2012 US$'000	2011 US$'000
Computed tax using respective companies' statutory tax rates	(49)	31	(263)
Change in valuation allowances	124	166	33
Under-provision for income tax in prior years	-	-	(10)
Non-deductible expenses	(2)	(55)	177
Total provision for income tax at effective tax rate	73	142	(63)

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes (Continued)

The components of deferred tax assets are as follows:

	2013 US$'000	2012 US$'000
Tax losses	230	977
Temporary differences	6	(24)
Less: Valuation allowances	-	(691)
Net deferred tax assets	236	262

5 Net income per ordinary share

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

	2013	2012 Number of shares	2011
Weighted average number of ordinary shares for the purposes of basic net income per share	2,069,223	2,070,685	2,087,922
Effect of dilutive potential ordinary shares: Stock options	-	5,630	14,277
Weighted average number of ordinary shares for the purposes of diluted net income per share	2,069,223	2,076,315	2,102,199

6 Accounts receivable, net

	2013 US$'000	2012 US$'000
Accounts receivable	4,151	3,186
Less: Allowance for doubtful debts	(69)	(97)
	4,082	3,089

The following is an age analysis of past due account receivables as of December 31, 2013 and 2012:

	2013 US$'000	2012 US$'000
Current	2,113	1,698

30-59 days past due	598	440
60-89 days past due	59	302
Greater than 90 days	1,312	649
	4,082	3,089

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.

8 Inventories

	2013 US$'000	2012 US$'000
Raw materials	124	147
Work in progress	47	59
Finished goods	323	447
	494	653

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, 2013, and 2012, provision for obsolete and slow moving inventories amounted to US$29,000 and US$10,000, respectively, which were charged to cost of revenue in Consolidated Statements of Income.

9 Property, plant and equipment

	2013 US$'000	2012 US$'000
Office premises	1,866	1,866
Leasehold improvements	160	158
Furniture, fixtures and office equipment	627	616
Motor vehicles	155	162
Testing equipment	30	87
	2,838	2,889
Less: Accumulated depreciation	(1,949)	(1,944)
	889	945

	2013 US$'000	2012 US$'000	2011 US$'000
Depreciation charge	108	130	182

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

10 Interests in affiliates

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

The Group acquired 20% equity interests in Zhejiang Tianlan Environmental Protection Technology Co. Ltd, ("Tianlan"), a company incorporated in the PRC for a total consideration of US$4,648,000 in 2007. In 2010, Tianlan increased its share capital and the Group further invested US$262,000 in order to maintain the share holding of 20% in Tianlan. In 2011, Tianlan increased its share capital and the Group further invested US$435,000 in order to maintain the share holding of 20% in Tianlan.

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

Balance Sheet:	2013 US$'000	2012 US$'000
Current assets	55,742	57,431
Non-current assets	9,733	9,605
Total assets	65,475	67,036
Total liabilities	(40,672)	(42,889)
Total shareholders' equity	24,803	24,147

Operating results:	2013 US$'000	2012 US$'000
Net sales	61,997	44,543
Operating profits/(loss)	833	(326)
Net profits/(loss)	1,248	(196)

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Interests in affiliates (Continued)

The Group acquired 20% of the equity interests in Zhejiang Jia Huan Electronic Co. Ltd., (“Jia Huan”), a company incorporated in the PRC, for approximately US$2,610,000 in 2008. Jia Huan has been in the 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:

Balance Sheet:	2013 US$’000	2012 US$’000
Current assets	20,556	17,371
Non-current assets	5,635	5,650
Total assets	26,191	23,021
Total liabilities	(12,623)	(9,893)
Total shareholders’ equity	13,568	13,128

Operating results:	2013 US$’000	2012 US$’000
Net sales	14,672	12,631
Operating profits	545	428
Net profits	377	243

11 Other payables and accrued expenses

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

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Ordinary share

During the year ended December 31, 2013 and 2012, there was no movement with the Company's issued ordinary shares and the outstanding share.

On January 13, 2013, the company effected a two-for-eleven reverse split of its issued ordinary shares. The information contained hereinreflects retroactive effectof the reverse stock split for all period presented.

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, 2013, 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, 2013). Based on management's assessment, the Company determined that there was no impairment of goodwill as of December 31, 2013.

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 considerations of approximately US$94,000. The Company repurchased a total of 8,639 shares of ordinary share during 2012 for considerations of approximately US$33,000.

There was no reissuance of treasury stock during each of the three years ended December 31, 2013.

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$3,357,000 as at December 31, 2013 (2012:US$3,343,000).

