EURO TECH HOLDINGS CO LTD
Form 20-F/A
April 28, 2016

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, 2014

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
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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

The purpose of this Amendment No. 1 ("Amendment No. 1") to the Annual Report on Form 20-F of Euro Tech Holdings Company Limited (the "Company") for the fiscal year ended December 31, 2014, originally filed with the Securities and Exchange Commission on April 29, 2015 (the "Form 20-F"), is solely to (i) include restated financial statements of the Zhejiang Tianlan Environmental Protection Technology Company Limited ("Blue Sky"), an entity which the Company indirectly owns 20% of equity interest, and the restated financial statements of the Company after consolidation of the restated financial statements of Blue Sky: and (ii) include amended Item 3A, Item 4A, Item 5A and Item 5B of Part I due to the restatement. During the audit of the Company's consolidated financial statements for the year ended December 31, 2015, and the related audit of Blue Sky's financial statements for the year ended December 31, 2015, certain errors in the Company's and Blue Sky's previously issued financial statements were identified, which errors stemmed from errors in the financial statements of Blue Sky. Specifically, it was determined that (i) Blue Sky had incorrectly accounted for the recognition of construction in progress (or CIP) at the year ended December 31, 2014; (ii) Blue Sky had overstated account and other receivables, other tax payable and income tax payable as of December 31, 2014. Such errors stemmed from the accounting treatment of one of Blue Sky's construction projects. Blue Sky determined the income recognized for the project at issue should be reversed and all the cost related to this project should be recognized as CIP for the year ended December 31, 2014. As a result of the foregoing, it was also determined that the Company had incorrectly accounted for the interest in Blue Sky and therefore incorrectly accounted for its net profit for the fiscal year ended December 31, 2014. The effects of the restatements are discussed in Note 24 to the Company's financial statements for year ended December 31, 2014 and Note 22 to Blue Sky's financial statements for year ended December 31, 2014.

On April 26, 2016 the Audit Committee of the Board of Directors of the Company concurred with and approved management's recommendation, that the Company's financial statements for the fiscal year ended December 31, 2014 and Blue Sky's financial statements for year ended December 31, 2014 should no longer be relied upon due to the errors discussed above and should be restated. The Company's management and the Audit Committee discussed the matters related to the restatements with Dominic K. F. Chan & Co. the Company's independent registered public accounting firm.

Unless otherwise stated, all information contained in Amendment No. 1 is as of April 29, 2015, the filing date of the original Form 20-F. Except as stated herein, this Amendment No. 1 does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Form 20-F that may have been affected by events or transactions occurring subsequent to such filing date. No information in the Form 20-F other than as set forth above is amended hereby. Currently-dated certifications from our Chief Executive Officer and our Chief Financial Officer have been included as exhibits to this amendment.

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PART I

ITEM 3A. SELECTED FINANCIAL DATA

SELECTED FINANCIAL INFORMATION

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

The selected consolidated statement of operations and comprehensive income/(loss) data for years ended December 31, 2014, 2013 and 2012 and the selected consolidated balance sheet data as of December 31, 2014 and 2013 set forth below are derived from audited consolidated financial statements of the Company included herein and should be read in conjunction with, and are qualified in their entirety by reference to such financial statements, including the notes thereto and “Item 5. Operating and Financial Review and Prospects.” The selected consolidated statement of operations and comprehensive income/(loss) data for the years ended December 31, 2011 and 2010 and the selected consolidated balance sheet data as of December 31, 2012, 2011 and 2010 set forth below are derived from audited consolidated financial statements of the Company which are not included herein.

	2014 US$	2013 US$	2012 US$	2011 US$	2010 US$
Balance Sheet Data:					
Cash and cash equivalents	4,857	5,406	7,468	5,339	6,130
Working capital(1)	5,267	5,830	5,706	5,730	6,444
Total assets	23,399	23,878	24,947	23,864	25,213
Short-term debt(2)	0	0	0	0	0
Net assets	17,530	17,877	17,756	17,909	18,101
Capital Stock	123	123	123	123	123

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

	2014 US$	2013 US$	2012 US$	2011 US$	2010 US$
Statement of Operations and Comprehensive Income/(loss) Data:					
Revenue	18,822	18,602	21,645	20,213	22,305
Cost of revenue	(13,991)	(13,138)	(15,480)	(15,322)	(16,564)
Gross profit	4,831	5,464	6,165	4,891	5,741
Selling and Administrative Expenses	(5,802)	(5,719)	(6,224)	(6,565)	(7,119)
Operating loss	(971)	(255)	(59)	(1,674)	(1,378)
Interest Income	27	45	46	60	42
Other income, net	65	54	48	82	9
(Loss)/gain on disposal of fixed assets	-	(1)	(22)	328	1
(Loss)/income before taxes	(879)	(157)	13	(1,204)	(1,326)
Income (taxes)/benefit	(18)	(73)	(142)	63	(154)
Equity in income of affiliates	605	325	9	1,131	723
Net (Loss)/Income	(292)	95	(120)	(10)	(757)
Less: net loss/(income) attributable to non-controlling interest	169	(113)	(309)	531	(330)
Net (loss)/income attributable to the Company	(123)	(18)	(429)	521	(1,087)
Other comprehensive (loss)/income					
Net (loss)/income	(292)	95	(120)	(10)	(757)
Foreign exchange translation adjustments	(15)	181	-	215	177
Release of translation reserves upon disposal of a subsidiary	-	(74)	-	-	-
Comprehensive (loss)/income	(307)	202	(120)	205	(580)
Less: Comprehensive loss/(income) attributable to non-controlling interest	176	(167)	(309)	442	(397)
Comprehensive (loss)/income attributable to the Company	(131)	35	(429)	647	(977)
Net (loss)/income per Ordinary Share-Basic	(0.06)	(0.01)	(0.21)	0.25	(0.52)
-Diluted	(0.06)	(0.01)	(0.21)	0.25	(0.51)
Weighted Average Number of Ordinary Shares Outstanding					
Basic	2,069,223	2,069,223	2,070,685	2,087,922	2,099,894
Diluted	2,069,223	2,069,223	2,076,315	2,102,199	2,143,375

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

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

Since 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates. From 1994 through 2004, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable and maintained at the rate of approximately RMB 8.30 = US$ 1.00. However, from 2010 through 2014, the Renminbi has fluctuated and at the end of 2014, 2013, 2012, 2011 and 2010, the exchange rates were approximately RMB 6.1460 = US$ 1.00, RMB 6.1122 = US$ 1.00, RMB 6.3086 = US$ 1.00, RMB 6.3585 = US$ 1.00, RMB 6.6018 = US$1.00, respectively. The value of the Renminbi fluctuates and is subject to changes in PRC political and economic conditions.