(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 ACCOUNTS

16 Stock options

2002 Employees' Stock Option and Incentive Plan and 2002 Officers' and Directors' Stock Option and Incentive Plan

A total of 53,454 shares and 152,727 shares of ordinary share have been reserved for issuance under the Company's 2002 Employees' Stock Option and Incentive Plan (the "2002 Employee Stock Options") and 2002 Officers' and Directors' Stock Option and Incentive Plan (the "2002 D&O Stock Options"), respectively. Both 2002 Employee Stock Options and the 2002 D&O Stock Options provided for the grant of options to its employees as the Company's Chairman of the Board of Directors and Chief Executive Officer may direct.

During the year ended December 31, 2011, 2,291 options and 7,636 options with exercise price of US$4.19 and US$3.18 per share, respectively, were cancelled.

During the year ended December 31, 2012, all the remaining unexercised options expired in November 2012.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

16 Stock options (Continued)

The Company estimate the fair value of the options granted under the Black-Scholes pricing model.

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

	2013		2012		2011	
	Number of options	Weighted average exercise price US$	Number of options	Weighted average exercise price US$	Number of options	Weighted average exercise price US$
Outstanding, beginning of year	-	-	36,255	3.36	46,182	3.36
Granted	-	-	-	-	-	-
Cancelled/Expired	-	-	(36,255)	(3.36)	(9,927)	(3.47)
Exercised	-	-	-	-	-	-
Outstanding, end of year	-	-	-	-	36,255	3.36
Exercisable, end of year	-	-	-	-	36,255	3.36

As of December 31, 2013 and 2012, there was no options outstanding.

As of December 31, 2013 and 2012, 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.

The Black-Scholes 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.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

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 December 1, 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. Contributions of both the Group and its employees are subject to a maximum of HK$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation. The Group and its employees made their first contributions in December 2000.

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 contributions range from 12% to 22% 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, 2013, 2012 and 2011, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately US$353,000, US$364,000 and US$455,000 respectively.

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.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

18 Risk factor and Derivative Instruments (Continued)

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, 2013 and 2012.

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 2013, 2012 and 2011.

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, 2013, 2012 and 2011 were approximately US$277,000, US$291,000 and US$356,000, respectively. Future minimum rental payments as of December 31, 2013, under agreements classified as operating leases with non-cancellable terms amounted to US$266,000 of which US$242,000 are payable in the year 2014 and US$24,000 are payable within years 2015 to 2019.

(ii) Banking facilities

As at December 31, 2013, 2012 and 2011, 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$1,538,000, US$1,538,000 and US$1,154,000 respectively, of which approximately US$690,000, US$302,000 and US$474,000 was utilised for issuance of bank guarantees.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

20 Commitments and contingencies (Continued)

(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

Statements of claim were issued by Yu-Cheng Ling and Xue-Mei Huang (“Plaintiff A”), and Nian-Chong Luo and Li-Shan Cen (“Plaintiff B”) as the plaintiffs against Shanghai Euro Tech Environmental Engineering Company Limited (“SETEE”) as one of the ten defendants (“Defendants”) in civil claims at the People’s Court of TianDong Province, Guangxi, PRC.

Plaintiff A and Plaintiff B claimed against Defendants for total compensations of approximately US$64,000 and US$95,000, respectively, for their sons died in a serious fatal traffic accident in September 2010 on the ground that one of the drivers of the accident, (employee of SETEE’s sub-contractor) was performing SETEE’s jobs during the traffic accident and therefore SETEE is liable to assume joint and several liability. The case was heard in court on April 28, 2011. The Tian Dong People’s Court issued a verdict dated September 11, 2011 finding, among other things, that the Company was not liable. One of the Plaintiffs has appealed that verdict to the Baise Intermediate People’s Court, Guangxi Zhuang Autonomous Region, PRC in November 20, 2011. After the hearing on April 23, 2012, the appellate court issued a verdict dated May 10, 2012 finding, among other things, that the Company was not liable to joint and several liability with the driver, but to bear 30% of the liability of the civil engineer sub-contractor for the amount of US$52,000. Management considers not to appeal as the chance of success is remote.

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 ACCOUNTS

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.

	2013 US$'000	2012 US$'000	2011 US$'000
Revenue			
Trading and manufacturing	10,986	10,866	11,437
Engineering	7,616	10,779	8,776
	18,602	21,645	20,213
Operating (loss)/income			
Trading and manufacturing	(241)	(301)	(720)
Engineering	106	401	(802)
Unallocated corporate expenses	(120)	(159)	(152)
	(255)	(59)	(1,674)

	2013 US$'000	2012 US$'000	2011 US$'000
Depreciation:			
Trading and manufacturing	74	88	137
Engineering	34	42	45
	108	130	182
Capital Expenditures, Gross			
Trading and manufacturing	31	12	44
Engineering	20	29	19
	51	41	63

	2013 US$'000	2012 US$'000
Assets		
Trading and manufacturing	5,067	6,211
Engineering	18,811	18,736
	23,878	24,947

Liabilities		
Trading and manufacturing	1,334	2,615
Engineering	4,667	4,576
	6,001	7,191

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

22 Segment information (Continued)

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

	2013 US$'000	2012 US$'000	2011 US$'000
Revenue -			
The PRC	12,392	15,867	15,100
Hong Kong	5,919	5,511	4,891
Others	291	267	222
	18,602	21,645	20,213

(iii) Long-lived assets (1)

Geographical analysis of long-lived assets is as follows:

	2013 US$'000	2012 US$'000
Hong Kong	568	583
The PRC	321	362
	889	945

(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:

	2013	2012	2011
Supplier A	20%	10%	7%
Supplier B	17%	17%	10%
Supplier C	8%	11%	10%
Supplier D	8%	7%	8%
Supplier E	7%	6%	6%
Supplier F	7%	6%	15%

(v) Major customers

No revenue from a single customer exceeds 10% of the Group revenue during the years ended December 31, 2013, 2012 and 2011.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

23Subsequent 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

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2013 AND 2012 AND

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

CONSOLDIATED STATEMENTS OF CASH FLOWS AND CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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 as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive (loss)/income, changes in shareholders’ equity and cash flows for the years ended December 31, 2013, 2012 and 2011. 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 its internal control over financial reporting. An audit includes 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, 2013 and 2012 and the consolidated results of their operations and their cash flows for the years ended December 31, 2013, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dominic. K.F. Chan & Co.
Dominic. K.F. Chan & Co.,
Certified Public Accountants
Hong Kong, China
April 29, 2014

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012

	Note	2013 RMB'000	2012 RMB'000
Assets			
Current assets:			
Cash and cash equivalents		21,462	22,668
Accounts receivable, net	6	147,127	226,370
Prepayments and other current assets	7	157,160	104,368
Inventories	8	14,976	9,154
Total current assets		340,725	362,560
Property, plant and equipment, net	9	48,091	49,093
Intangible asset, net	10	2,250	2,693
Land use right, net	11	6,194	6,335
Deferred tax assets		2,959	2,513
Total assets		400,219	423,194
Liabilities and shareholders' equity			
Current liabilities:			
Short term borrowings	12	64,690	60,000
Accounts payable		99,177	177,212
Other payables and accrued expenses	13	76,363	26,036
Other taxes payable	5	7,868	1,828
Income tax payable		509	5,684
Total current liabilities		248,607	270,760
Commitments and contingencies	19	-	-
Shareholders' equity:			
Share capital 61,200,000 shares issued		61,200	61,200
Capital reserve	15	43,189	43,189
PRC statutory reserves	14	5,517	4,274
Retained earnings		40,194	39,931

Equity attributable to shareholders of Zhejiang Tianlan Environmental Protection Technology Company Limited	150,100	148,594
Non-controlling interest	1,512	3,840
Total shareholders' equity	151,612	152,434
Total liabilities and shareholders' equity	400,219	423,194

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, 2013, 2012 AND 2011

	Note	2013 RMB'000	2012 RMB'000	2011 RMB'000
Revenue		378,956	281,203	291,992
Cost of revenue		(303,039)	(216,362)	(208,062)
Gross profit		75,917	64,841	83,930
Selling and administrative expenses		(70,823)	(66,902)	(40,104)
Operating income/(loss)		5,094	(2,061)	43,826
Interest income		194	149	124
Interest expenses		(4,751)	(4,496)	(1,802)
Other income, net	3	7,424	7,341	5,161
Income before income taxes		7,961	933	47,309
Income taxes	4	(2,663)	(2,434)	(7,919)
Net income/(loss)		5,298	(1,501)	39,390
Net income attributable to non-controlling interest		2,328	251	1,209
Net income/(loss) attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited's shareholders		7,626	(1,250)	40,599
Other comprehensive income/(loss)				
Net income/(loss)		5,298	(1,501)	39,390
Foreign exchange translation adjustments		-	-	-
Comprehensive income/(loss)		5,298	(1,501)	39,390
Less: Comprehensive income attributable to non-controlling interest		2,328	251	1,209
Net income/(loss) attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited's shareholders		7,626	(1,250)	40,599