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

	Rate at Period End	Low	High	Average
US$ to RMB				
Fiscal 2010	6.6018	6.6018	6.8344	6.7696
Fiscal 2011	6.3585	6.3318	6.6357	6.4640
Fiscal 2012	6.3086	6.2289	6.3862	6.3116
Fiscal 2013	6.1122	6.1084	6.3090	6.1943
Fiscal 2014	6.1460	6.0881	6.2080	6.1457
US$ to HK$				
Fiscal 2010	7.7827	7.7507	7.8046	7.7689
Fiscal 2011	7.7690	7.7640	7.8090	7.7845
Fiscal 2012	7.7514	7.7501	7.7688	7.7571
Fiscal 2013	7.7546	7.7508	7.7651	7.7567
Fiscal 2014	7.7577	7.7500	7.7672	7.7547

The Following Months	Low	High	Average
US$ to RMB			
July 2014	6.1527	6.2080	6.1687
August 2014	6.1434	6.1716	6.1591
September 2014	6.1377	6.1649	6.1517
October 2014	6.1235	6.1543	6.1403
November 2014	6.1319	6.1467	6.1412
December 2014	6.1217	6.1464	6.1353
US$ to HK$			
July 2014	7.7500	7.7516	7.7504
August 2014	7.7500	7.7516	7.7505
September 2014	7.7502	7.7635	7.7519
October 2014	7.7548	7.7653	7.7582
November 2014	7.7521	7.7584	7.7546
December 2014	7.7511	7.7620	7.7547

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

We established Shanghai Euro Tech Environmental Engineering Company Ltd. ("Shanghai — Environmental") as a wholly-owned subsidiary under the laws of the PRC, to carry on our environmental engineering department with that line of business and its personnel transferred from our subsidiary, Euro Tech (Far East) Ltd. Shanghai — Environmental is focusing on our water and waste-water treatment engineering business. We are scaling down this company as we have a 58% equity interest in Pact-Yixing that operates similar business activities to avoid duplication of costs and efforts. Shanghai — Environmental is just completing its outstanding projects and had made operating loss of approximately US$238,000 in Fiscal 2014 and we plan to wind down it upon completion of the outstanding projects.

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

In Far East owns a 20% equity interest in Zhejiang Tianlan Environmental Protection Technology Company Limited ("Blue Sky"), founded in 2000. Blue Sky provides design and general contracting services, equipment manufacturing, installation, testing and operation management for the purification treatment of industrial waste gases (specifically as desulphurization, flue gas de-nitration, dust removal) emitted from various boilers and industrial furnaces of power plants, steelworks and chemical plants. By securing an equity stake in Blue Sky's business, we have a strategic partner to work within China's environmental protection business. With Blue Sky's technology and technical support, we believe we are able to provide services and environmental solutions not only for water and waste-water treatment but also for air pollution control for industrial clients in China. Blue Sky's revenue and net income have steadily increased during Fiscal 2010 and Fiscal 2011. During Fiscal 2012, Blue Sky's sales orders increased by 27%. However, the delay in implementation of some major projects resulted in revenue and net income decreases. Blue Sky's revenue and net income have steadily increased during Fiscal 2013 and Fiscal 2014.

We have a 20% equity interest in Zhejiang Jia Huan Electronic Co. Ltd., ("Jia Huan"). Jia Huan has been in the environmental protection business since 1969. Approximately 95% of Jia Huan's business is related to air pollution

control and less than 5% is related to water and wastewater treatment. Jia Huan designs and manufactures automatic control systems and electric voltage control equipment for electrostatic precipitators which are used as air purification equipment for power plants, cement plants and incinerators to remove and collect dust and pollutants from exhaust stacks.

In Fiscal 2014, Blue Sky and Jia Huan made income contribution of approximately US$453,000 and US$152,000, respectively, to the Company. According to publicly available news reports, the PRC's Premier opened that country's 2013 annual Parliament meeting and declared war on pollution and the PRC's National Development and Reform Commission ("NDRC"), the PRC's economic planner reported that new guidelines would be issued on relocating key industries away from urban centers to help tackle smog. The NDRC said it would seek to ensure that polluters pay by establishing a new mechanism to compensate victims of environmental damage and hold local officials accountable. We hope that the foregoing will benefit these two affiliates.

ITEM 5A. OPERATING RESULTS

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

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

Fiscal Year	PRC	Hong Kong
2012	73%	25%
2013	66%	32%
2014	58%	33%

Sales to customers situated in Macau and elsewhere through Fiscal 2014 were nominal. This makes the Company particularly susceptible to changes in the political and economic climate of either Hong Kong or the PRC.

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

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

Results from Operations

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

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

	2014		2013		2012		2011		2010	
Revenue	18,822	100 %	18,602	100 %	21,645	100 %	20,213	100 %	22,305	100 %
Cost of revenue	13,991	74.3 %	13,138	70.6 %	15,480	71.5 %	15,322	75.8 %	16,564	74.3 %
Gross Profit	4,831	25.7 %	5,464	29.4 %	6,165	28.5 %	4,891	24.2 %	5,741	25.7 %
Selling and administrative Expenses	5,802	30.8 %	5,719	30.7 %	6,224	28.8 %	6,565	32.5 %	7,119	31.9 %
(Loss)/income before income Taxes	(879)	-4.7 %	(157)	-0.8 %	13	0.1 %	(1,204)	-6.0 %	(1,326)	-5.9 %
Income taxes/(benefit)	18	0.1 %	73	0.4 %	142	0.7 %	(63)	-0.3 %	154	0.7 %
Equity in income of Affiliates	605	3.2 %	325	1.7 %	9	0.1 %	1,131	5.6 %	723	3.2 %
Net (loss)/income	(292)	-1.6 %	95	0.5 %	(120)	-0.6 %	(10)	-0.1 %	(757)	-3.4 %
Net loss/(income) attributable to Non-controlling interest	169	0.9 %	(113)	-0.6 %	(309)	-1.4 %	531	2.6 %	(330)	-1.5 %
Net (loss)/income attributable to the Company	(123)	-0.7 %	(18)	-0.1 %	(429)	-2.0 %	521	2.6 %	(1,087)	-4.9 %

Fiscal Year Ended December 31, 2014 Compared to Fiscal Year Ended December 31, 2013

Revenue; Gross Profit and Cost of Revenue. Revenue increased by approximately US$ 220,000 or 1.2% to approximately US$ 18,822,000 in Fiscal 2014 from approximately US$ 18,602,000 in Fiscal 2013. Revenue from trading and manufacturing activities increased by approximately US$661,000, while revenue from engineering activities decreased by approximately US$ 441,000. The decrease in revenues from engineering activities was principally due to a decrease of approximately US$ 342,000 for Shanghai — Environmental. Pact-Yixing's revenues of approximately US$ 7,060,000 and US$ 7,159,000 were included in our revenues in Fiscal 2014 and Fiscal 2013, respectively.

Gross profits decreased by approximately US$ 633,000 or 11.6% to approximately US$ 4,831,000 for Fiscal 2014 as compared to approximately US$ 5,464,000 for Fiscal 2013. During Fiscal 2014, the Company's cost of revenue was approximately US$ 13,991,000, or 74.3% of revenues, in comparison to approximately US$13,138,000, or 70.6% for Fiscal 2013. Cost of revenue expressed as a percentage of revenue increased by 3.7% in Fiscal 2014 as compared with Fiscal 2013. The gross profit margin percentage decrease was due principally to decrease in gross margin of engineering revenues. Pact-Yixing contributed approximately US$ 2,264,000 to our gross profit in Fiscal 2014, a decrease of approximately US$ 618,000 from Fiscal 2013.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$ 5,802,000 in Fiscal 2014, a slight increase of approximately US $83,000 or 1.5% from approximately US$ 5,719,000 in Fiscal 2013. The major increase was research and development expenses incurred for the BWTS, increased from approximately US$425,000 in Fiscal 2013 to approximately US$631,000 in Fiscal 2014. Such increase was offset by the reduction of selling and administrative expenses other than research and development expenses.