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, 2013, 2012 AND 2011

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Cash flows from operating activities:			
Net income/(loss)	5,298	(1,501)	39,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	2,956	3,017	2,694
Amortisation of intangible asset	395	164	134
Amortisation of land use right	141	177	148
(Gain)/loss on disposal of property, plant and equipment	(40)	4,186	107
(Gain)/loss on disposal of intangible asset	(23)	92	-
Deferred tax assets	(446)	784	(993)
(Increase)/decrease in current assets:			
Accounts receivable, net	79,243	(38,607)	(92,916)
Amounts due from owners	-	2	212
Prepayments and other current assets	(52,792)	(27,508)	(37,458)
Inventories	(5,822)	(542)	(6,502)
Increase/(decrease) in current liabilities:			
Accounts payable	(76,615)	43,737	89,956
Amount due to owner	9	-	(1,600)
Other payables and accrued expenses	48,898	(2,501)	(435)
Other taxes payable	6,040	(11,579)	8,225
Income tax payable	(5,175)	(1,203)	6,405
Net cash provided by/(used in) operating activities	2,067	(31,282)	7,367
Cash flows from investing activities:			
Purchase of intangible asset	(39)	(126)	(2,985)
Purchase of property, plant and equipment	(1,983)	(3,358)	(2,690)
Sales proceed from intangible assets	110	-	-
Sales proced from property, plant and equiqment	69	-	-
Net cash used in investing activities	(1,843)	(3,484)	(5,675)
Cash flows from financing activities:			
Repayment of bank borrowings	(88,100)	(41,000)	(20,500)
Advance of bank borrowings	92,790	60,000	51,000
Capital injection	-	-	6,000
Dividend paid to owners	(6,120)	-	(12,785)
Net cash (used in)/provided by financing activities	(1,430)	19,000	23,715
Net (decrease)/increase in cash and cash equivalents	(1,206)	(15,766)	25,407
Cash and cash equivalents, beginning of year	22,668	38,434	13,027

Cash and cash equivalents, end of year	21,462	22,668	38,434

Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	194	149	124
Interest paid	4,695	3,920	1,802
Income tax paid	396	6,348	3,229

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, 2013, 2012 AND 2011

	Share capital RMB'000	Paid-in capital RMB'000	Capital reserve RMB'000	PRC statutory reserves RMB'000	Retained earnings RMB'000	Non-controlling interest RMB'000	Total RMB'000
Balance as of December 31, 2010	-	52,174	17,896	10,799	34,376	6,085	121,330
Net profit					40,599	(1,209)	39,390
Dividend paid	-	-	-	-	(12,000)	-	(12,000)
Changed to limited company by shares	60,000	(52,174)	20,493	(10,791)	(17,528)	-	-
Capital injection	1,200	-	4,800	-	-	-	6,000
Dividend paid to NCI	-	-	-	-	-	(785)	(785)
Appropriation of reserves	-	-	-	4,264	(4,264)	-	-
Balance as of December 31, 2011	61,200	-	43,189	4,272	41,183	4,091	153,935
Net loss					(1,250)	(251)	(1,501)
Appropriation of reserves	-	-	-	2	(2)	-	-
Balance as of December 31, 2012	61,200	-	43,189	4,274	39,931	3,840	152,434
Net profit	-	-	-	-	7,626	(2,328)	5,298
Dividend paid	-	-	-	-	(6,120)	-	(6,120)
Appropriation of reserves	-	-	-	1,243	(1,243)	-	-
Balance as of December 31, 2013	61,200	-	43,189	5,517	40,194	1,512	151,612

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 as a wholly domestic owned enterprise. On August 6, 2007, Euro Tech (Far East) Limited and Beijing International Trust Investment Company Limited acquired 20% and approximately 3% of the equity interest of the Company. Upon the completion of the transaction, the Company changed from a wholly domestic owned enterprise to a sino-foreign joint venture enterprise with an operating period up to August 5, 2037.

On August 30, 2011, the Company changed from a sino-foreign joint venture enterprise to a limited company by shares.

The principal activities of the Company are engaged in flue gas desulphurization, dust removal, flue gas denitration and purification of diversified industrial waster gas.

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

Name	Percentage of equity ownership		Place of incorporation	Principal activities
	2013	2012		
Hangzhou 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

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.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(b) Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its outstanding voting share capital and over which it is able to exercise control.

(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 costs ("R&D" costs) are expensed as incurred. The R&D costs amounted to approximately RMB15,018,000, RMB14,890,000 and RMB11,560,000 for the years ended December 31, 2013, 2012 and 2011 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 RMB25,000, RMB26,000 and RMB128,000 for the years December 31, 2013, 2012 and 2011 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.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(f) Taxation – Continued

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 2013, 2012 and 2011.

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 include cash on hand and demand deposits with banks.

(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, 2013, accounts receivable in more than one year amounted to RMB52,272,000 (2012:RMB12,719,000 and 2011: RMB Nil).

(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, 2013.

(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.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(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) Foreign Currency Translation

The Group maintains its books and records in Chinese Renminbi (“functional currency”). Foreign currency transactions during the year are translated into the functional currency at the applicable rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency 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.

(p) 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.

(q) Share capital

Paid in capital refers to the registered capital paid-up by the shareholders of the Company. The paid-in capital is RMB52,174,000 at the year ended December 31, 2010.

On August 30, 2011, the Company changed from a sino-foreign joint venture enterprise to a limited company by shares of 60,000,000 shares of RMB1 by converting the registered capital and part of the retained earnings. The remaining balance of the retained earnings were reclassified as capital reserve.

On September 12, 2011, 1,200,000 shares of RMB1 were issued at RMB5 per shares.

At the year end of December 31, 2013 and 2012, there were 61,200,000 shares were issued.

(r) 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.

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(s) 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.

(t) Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Companies should apply these amendments for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company has included the required disclosures from ASU 2013-02 in the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04: Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This standard requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the provisions of ASU 2013-04 to have a material effect on our financial position, results of operations or cash flows.

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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 March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This standard applies to the release of the cumulative translation adjustment into net income when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages (i.e. step acquisitions) involving a foreign entity. The amendments in this are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the provisions of ASU 2013-05 to have a material effect on our financial position, results of operations or cash flows.

In July 2013, the FASB issued ASU 2013-10, “Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes.” The amendments in this ASU permit the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments apply to all entities that elect to apply hedge accounting of the benchmark interest rate under Topic 815. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated 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 January 2014, the FASB issued ASU 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, “Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying financial statements.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Other income, net

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Gain on disposal of intangible asset	23	-	-
Gain on disposal of property, plant and equipment	41	-	-
Subsidy income (note i)	6,893	7,170	4,483
Sales of scrapped materials	18	31	78
Others	449	140	600
	7,424	7,341	5,161

(i) The Group recognises subsidy income for R&D projects when granted by institutions and are not probably to be returned or reimbursed.

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 Tianlan Environmental Protection Technology Company Limited and Hangzhou Tianlan Environmental Protection Equipments Company Limited are classified as HNTE which enjoyed a preferential tax rate of 15%. Hangzhou Tianlan Environmental Engineering and Design Company Limited are subject to Enterprise Income Tax rate of 25%.

The provision for income taxes consists of:

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Current PRC EIT:			
Domestic	2,217	3,218	8,912
Income taxes	2,217	3,218	8,912
Deferred tax benefit:	446	(784)	(993)
Total deferred taxes	446	(784)	(993)

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY 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:

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Income before income taxes	7,961	933	47,309
Computed tax using respective companies' statutory tax rates	1,194	140	7,096
Under/(over)-provision for income tax in prior years	(122)	1,358	512
Temporary differences	(445)	-	-
Tax effect on revenue not subject to tax	(242)	(56)	(652)
Tax effect on expenses not deductible for tax purposes	2,279	992	963
Total provision for income tax at effective tax rate	2,664	2,434	7,919

The components of deferred tax assets are as follows:

	2013 RMB'000	2012 RMB'000
Tax losses	-	-
Allowance for doubtful debts	2,959	2,513
Net deferred tax assets	2,959	2,513

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% 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.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Accounts receivable, net

	2013 RMB'000	2012 RMB'000
Accounts receivable	166,433	245,892
Less: Allowance for doubtful debts	(19,306)	(19,522)
	147,127	226,370

7 Prepayments and other current assets

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

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

Cost and estimated earnings in excess of billings

	2013 RMB'000	2012 RMB'000
Contracts costs incurred plus estimated earnings	548,026	198,706
Less: Progress billings	(424,397)	(98,957)
Cost and estimated earnings in excess of billings	123,629	99,749

8 Inventories

	2013 RMB'000	2012 RMB'000
Raw materials	7,425	6,321
Work in progress	5,485	1,264
Finished goods	2,066	1,569
	14,976	9,154

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment

	2013 RMB'000	2012 RMB'000
Office premises and leasehold improvements	47,092	47,092
Furniture, fixtures and office equipment	8,511	7,136
Motor vehicles	3,258	3,361
Plant and machineries	711	711
Construction in progress	437	298
	60,009	58,598
Less: Accumulated depreciation	(11,918)	(9,505)
	48,091	49,093

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Depreciation charge	2,956	3,017	2,694

10 Intangible assets, net

	2013 RMB'000	2012 RMB'000
Patents	2,750	2,850
Others	165	161
	2,915	3,011
Less: Accumulated amortisation	(665)	(318)
	2,250	2,693

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Amortisation expense	395	164	134

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Land use right, net

	2013 RMB'000	2012 RMB'000
Land use right	7,361	7,315
Less: Accumulated amortisation	(1,167)	(980)
	6,194	6,335

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Amortisation expense	141	177	148

12 Short term borrowings

	2013 RMB'000	2012 RMB'000
Bank loan borrowed by the Company (note i)	59,690	55,000
Bank loan borrowed by a subsidiary of the Company (note ii)	5,000	5,000
	64,690	60,000

(i) The bank loan is denominated in Renminbi and repayable within 1 year. The bank loan borrowed by the Company as of December 31, 2013 bear interest at fixed rates 5.60% to 7.87% (2012: 6.00% to 7.87%) per annum and are secured by the Company's office premises and leasehold improvements and land use right. Interest paid during the year ended December 31, 2013 was approximately RMB3,704,000 (2012: RMB3,137,000 and 2011: RMB1,480,000).