Equity in Income of Affiliates. Equity in income of affiliates was approximately US$605,000 in Fiscal 2014, an increase of approximately US$280,000 from approximately US$ 325,000 in Fiscal 2013.

Interest Income. Interest income in Fiscal 2014 was approximately US$27,000 as compared to approximately US$45,000 in Fiscal 2013.

Other Income. Other income increased by approximately US$ 11,000 or 20.4% to approximately US$ 65,000 in Fiscal 2014 from approximately US$ 54,000 in Fiscal 2013. The increase in other income was principally due to increase in rental income of approximately US$ 5,000 and decrease in currency exchange loss of approximately US$6,000.

Loss/Gain on Disposal of Fixed Assets. There was no loss on disposal of fixed assets in Fiscal 2014 as compared to approximately US$ 1,000 in Fiscal 2013.

Income Taxes. Taxes decreased by US$ 55,000 to approximately US$ 18,000 in Fiscal 2014 from approximately US$73,000 in Fiscal 2013. This decrease was primarily the result of decrease in net taxable income for Fiscal 2014.

Net Loss/Income. The loss increased by approximately US$ 105,000 to approximately US$ 123,000 in Fiscal 2014 from approximately US$18,000 in Fiscal 2013. This was primarily due to the decrease in revenues and gross profit.

Fiscal Year Ended December 31, 2013 Compared to Fiscal Year Ended December 31, 2012

Revenue; Gross Profit and Cost of Revenue. Revenue decreased by approximately US$ 3,043,000 or 14.1% to approximately US$ 18,602,000 in Fiscal 2013 from approximately US$ 21,645,000 in Fiscal 2012. The decrease was principally due to a decrease in revenues from engineering activities of approximately US$3,163,000 consisted of a decrease of approximately US$ 887,000 for Shanghai — Environmental and a decrease of approximately US$ 2,276,000

for Pact-Yixing. The drop in sales revenue from engineering activities in the PRC was the result of competition from companies offering similar services, that we believe to be of lower quality than our services, at lower prices. Pact-Yixing's revenues of approximately US$ 7,159,000 and US$ 9,435,000 were included in our revenues in Fiscal 2013 and Fiscal 2012, respectively.

Gross profits decreased by approximately US$ 701,000 or 11.4% to approximately US$ 5,464,000 for Fiscal 2013 as compared to approximately US$ 6,165,000 for Fiscal 2012. During Fiscal 2013, the Company's cost of revenue was approximately US$ 13,138,000, or 70.6% of revenues, in comparison to approximately US$15,480,000, or 71.5% for Fiscal 2012. Cost of revenue expressed as a percentage of revenue decreased by 0.9% in Fiscal 2013 as compared with Fiscal 2012. The gross profit margin percentage increase was due principally to improvement in gross margin of engineering revenues. Pact-Yixing contributed approximately US$ 2,882,000 to our gross profit in Fiscal 2013, a decrease of approximately US$ 709,000 from Fiscal 2012.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$ 5,719,000 in Fiscal 2013, a decrease of approximately US$ 505,000 or 8.1% from approximately US$ 6,224,000 in Fiscal 2012. The decrease was principally due to the reduction of expenses for trading and manufacturing activities as the Company continued to consolidate its trading business. Pact-Yixing's selling and administrative expenses also decreased by approximately US$244,000 in Fiscal 2013 as compared to Fiscal 2012 principally as a result of a decrease in research and development expenses incurred for the BWTS.

Equity in Income of Affiliates. Equity in income of affiliates was approximately US$325,000 in Fiscal 2013, an increase of approximately US$316,000 from approximately US$ 9,000 in Fiscal 2012. The increase was primarily due to the increase in contribution from Blue Sky as a result of completion of some major contracts.

Interest Income. Interest income in Fiscal 2013 was approximately US$45,000 as compared to approximately US$46,000 in Fiscal 2012.

Other Income. Other income increased by approximately US$ 6,000 or 12.5% to approximately US$ 54,000 in Fiscal 2013 from approximately US$ 48,000 in Fiscal 2012. The increase in other income was principally due to increase in rental income of approximately US$ 7,000.

Loss/Gain on Disposal of Fixed Assets. Loss on disposal of fixed assets was approximately US$1,000 in Fiscal 2013 as compared to approximately US$ 22,000 in Fiscal 2012.

Income Taxes. Taxes decreased by US$ 69,000 to approximately US$ 73,000 in Fiscal 2013 from approximately US$142,000 in Fiscal 2012. This decrease was primarily the result of decrease in net taxable income for Fiscal 2013.

Net Income. Income from continuing operations improved by approximately US$ 411,000 to a net loss of approximately US$ 18,000 in Fiscal 2013 from a net loss of approximately US$429,000 in Fiscal 2012. The improvement was primarily due to the profit contribution from Blue Sky and our reduction in selling and administrative expenses.

ITEM 5B. LIQUIDITY AND CAPITAL RESOURCES

The Company has primarily used its own funds to finance accounts receivable, inventories, and capital expenditures including purchases of property, office furniture and equipment, computers and calibration equipment. The Company has historically met its cash requirements from cash flows from operations, short-term borrowings, bank lines of credit, and long-term mortgage bank loans. The Company expects, but can make no assurances that its present cash reserves, cash from operations and existing available bank credit facilities exercises would be sufficient to fund its future capital expenditure requirements. Working capital at the end of Fiscal 2014 and Fiscal 2013 were approximately US$ 5,267,000 and US$5,830,000, respectively.

During Fiscal 2014, the Company used net cash of approximately US$470,000 in its operating activities principally as a result of net loss of US$123,000, increase in accounts receivables of approximately US$186,000 and inventory of approximately US$49,000, and decrease in other payables of approximately US$ 585,000 which was partially covered by decrease in prepayments and other current assets of approximately US$695,000 and increase in accounts payable of approximately US$446,000.

During Fiscal 2014 and Fiscal 2013, the Company used approximately US$ 64,000 and generated approximately US$ 336,000 in investing activities, respectively. The Company used approximately US$10,000 and US$51,000 to purchase facilities and equipment in Fiscal 2014 and Fiscal 2013, respectively. During Fiscal 2013, the Company received proceeds of approximately US$1,000 on disposal of plant and equipment. During Fiscal 2014 and Fiscal 2013, the Company used approximately US$314,000 and reduced approximately US$274,000, respectively, as restricted cash to issue performance guarantees to its customers through its banks in projects requiring performance guarantees and During Fiscal 2014 and Fiscal 2013, the Company received dividends of approximately US$302,000, and US$246,000 respectively, from the affiliates and paid dividends of approximately US$42,000, and US$134,000 respectively, to non-controlling interest. During Fiscal 2014 and Fiscal 2013, the Company received dividends of approximately US$302,000, and US$246,000 respectively, from the affiliates. During Fiscal 2014 and Fiscal 2013, the Company paid dividends of approximately US$42,000, and US$134,000 respectively, to non-controlling interest.