(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, 2013 bear interest at fixed rates 7.50% (2012: 7.50% to 7.87%) 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, 2013 was approximately RMB391,000 (2012: RMB391,000).

13 Other payables and accrued expenses

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

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 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.

15 Capital reserve

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

16 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, 2013, 2012 and 2011, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB2,516,000, RMB2,564,000 and RMB2,331,000 respectively.

17 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.

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLDIATED FINANCIAL STATEMENTS

18 Related party

Amounts due from/(to) owners

The owners, from time to time, obtain business related advances and pay expenses on behalf of the Company. The amounts due to owners are unsecured, interest free and do not have clearly defined terms of repayment. There were no other transactions with related parties in the years 2013 and 2012 other than those disclosed in elsewhere in the financial statements.

19 Commitments and contingencies

Operating leases

The Group has no rental expense during the year ended December 31, 2013 (2012 and 2011: RMBNil). As of December 31, 2013, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2013.

20 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.

21 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 JIAHUAN ELECTRONIC COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2013

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

CASH FLOWS AND CHANGES IN SHAREHOLDERS’ EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2013

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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 as of December 31, 2013, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the year ended December 31, 2013. 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 its internal control over financial reporting. An audit includes 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, 2013 and the consolidated results of their operations and their cash flows for the year ended December 31 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dominic. K.F. Chan & Co.,
Dominic. K.F. Chan & Co.,
Certified Public Accountants
Hong Kong, China
July 17, 2014

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012

	Note	2013 RMB'000	(Unaudited) 2012 RMB'000
Assets			
Current assets:			
Cash and cash equivalents		4,867	3,565
Restricted cash		1,469	1,459
Accounts receivable, net	5	67,445	63,330
Notes receivables		5,382	2,440
Other receivables	6	8,326	7,232
Inventories	8	38,158	31,638
Total current assets		125,647	109,664
Property, plant and equipment, net	9	27,602	28,659
Land use right, net	10	6,777	6,940
Long term investment	7	69	69
Total assets		160,095	145,332
Liabilities and shareholders' equity			
Current liabilities:			
Short term borrowings	12	26,800	18,200
Accounts payable		23,094	17,637
Other payables and accrued expenses	11	11,236	12,156
Amount due to a shareholder	14	8,670	7,820
Income tax payable		1,366	561
Total current liabilities		71,166	56,374
Other long term liabilities	15	5,996	6,083
Shareholders' equity:			
Share capital 11,250,000 shares issued		11,250	11,250
Capital reserves		8,542	8,542
Accumulated other comprehensive income			
PRC statutory reserves	16	20,931	20,920

Retained earnings	41,927	41,883
Equity attributable to shareholders of Zhejiang Jiahuan Electronic Company Limited	82,650	82,595
Non-controlling interest	283	280
Total shareholders' equity	82,933	82,875
Total liabilities and shareholders' equity	160,095	145,332

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

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Note	2013 RMB'000	(Unaudited) 2012 RMB'000	(Unaudited) 2011 RMB'000
Revenue		89,685	80,097	51,778
Cost of revenue		(67,015)	(59,570)	(36,847)
Gross profit		22,670	20,527	14,931
Selling and administrative expenses		(19,338)	(18,485)	(19,648)
Operating income/(loss)		3,332	2,042	(4,717)
Interest expenses		(1,702)	(1,574)	(1,017)
Other income, net	3	697	1,067	690
Income/(loss) before income taxes		2,327	1,535	(5,044)
Income (taxes)/benefit	4	(19)	-	280
Net income/(loss) and total comprehensive income/(loss)		2,308	1,535	(4,764)
Net (income)/loss and total comprehensive (income)/loss attributable to non-controlling interest		(3)	(16)	131
Net income/(loss) and total comprehensive income/(loss) attributable to Zhejiang Jiahuan Electronic Company Limited's shareholders		2,305	1,519	(4,633)

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

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ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	2013 RMB'000	(Unaudited) 2012 RMB'000	(Unaudited) 2011 RMB'000
Cash flows from operating activities:			
Net income/(loss)	2,308	1,535	(4,764)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	2,461	2,028	1,997
Amortisation of land use right	163	163	163
Changes in operating assets and liabilities:			
Accounts receivable, net	(4,115)	(1,349)	5,053
Restricted cash	(10)	(1,459)	-
Note receivables	(2,942)	6,285	2,887
Other receivables	(1,094)	1,127	(2,498)
Dividend received	-	210	-
Inventories	(6,520)	(9,725)	(8,530)
Accounts payable	5,457	4,570	(3,200)
Note payable	-	(1,183)	1,183
Other payables and accrued expenses	(920)	(8,251)	3,574
Income tax payable	805	211	(1,927)
Other long-term liability	(87)	102	(195)
Net cash used in operating activities	(4,494)	(5,736)	(6,257)
Cash flows from investing activities:			
Purchase of short term investments	-	-	200
Purchase of property, plant and equipment	(1,404)	(3,540)	(1,003)
Proceeds from sales of long term investments	-	(556)	561
Net cash used in investing activities	(1,404)	(4,096)	(242)
Cash flows from financing activities:			
Repayment of bank borrowings	(18,200)	(300)	-
Advance of bank borrowings	26,800	-	3,500
Increase in amount due from shareholders	850	8,140	-
Dividend paid to owners	(2,250)	-	-
Net cash provided by financing activities	7,200	7,840	3,500
Net increase/(decrease) in cash and cash equivalents	1,302	(1,992)	(2,999)
Cash and cash equivalents, beginning of year	3,565	5,557	8,556

Cash and cash equivalents, end of year	4,867	3,565	5,557

Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	32	68	124
Interest paid	(1,702)	(1,574)	(1,017)
Income tax paid	-	-	(1,893)
Income tax refund	786	211	-

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, 2013, 2012AND 2011

	Share capital RMB'000 (Unaudited)	Capital reserves RMB'000 (Unaudited)	PRC statutory reserves RMB'000 (Unaudited)	Retained earnings RMB'000 (Unaudited)	Non-controlling interest RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Balance as of December 31, 2010	11,250	8,542	20,920	44,793	599	86,104
Net loss and total comprehensive loss	-	-	-	(4,633)	(131)	(4,764)
Balance as of December 31, 2011	11,250	8,542	20,920	40,160	468	81,340
Acquisition of Non-controlling interest	-	-	-	204	(204)	-
Net income and total comprehensive income	-	-	-	1,519	16	1,535
Balance as of December 31, 2012	11,250	8,542	20,920	41,883	280	82,875

	Share capital RMB'000	Capital reserves RMB'000	PRC statutory reserves RMB'000	Retained earnings RMB'000	Non-controlling interest RMB'000	Total RMB'000
Balance as of January 1, 2013	11,250	8,542	20,920	41,883	280	82,875
Net income and total comprehensive income	-	-	-	2,305	3	2,308
Transfer to statutory reserve	-	-	11	(11)	-	-
Dividend paid	-	-	-	(2,250)	-	(2,250)
Balance as of December 31, 2013	11,250	8,542	20,931	41,927	283	82,933

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
	2013		2012			
Jinhua Jiahuan Puzhau New Energy Technology Co., Ltd	80	%	80	%	PRC	Dormant
Zhejiang Jiahuan Xinyu Environmental Production Co., Ltd	100	%	100	%	PRC	Manufacturing and installation services of environmental production equipment

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 holds, directly or indirectly, more than 50% of its outstanding voting share capital and over which it is able to exercise control.

(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.

(d) Research and Development Costs

Research and development costs ("R&D" costs) are expensed as incurred. The R&D costs amounted to approximately RMB3,893,000 and RMB3,442,000 for the years ended December 31, 2013 and 2012 respectively and were included in "Selling and Administrative" expenses in the Group's consolidated statements of income.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies – Continued

(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 2013, 2012 and 2011.

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.

(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.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies – Continued

(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) 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, 2013, December 31, 2012 and December 31, 2011.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(l) Foreign Currency Translation

The Group maintains its books and records in Chinese Renminbi ("functional currency"). Foreign currency transactions during the year are translated into the functional currency at the applicable rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency 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.

(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 Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Companies should apply these amendments for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company has included the required disclosures from ASU 2013-02 in the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04: Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This standard requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the provisions of ASU 2013-04 to have a material effect on our financial position, results of operations or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This standard applies to the release of the cumulative translation adjustment into net income when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages (i.e. step acquisitions) involving a foreign entity. The amendments in this are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We do not expect the provisions of ASU 2013-05 to have a material effect on our 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 Accounting Pronouncements - continued

In July 2013, the FASB issued ASU 2013-10, “Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes.” The amendments in this ASU permit the Fed Funds Effective Swap Rate (also referred to as the Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments apply to all entities that elect to apply hedge accounting of the benchmark interest rate under Topic 815. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” The amendments in this ASU provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU 2014-01, “Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(p) Recent Accounting Pronouncements - continued

In January 2014, the FASB issued ASU 2014-04, "Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have an effect on the accompanying financial statements.