The Company had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Company could have accessed up to approximately US$1,666,000 at December 31, 2014. The aforementioned available credit facilities were obtained on the conditions that, among other things, the Company not create a charge or lien on its other assets in favor of third parties without such bank's consent, and the Company maintaining a certain level of net worth. These credit facilities were obtained on the conditions that, among other things, the Company pledge rented out property of approximately 1,200 square feet in Hong Kong as security, not create a charge or lien on its other assets in favor of third parties without such bank's consent, and the Company maintaining a certain level of net worth.

Cash decreased from approximately US$5,406,000 at the end of Fiscal 2013 to US$4,857,000 at the end of Fiscal 2014. The principal reason for the decrease in cash was the net cash outflow from operating activities.

The Company's net accounts receivable increased from approximately US$4,082,000 at the end of Fiscal 2013 to US$4,268,000 at the end of Fiscal 2014. The amount of receivables subject to collection is expected to be received under normal commercial trading terms.

The Company's inventory increased from approximately US$494,000 at the end of Fiscal 2013 to US$543,000 at the end of Fiscal 2014.

The Company's capital expenditures were approximately US$10,000 and US$51,000 in Fiscal 2014 and Fiscal 2013, respectively. Capital expenditures during Fiscal 2014 and Fiscal 2013 were incurred primarily in connection with the purchase of office equipment, furniture and fixtures. The Company continues to develop new products, for example, non-chemical ballast water treatment system. If such products developments are indeed made, the Company may expect to incur significantly larger capital expenditures, for which the Company presently intends, but as to which no assurance can be made, to use existing cash reserves, cash from operations and available bank credit facilities.

Goodwill

Goodwill related to the engineering segment which is profitable. As of December 31, 2014, we completed the annual impairment test. Based on the result of the first step of the test, the Company determined that there was no impairment of goodwill.

Anticipated Future Resources and Uses of Cash

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

Inflation

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

Critical Accounting Policies

In April 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-08 “Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 – Revenue from Contracts with Customers, that will supersede virtually all of the existing revenue recognition guidance in US GAAP and is effective for annual periods beginning on or after December 15, 2016. Early adoption is not permitted. The standard establishes a five-step model that will apply to revenue earned from a contract with a customer. The standard’s requirements will also apply to the sale of some non-financial assets that are not part of the entity’s ordinary activities. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management is in the process of assessing the impact of the new standard on Company’s financial position.

In August 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-15 – Presentation of Financial Statements—Going Concern. ASU 2014-15 provides guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires an entity’s management to evaluate at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether there are conditions or events, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued and to disclose the necessary information. ASU 2014-15 is effective for

the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

In January 2015, the FASB issued ASU No. 2015-01 “Income Statement—Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”. The concept of extraordinary items is removed and instead items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in notes to financial statements because those items satisfy the conditions for an item that is unusual in nature or infrequently occurring. The new accounting guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. Companies have the option to apply the amendments of ASU No. 2015-01 either prospectively or retrospectively.

PART III

ITEM 18. FINANCIAL STATEMENTS

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

Euro Tech Holdings Company Limited	F-1
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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.

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, 2015.

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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/A 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)

April 28, 2016

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

EURO TECH HOLDINGS COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013 AND

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

CONSOLIDATED STATEMENTS OF CASH FLOWS AND CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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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, 2014 and 2013, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the years ended December 31, 2014, 2013 and 2012. 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, 2014 and 2013 and the consolidated results of their operations and their cash flows for the years ended December 31, 2014, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 24 to the accompanying financial statements, the financial statements of the Company for the year ended December 31, 2014 have been restated to correct certain misstatements.

Dominic. K.F. Chan & Co.,
Certified Public Accountants
Hong Kong, China
April 29, 2015
Except for Note 24 dated April 28, 2016

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013

	Note	2014 US$'000	2013 US$'000
Assets			
Current assets:			
Cash and cash equivalents		4,857	5,406
Restricted cash		879	565
Accounts receivable, net	6	4,268	4,082
Prepayments and other current assets	7	589	1,284
Inventories	8	543	494
Total current assets		11,136	11,831
Property, plant and equipment, net	9 & 22(iii)	811	889
Interests in affiliates	10	10,154	9,851
Goodwill	13	1,071	1,071
Deferred tax assets	4	227	236
Total assets		23,399	23,878
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable		3,561	3,115
Other payables and accrued expenses	11	2,101	2,686
Taxes payable		207	200
Total current liabilities		5,869	6,001
Commitments and contingencies	20	-	-
Shareholders' equity:			
Ordinary share, 20,000,000 (2013: 20,000,000) shares authorised; 2,229,609 (2013: 2,229,609) shares issued	12	123	123
Additional paid-in capital		9,535	9,533
Treasury stock, 160,386 (2013: 160,386) shares at cost	14	(766)	(766)
PRC statutory reserves	15	315	315
Accumulated other comprehensive income		776	784
Retained earnings		5,760	5,883
Equity attributable to shareholders of Euro Tech		15,743	15,872
Non-controlling interest		1,787	2,005
Total shareholders' equity		17,530	17,877
Total liabilities and shareholders' equity		23,399	23,878

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

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Note	2014 US$'000	2013 US$'000	2012 US$'000
Revenues				
Trading and manufacturing		11,647	10,986	10,866
Engineering		7,175	7,616	10,779
Total revenues	22(i) & (ii)	18,822	18,602	21,645
Cost of revenues				
Trading and manufacturing		(9,060)	(8,422)	(8,230)
Engineering		(4,931)	(4,716)	(7,250)
Total cost of revenues		(13,991)	(13,138)	(15,480)
Gross profit		4,831	5,464	6,165
Selling and administrative expenses		(5,802)	(5,719)	(6,224)
Operating loss		(971)	(255)	(59)
Interest income		27	45	46
Other income, net	3	65	54	48
(Loss) on disposal of fixed assets		-	(1)	(22)
(Loss)/profit before income taxes, equity in income of affiliates and non-controlling interests		(879)	(157)	13
Income taxes	4	(18)	(73)	(142)
Equity in income of affiliates		605	325	9
Net (loss)/profit for the year		(292)	95	(120)
Less: net loss/(income) attributable to non-controlling interest		169	(113)	(309)
Net loss attributable to the Company		(123)	(18)	(429)
Other comprehensive (loss) / income				
Net (loss)/profit		(292)	95	(120)
Foreign exchange translation adjustments		(15)	181	-
Release of translation reserves upon disposal of a subsidiary		-	(74)	-
Comprehensive (loss) / income		(307)	202	(120)
Less: Comprehensive loss/(income) attributable to non-controlling interest		176	(167)	(309)
Comprehensive (loss) / income attributable to the Company		(131)	35	(429)

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

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS) (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Note	2014 US$'000	2013 US$'000	2012 US$'000
Net loss per ordinary share				
- Basic		$ (US0.06)	$ (US 0.01)	$ (US 0.21)
- Diluted		$ (US0.06)	$ (US 0.01)	$ (US 0.21)
Weighted average number of ordinary shares outstanding				
- Basic	5	2,069,223	2,069,223	2,070,685
- Diluted	5	2,069,223	2,069,223	2,076,315