3 Other income, net

	2013 RMB'000	(Unaudited) 2012 RMB'000	(Unaudited) 2011 RMB'000
Government grant	-	-	400
Rental income (i)	665	701	-
Interest income	32	68	124
Sundry income	-	298	166
	697	1,067	690

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

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ZHEJIANG JIAHUAN ELECTRONIC 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 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:

	2013 RMB’000	(Unaudited) 2012 RMB’000	(Unaudited) 2011 RMB’000
Income taxes	19	-	(280)

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

	2013 RMB’000	(Unaudited) 2012 RMB’000	(Unaudited) 2011 RMB’000
Income before income taxes	2,327	1,535	(5,044)
Computed tax using respective companies’statutory tax rates	582	384	(1,261)
Tax effect on revenue not subject to tax	(20,983)	(20,291)	(1,964)
Tax effect on expenses not deductible for tax purposes	20,455	19,907	2,078
Others	(35)	-	867
Total provision for income tax at effective tax rate	19	-	(280)

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, 2013, and 2012.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Accounts receivable, net

	2013 RMB'000	(Unaudited) 2012 RMB'000
Accounts receivable, gross	75,445	71,791
Less: Allowance for doubtful debts	(8,000)	(8,461)
Accounts receivable, net	67,445	63,330

	2013 RMB'000	(Unaudited) 2012 RMB'000
Allowance for doubtful debts:		
Balance at beginning	(8,461)	(13,225)
Charged to statement of income		
Recovered	461	4,764
Balance at end	(8,000)	(8,461)

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.

	2013 RMB'000	(Unaudited) 2012 RMB'000
Prepayments and other receivables	5,141	2,965
Deposits	3,185	4,267
	8,326	7,232

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Long term investments

	2013			
		Gross unrealized		Fair
	Amortized cost	Gains	Losses	Value
	RMB'000	RMB'000	RMB'000	RMB'000
Long term investment:				
Unlisted investment	69	-	-	69

	(Unaudited) 2012			
		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

	2013	(Unaudited) 2012
	RMB'000	RMB'000
Raw materials	2,680	1,689
Work in progress	15,068	12,302
Finished goods	20,410	17,647
	38,158	31,638

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment

	2013 RMB'000	(Unaudited) 2012 RMB'000
Buildings	33,707	32,561
Plant and machinery	7,938	7,847
Office equipment	2,899	2,732
Motor vehicles	1,125	1,125
	45,669	44,265
Less: Accumulated depreciation	(18,067)	(15,606)
	27,602	28,659

	2013 RMB'000	(Unaudited) 2012 RMB'000	(Unaudited) 2011 RMB'000
Depreciation charge	2,461	2,028	1,997

Buildings with carrying amount of approximately RMB33,707,000 and RMB32,561,000 as of December 31, 2013 and 2012 respectively were pledged, along with the land use right as discussed below, to secure the short-term loans.

10 Land use right, net

	2013 RMB'000	(Unaudited) 2012 RMB'000
Land use right	7,987	7,987
Less: Accumulated amortisation	(1,210)	(1,047)
	6,777	6,940

	2013 RMB'000	(Unaudited) 2012 RMB'000	(Unaudited) 2011 RMB'000
Amortisation expense	163	163	163

Land use right with a carrying amount of approximately RMB6,777,000 and RMB6,940,000 as of December 31, 2013 and 2012 was pledged, along with the buildings discussed above, to secure the short-term loans.

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ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Other payables and accrued expenses

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

12 Short term borrowings

The short term loans as of December 31, 2013 bear interest at fixed rates ranging from 6.83% to 7.80% per annum with maturity dates from 7 April, 2014 to 27 August, 2014 and are secured by the Company's buildings and land use right. Interest paid during the years ended December 31, 2013 and 2012 were approximately RMB 1,702,000 and RMB 1,574,000 respectively.

13 Dividends to shareholders

In the fiscal year ended December 31, 2013 and 2012, the Company declared dividend of RMB 2,250,000 and RMB Nil respectively to the shareholders.

14 Amount due to a shareholder

The amount due to a shareholder do not bear any interest, unsecured and do not have clearly defined terms of repayment.

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.

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.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2013 and 2012, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB 1,963,000 and RMB1,726,000 respectively.

18 Commitments and contingencies

Operating leases

The Group has no rental expense during the year ended December 31, 2013 (2012 and 2011: RMBNil. As of December 31, 2013, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2014 and thereafter.

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:-

	2013 RMB'000	2012 RMB'000
Within 1 year	680	680
After 1 year but within 5 years	2,250	2,930
After 5 years	-	-
	2,930	3,610

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.