*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, 2014, 2013 AND 2012

	2014 US$'000	2013 US$'000	2012 US$'000
Cash flows from operating activities:			
Net loss	(123)	(18)	(429)
(Used in)/ adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	88	108	130
Gain on disposal of property, plant and equipment	-	1	22
Stock-based compensation expenses	2	-	-
Non-controlling interest in (loss)/profits of subsidiaries	(169)	113	309
Equity in profit of affiliates	(605)	(325)	(9)
Deferred tax assets	9	26	25
Decrease/(increase) in current assets:			
Accounts receivable, net	(186)	(993)	655
Prepayments and other current assets	695	(436)	925
Inventories	(49)	159	(70)
Increase/(decrease) in current liabilities:			
Accounts payable	446	(598)	838
Other payables and accrued expenses	(585)	(299)	327
Taxation payable	7	(293)	71
Net cash (used in)/provided by operating activities	(470)	(2,555)	2,794
Cash flows from investing activities:			
Purchase of property, plant and equipment	(10)	(51)	(41)
Proceeds on disposal of property, plant and equipment	-	1	2
Dividend received from affiliates	302	246	-
Restricted cash for issuance of bank guarantees	(314)	274	(593)
Dividend paid to non-controlling interest	(42)	(134)	-
Net cash (used in)/provided by investing activities	(64)	336	(632)
Cash flows from financing activities:			
Purchase of treasury stock	-	-	(33)
Net cash used in financing activities	-	-	(33)
Effect of exchange rate changes on cash and cash equivalents	(15)	157	-
Net (decrease)/increase in cash and cash equivalents	(549)	(2,062)	2,129
Cash and cash equivalents, beginning of year	5,406	7,468	5,339
Cash and cash equivalents, end of year	4,857	5,406	7,468
	US$'000	US$'000	US$'000
Supplementary information			
Interest received	27	45	46
Income taxes paid	3	340	8

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

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EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Number of ordinary share	Ordinary share US$'000	Additional paid-in capital US$'000	Treasury stock US$'000	Accumulated other comprehensive income US$'000	PRC statutory reserves US$'000	Retained earnings US$'000	Non-controlling interest US$'000	Total US$'000
Balance as of January 1, 2012	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
Net loss	-	-	-	-	-	-	(123)	(169)	(292)

Other comprehensive income: Foreign exchange translation adjustment	-	-	-	-	(8)	-	-	(7)	(15)
Dividend paid/payable to non-controlling interest	-	-	-	-	-	-	-	(42)	(42)
Stock-based compensation expense	-	-	2	-	-	-	-	-	2
Balance as of December 31, 2014	2,229,609	123	9,535	(766)	776	315	5,760	1,787	17,530

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

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities

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

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

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

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Subsidiaries:			
Euro Tech (Far East) Limited	100%	Hong Kong	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Euro Tech (China) Limited	100%	Hong Kong	Inactive
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

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities (Continued)

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Guangzhou Euro Tech Environmental Equipment Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Yixing Pact Environmental Technology Co., Ltd	58%*	The PRC	Design, manufacture and operation of water and waste water treatment machinery and equipment
Pact Asia Pacific Limited **	58%*	The British Virgin Islands	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%	The PRC	Design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted
Zhejiang Jia Huan Electronic Co. Ltd.	20%	The PRC	Design and manufacturing automatic control systems and electric voltage control equipment for electrostatic precipitators (air purification equipment)

*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$12,968 and US$1,388, as of December 31, 2014 and US$5,182 and US$4,744, as of December 31, 2013, respectively. The cumulative losses on consolidating these VIEs in the Group's consolidated statement of income in 2014 were US$330,299 (2013: losses of US$302,893 and 2012: losses of US$275,232), including taxes of US$1,046 (2013: US$1,018 and 2012: US$1,262). 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$631,000, US$427,000 and US$930,000 for the years ended December 31, 2014, 2013 and 2012 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$44,000, US$12,000 and US$21,000 for the years December 31, 2014, 2013 and 2012 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 2014, 2013 and 2012.

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, 2014.

(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, 2014 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 April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 – Revenue from Contracts with Customers, that will supersede virtually all of the existing revenue recognition guidance in US GAAP and is effective for annual periods beginning on or after December 15, 2016. Early adoption is not permitted. The standard establishes a five-step model that will apply to revenue earned from a contract with a customer. The standard's requirements will also apply to the sale of some non-financial assets that are not part of the entity's ordinary activities. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management is in the process of assessing the impact of the new standard on Company's financial position.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15 – Presentation of Financial Statements—Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires an entity's management to evaluate at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether there are conditions or events, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to disclose the necessary information. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

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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 2015, the FASB issued ASU No. 2015-01 “Income Statement—Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”. The concept of extraordinary items is removed and instead items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in notes to financial statements because those items satisfy the conditions for an item that is unusual in nature or infrequently occurring. The new accounting guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. Companies have the option to apply the amendments of ASU No. 2015-01 either prospectively or retrospectively.

3 Other income, net

	2014 US$’000	2013 US$’000	2012 US$’000
Exchange (loss), net	(12)	(18)	(17)
Rental income	77	72	65
	65	54	48

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.

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 2014 (2013 and 2012: 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% (2013 and 2012: 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes. As of December 31, 2014, ETTS had an assessable loss carried forward of US$506,117 as agreed by the local tax authority to offset its profit for the forth coming years (2013: US$374,902). 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, 2014, SET had an assessable loss carried forward of US$390,290 as agreed by the local tax authority to offset its profit for the forth coming years (2013: US$580,835). 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, 2014, SETEE had an assessable loss carried forward of US$1,635,072 as agreed by the local tax authority to offset its profit for the forth coming years (2013: US$1,409,408). 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% (2013 and 2012: 25%).

VIEs of the Group provide for PRC Enterprise Income Tax at a rate of 25% (2013 and 2012: 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$2.2 million at December 31, 2014 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):

	2014 US$'000	2013 US$'000	2012 US$'000
The PRC and Hong Kong	(879)	(157)	13

The provision for income taxes consists of:

	2014 US$'000	2013 US$'000	2012 US$'000
Current tax expenses:			
The PRC and Hong Kong	8	47	117
Total current provision	8	47	117
Deferred tax expenses:			
The PRC and Hong Kong	10	26	25
Total deferred provision	10	26	25

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

	2014 US$'000	2013 US$'000	2012 US$'000
Computed tax using respective companies' statutory tax rates	(194)	(49)	31
Change in valuation allowances	93	124	166
Under-provision for income tax in prior years	-	-	-
Non-deductible expenses	119	(2)	(55)
Total provision for income tax at effective tax rate	18	73	142

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes (Continued)

The components of deferred tax assets are as follows:

	2014 US$'000	2013 US$'000
Tax losses	1,131	1,045
Temporary differences	4	6
Less: Valuation allowances	(908)	(815)
Net deferred tax assets	227	236

5 Net income per ordinary share

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

	2014	2013	2012
	Number of shares		
Weighted average number of ordinary shares for the purposes of basic net income per share	2,069,223	2,069,223	2,070,685
Effect of dilutive potential ordinary shares: Stock options	-	-	5,630
Weighted average number of ordinary shares for the purposes of diluted net income per share	2,069,223	2,069,223	2,076,315

6 Accounts receivable, net

	2014 US$'000	2013 US$'000
Accounts receivable	4,316	4,151
Less: Allowance for doubtful debts	(48)	(69)
	4,268	4,082

The following is an age analysis of past due account receivables as of December 31, 2014 and 2013:

	2014 US$'000	2013 US$'000
Current	864	2,113
30-59 days past due	1,226	598
60-89 days past due	23	59
Greater than 90 days	2,155	1,312
	4,268	4,082

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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

	2014 US$'000	2013 US$'000
Raw materials	146	124
Work in progress	38	47
Finished goods	359	323
	543	494

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, 2014, and 2013, provision for obsolete and slow moving inventories amounted to US$8,000 and US$29,000, respectively, which were charged to cost of revenue in Consolidated Statements of Income.

9 Property, plant and equipment

	2014 US$'000	2013 US$'000
Office premises	1,866	1,866
Leasehold improvements	160	160
Furniture, fixtures and office equipment	637	627
Motor vehicles	155	155
Testing equipment	30	30
	2,848	2,838
Less: Accumulated depreciation	(2,037)	(1,949)
	811	889

	2014 US$'000	2013 US$'000	2012 US$'000
Depreciation charge	88	108	130

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:	2014 US$'000	2013 US$'000
Current assets	61,708	55,742
Non-current assets	28,287	9,733
Total assets	89,995	65,475
Total liabilities	(64,572)	(40,672)
Total shareholders' equity	25,423	24,803

Operating results:	2014 US$'000	2013 US$'000
Net sales	64,131	61,997
Operating income	2,637	833
Net income	2,266	1,248

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:	2014 US$'000	2013 US$'000
Current assets	21,264	20,556
Non-current assets	5,288	5,635
Total assets	26,552	26,191
Total liabilities	(12,675)	(12,623)
Total shareholders' equity	13,877	13,568

Operating results:	2014 US$'000	2013 US$'000
Net sales	16,162	14,672
Operating income	1,024	545
Net income	762	377

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, 2014 and 2013, there was no movement with the Company's issued ordinary shares and the outstanding share.

On January 13, 2012, the company effected a two-for-eleven reverse split of its issued ordinary shares. The information contained herein reflects retroactive effect of 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, 2014, 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, 2014). Based on management's assessment, the Company determined that there was no impairment of goodwill as of December 31, 2014.

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, 2014.

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, 2014 (2013:US$3,357,000).

(ii) Statutory staff welfare fund

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

(iii) Enterprise expansion fund

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

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

16 Stock options

Effective November 22, 2014, the Company entered into a stock option contract with a Business Development Manager of Yixing Pact Environmental Technology Co., Ltd, granting the optionee the right to purchase 20,692 Ordinary Shares, 1% of the Company's issued and outstanding shares, at an exercise price of $3.484 per share. The exercise price was determined by the average closing price of the Company's as reported by NASDAQ for a ten day period prior to the end of the Business Development Manager's probationary period on November 22, 2014, the effective date of the stock option contract. The stock options granted are exercisable three years after the effective date and terminate five years after the effective date. In the event of the optionee's termination, except for his resignation, the options may be exercisable within three months of the termination. In the event of optionee's death, retirement or disability, he or his legal representative shall have up to one year to exercise the option.

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 Binomial pricing model.

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

	2014		2013		2012	
	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
Granted	20,692	3.44	-	-	-	-
Cancelled/Expired	-	-	-	-	(36,255)	(3.36)
Exercised	-	-	-	-	-	-
Outstanding, end of year	20,692	3.44	-	-	-	-
Exercisable, end of year	-	-	-	-	-	-

As of December 31, 2014, there were 20,692 options outstanding. As of December 31, 2013 and 2012, there was no options outstanding.

As of December 31, 2014 and 2013, 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 Binomial option-pricing model is used to estimate the fair value of the options granted. This requires the input of subjective assumptions, including the expected volatility of stock price, expected option term, expected risk-free rate over the expected option term and expected dividend yield rate over the expected option term. Because changes in subjective input assumptions can materially affect the fair value estimate, in directors' opinion, the existing model may not necessarily provide a realisable measure of the fair value of the stock options. Expected volatility is based on historical volatility in the 180 days prior to the issue of the options. Expected option term and dividend yield rate are based on historical trends. Expected risk-free rate is based on US Treasury securities with similar maturities as the expected terms of the options at the date of grant.

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 21% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the years ended December 31, 2014, 2013 and 2012, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately US$378,000, US$353,000 and US$364,000 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, 2014 and 2013.

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 2014, 2013 and 2012.

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, 2014, 2013 and 2012 were approximately US$293,000, US$277,000 and US$291,000, respectively. Future minimum rental payments as of December 31, 2014, under agreements classified as operating leases with non-cancellable terms amounted to US$390,000 of which US$240,000 are payable in the year 2015 and US$150,000 are payable within years 2016 to 2020.

(ii) Banking facilities

As at December 31, 2014, 2013 and 2012, the Group had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Group can draw up to approximately US$1,660,000, US$1,538,000 and US$1,538,000 respectively, of which approximately US$68,000, US$690,000 and US$302,000 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

a) Shanghai Euro Tech Environmental Engineering Company Limited

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 decided to withdraw the appeal as the chance of success was remote. The company has settled all the claims during the year.

b) Yixing Pact Environmental Technology Co., Ltd

Statement of claim was issued by Zhang Qiu Song as the plaintiff against Yixing Pact Environmental Technology Co., Ltd as the defendant in civil claims at the People's Court of HuangBu District, Shanghai, PRC.

The total compensations of approximately US$77,000 for the labor dispute in court on March 26, 2015. The Shanghai People's Court issued a verdict dated March 26, 2015 finding that the Company was liable. The claim has been provided during the year.

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.

	2014 US$'000	2013 US$'000	2012 US$'000
Revenue			
Trading and manufacturing	11,647	10,986	10,866
Engineering	7,175	7,616	10,779
	18,822	18,602	21,645
Operating loss			
Trading and manufacturing	(214)	(241)	(301)
Engineering	(640)	106	401
Unallocated corporate expenses	(117)	(120)	(159)
	(971)	(255)	(59)

	2014 US$'000	2013 US$'000	2012 US$'000
Depreciation:			
Trading and manufacturing	67	74	88
Engineering	21	34	42
	88	108	130
Capital Expenditures, Gross			
Trading and manufacturing	2	31	12
Engineering	8	20	29
	10	51	41

	2014 US$'000	2013 US$'000
Assets		
Trading and manufacturing	5,664	5,067
Engineering	17,735	18,811
	23,399	23,878
Liabilities		
Trading and manufacturing	2,929	1,334
Engineering	2,940	4,667
	5,869	6,001

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:

	2014 US$'000	2013 US$'000	2012 US$'000
Revenue -			
The PRC	10,950	12,392	15,867
Hong Kong	6,177	5,919	5,511
Others	1,695	291	267
	18,822	18,602	21,645

(iii) Long-lived assets (1)

Geographical analysis of long-lived assets is as follows:

	2014 US$'000	2013 US$'000
Hong Kong	532	568
The PRC	279	321
	811	889

(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:

	2014		2013		2012	
Supplier A	33	%	20	%	10	%
Supplier B	11	%	17	%	17	%
Supplier C	11	%	8	%	11	%
Supplier D	8	%	8	%	7	%
Supplier E	7	%	7	%	6	%
Supplier F	6	%	7	%	6	%

(v) Major customers

No revenue from a single customer exceeds 10% of the Group revenue during the years ended December 31, 2014, 2013 and 2012.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

23 Subsequent events

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

24 Restatement of Financial Statements

Subsequent to the issuance of the Company's consolidated financial statements as of and for the year ended December 31, 2014 on April 29, 2015, management identified errors in the Company's previously issued consolidated financial statements. The Company has incorrectly accounted for the interest in an affiliate for the year ended December 31, 2014 dated April 29, 2015.

The Company recognized US$740,000 of equity in income of an affiliate, Zhejiang Tianlan Environmental Protection Technology Co. Limited, for the year ended December 31, 2014 (See note 10). Management considered this amount was overstated by US$287,000 due to the fact that Zhejiang Tianlan Environmental protection Technology Company Limited had restated its consolidated financial statement of the year ended December 31, 2014 on April 28, 2016. As a result, the interest in an affiliate should decrease US$ 287,000 as of December 31, 2014, the equity in income of affiliates would also decrease by US$ 287,000 and the net loss should be increased by US$287,000 for the year ended December 31, 2014.

The impact of the restatement on the December 31, 2014 financial statements is reflected in the following tables:

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	
	As Previously Reported	As Restated
Total Assets	23,686	23,399
Total stockholders' equity	17,817	17,530
Total liabilities and stockholders' equity	23,686	23,399

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the year Ended December 31, 2014	
	As Previously Reported	As Restated
Equity in income of affiliates	892	605
Net Loss	(5)	(292)
Comprehensive loss	(20)	(307)
Basic and diluted loss per common share	$US0.08	$(US0.06)

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

24 Restatement of Financial Statements (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOW

	For the year Ended December 31, 2014	
	As Previously Reported	As Restated
Net Profit / (Loss)	164	(123)
Equity in profit of affiliates	(892)	(605)

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013 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, 2014, 2013 AND 2012

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

F-35

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, 2014 and 2013, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the years ended December 31, 2014, 2013 and 2012. 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, 2014 and 2013 and the consolidated results of their operations and their cash flows for the years ended December 31 2014, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the accompanying financial statements, the financial statements of the Company for the year ended December 31, 2014 have been restated to correct certain misstatements.

Dominic. K.F. Chan & Co.,
Certified Public Accountants
Hong Kong, China
April 29,2015
Except for Note 22 dated April 28, 2016

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013

	Note	2014 RMB'000 (restated)	2013 RMB'000
Assets			
Current assets:			
Cash and cash equivalents		29,197	21,462
Accounts receivable, net	6	156,608	147,127
Prepayments and other current assets	7	177,859	157,160
Inventories	8	16,054	14,976
Total current assets		379,718	340,725
Property, plant and equipment, net	9	161,924	48,091
Intangible asset, net	10	1,741	2,250
Land use right, net	11	6,045	6,194
Deferred tax assets		4,350	2,959
Total assets		553,778	400,219
Liabilities and shareholders' equity			
Current liabilities:			
Short term borrowings	12	97,900	64,690
Accounts payable		177,038	99,177
Other payables and accrued expenses	13	113,438	76,363
Other taxes payable	5	8,902	7,868
Income tax payable		60	509
Total current liabilities		397,338	248,607
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	6,821	5,517
Retained earnings		43,710	40,194

Equity attributable to shareholders of Zhejiang Tianlan Environmental Protection Technology Company Limited	154,920	150,100
Non-controlling interest	1,520	1,512
Total shareholders' equity	156,440	151,612
Total liabilities and shareholders' equity	553,778	400,219

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, 2014, 2013 AND 2012

	Note	2014 RMB'000 (restated)	2013 RMB'000	2012 RMB'000
Revenue		396,424	378,956	281,203
Cost of revenue		(313,776)	(303,039)	(216,362)
Gross profit		82,648	75,917	64,841
Selling and administrative expenses		(66,343)	(70,823)	(66,902)
Operating income/(loss)		16,305	5,094	(2,061)
Interest income		148	194	149
Interest expenses		(6,272)	(4,751)	(4,496)
Other income, net	3	4,595	7,424	7,341
Income before income taxes		14,776	7,961	933
Income taxes	4	(768)	(2,663)	(2,434)
Net income/(loss)		14,008	5,298	(1,501)
Net (income)/ loss attributable to non-controlling interest		(8)	2,328	251
Net income/(loss) attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited's shareholders		14,000	7,626	(1,250)
Other comprehensive income/(loss)				
Net income/(loss)		14,008	5,298	(1,501)
Foreign exchange translation adjustments		-	-	-
Comprehensive income/(loss)		14,008	5,298	(1,501)
Less: Comprehensive (income)/ loss attributable to non-controlling interest		(8)	2,328	251
Net income/(loss) attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited's shareholders		14,000	7,626	(1,250)

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, 2014, 2013 AND 2012

	2014 RMB'000 (restated)	2013 RMB'000	2012 RMB'000
Cash flows from operating activities:			
Net income/(loss)	14,008	5,298	(1,501)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	2,985	2,956	3,017
Amortisation of intangible asset	239	395	164
Amortisation of land use right	149	141	177
Loss/(gain) on disposal of property, plant and equipment	225	(40)	4,186
(Gain)/loss on disposal of intangible asset	(150)	(23)	92
Deferred tax assets	(1,391)	(446)	784
(Increase)/decrease in current assets:			
Accounts receivable, net	(9,481)	79,243	(38,607)
Amounts due from owners	-	-	2
Prepayments and other current assets	(20,699)	(52,792)	(27,508)
Inventories	(1,078)	(5,822)	(542)
Increase/(decrease) in current liabilities:			
Accounts payable	77,861	(76,615)	43,737
Amount due to owner	-	9	-
Other payables and accrued expenses	37,075	48,898	(2,501)
Other taxes payable	1,034	6,040	(11,579)
Income tax payable	(449)	(5,175)	(1,203)
Net cash provided by/(used in) operating activities	100,328	2,067	(31,282)
Cash flows from investing activities:			
Purchase of intangible asset	-	(39)	(126)
Purchase of property, plant and equipment	(117,966)	(1,983)	(3,358)
Sales proceed form intangible assets	420	110	-
Sales proceed from property, plant and equipment	923	69	-
Net cash used in investing activities	(116,623)	(1,843)	(3,484)
Cash flows from financing activities:			
Repayment of bank borrowings	(104,690)	(88,100)	(41,000)
Advance of bank borrowings	137,900	92,790	60,000
Capital injection	-	-	-
Dividend paid to owners	(9,180)	(6,120)	-
Net cash provided by/(used in) financing activities	24,030	(1,430)	19,000
Net increase/(decrease) in cash and cash equivalents	7,735	(1,206)	(15,766)
Cash and cash equivalents, beginning of year	21,462	22,668	38,434

Cash and cash equivalents, end of year	29,197	21,462	22,668
Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	148	194	149
Interest paid	6,279	4,695	3,920
Income tax paid	2,263	396	6,348

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, 2014, 2013 AND 2012

	Share 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, 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 income	-	-	-	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
Net income	-	-	-	14,000	8	14,008
Dividend paid	-	-	-	(9,180)	-	(9,180)
Appropriation of reserves	-	-	1,304	(1,304)	-	-
Balance as of December 31, 2014	61,200	43,189	6,821	43,710	1,520	156,440

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
	2014		2013			
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
Da Tong Tianlan Environmental Protection Technology Service Company Limited ( ) *	100	%	-		PRC	Provision of maintenance services of environmental protection equipment

* The Company was incorporated on November 10, 2014.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies

(a) Basis of Consolidation

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

(b) Subsidiaries

A subsidiary is a company in which the Company 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 RMB21,796,000, RMB15,018,000 and RMB14,890,000 for the years ended December 31, 2014, 2013 and 2012 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 RMB11,000, RMB25,000 and RMB26,000 for the years December 31, 2014, 2013 and 2012 respectively and were included in "Selling and Administrative" expenses in the Group's consolidated statements of income.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(f) Taxation

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

In accordance with ASC-740-10, the Company recognises tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits. The Company did not have such uncertain tax positions in 2014, 2013 and 2012.

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, 2014, accounts receivable in more than one year amounted to RMB 46,144,000 (2013: RMB 52,272,000 and 2012: RMB 12,719,000).

(i) Inventories

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

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

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

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

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

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

(k) Intangible Assets

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

(l) Impairment

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

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, 2014 and 2013, 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.

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 April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 – Revenue from Contracts with Customers, that will supersede virtually all of the existing revenue recognition guidance in US GAAP and is effective for annual periods beginning on or after December 15, 2016. Early adoption is not permitted. The standard establishes a five-step model that will apply to revenue earned from a contract with a customer. The standard's requirements will also apply to the sale of some non-financial assets that are not part of the entity's ordinary activities. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management is in the process of assessing the impact of the new standard on Company's financial position.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(t) Recent Accounting Pronouncements – continued

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15 – Presentation of Financial Statements—Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires an entity's management to evaluate at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether there are conditions or events, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to disclose the necessary information. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

In January 2015, the FASB issued ASU No. 2015-01 "Income Statement—Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The concept of extraordinary items is removed and instead items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in notes to financial statements because those items satisfy the conditions for an item that is unusual in nature or infrequently occurring. The new accounting guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. Companies have the option to apply the amendments of ASU No. 2015-01 either prospectively or retrospectively.

3 Other income, net

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Gain on disposal of intangible asset	150	23	-
Gain on disposal of property, plant and equipment	7	41	-
Subsidy income (note i)	4,163	6,893	7,170
Sales of scrapped materials	6	18	31
Others	269	449	140
	4,595	7,424	7,341

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

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes

According to relevant PRC tax laws and regulations, entities incorporated in the PRC are subject to Enterprise Income Tax ("EIT") at a statutory rate of 25% or reduced national EIT rates 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%. Shihezi Tianlan Environmental Protection Technology Company Limited and Da Tong Tianlan Environmental Protection Technology Service Company Limited are subject to Enterprise Income Tax rate of 25%.

During the year, the PRC tax laws and regulations have launched a tax reduction scheme for small enterprises and Hangzhou Tianlan Environmental Engineering and Design Company Limited is entitled to enjoy this tax benefit. It, thus, subjects to Enterprise Income Tax rate of 10% only.

The provision for income taxes consists of:

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Current PRC EIT:			
Domestic	2,159	3,110	1,650
Income taxes	2,159	3,110	1,650
Deferred tax benefit:	(1,391)	(447)	784
Total deferred taxes	(1,391)	(447)	784

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

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Income before income taxes	14,776	7,961	933
Computed tax using respective companies' statutory tax rates	2,216	1,194	140
(Over)/under-provision for income tax in prior years	(2,418)	(123)	1,358
Temporary differences	1,575	(445)	-
Tax effect on revenue not subject to tax	(695)	(242)	(56)
Tax effect on expenses not deductible for tax purposes	90	2,279	992
Total provision for income tax at effective tax rate	768	2,663	2,434

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes - Continued

The components of deferred tax assets are as follows:

	2014 RMB'000	2013 RMB'000
Tax losses	-	-
Allowance for doubtful debts	4,350	2,959
Net deferred tax assets	4,350	2,959

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.

6 Accounts receivable, net

	2014 RMB'000	2013 RMB'000
Accounts receivable	185,443	166,433
Less: Allowance for doubtful debts	(28,835)	(19,306)
	156,608	147,127

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

	2014 RMB'000	2013 RMB'000
Contracts costs incurred plus estimated earnings	207,632	548,026
Less: Progress billings	(53,723)	(424,397)

Cost and estimated earnings in excess of billings	153,909	123,629

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Inventories

	2014 RMB'000	2013 RMB'000
Raw materials	9,121	7,425
Work in progress	6,360	5,485
Finished goods	573	2,066
	16,054	14,976

9 Property, plant and equipment

	2014 RMB'000	2013 RMB'000
Office premises and leasehold improvements	47,091	47,092
Furniture, fixtures and office equipment	9,629	8,511
Motor vehicles	3,682	3,258
Plant and machineries	715	711
Construction in progress	115,645	437
	176,762	60,009
Less: Accumulated depreciation	(14,838)	(11,918)
	161,924	48,091

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Depreciation charge	2,985	2,956	3,017

10 Intangible assets, net

	2014 RMB'000	2013 RMB'000
Patents	2,400	2,750
Others	165	165
	2,565	2,915
Less: Accumulated amortisation	(824)	(665)

	1,741	2,250

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets, net (continued)

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Amortisation expense	239	395	164

11 Land use right, net

	2014 RMB'000	2013 RMB'000
Land use right	7,361	7,361
Less: Accumulated amortisation	(1,316)	(1,167)
	6,045	6,194

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Amortisation expense	149	141	177

12 Short term borrowings

	2014 RMB'000	2013 RMB'000
Bank loan borrowed by the Company (note i)	92,900	59,690
Bank loan borrowed by a subsidiary of the Company (note ii)	5,000	5,000
	97,900	64,690

(i) The bank loan is denominated in Renminbi and repayable within 1 year. The bank loan borrowed by the Company as of December 31, 2014 bear interest at fixed rates 5.88% to 6.90% (2013: 5.60% 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, 2014 was approximately RMB4,688,000 (2013: RMB3,704,000 and 2012: RMB3,137,000).

(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, 2014 bear interest at fixed rates 7.50% (2013: 7.50%) 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, 2014 was approximately RMB377,000 (2013: RMB391,000).

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Other payables and accrued expenses

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

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, 2014, 2013 and 2012, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB3,027,000, RMB2,516,000 and RMB2,564,000 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.

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 2014 and 2013 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, 2014 (2013 and 2012: RMB Nil). As of December 31, 2014, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2014.

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.

22 Restatement of Financial Statements

Subsequent to the issuance of the Company’s consolidated financial statements for the year ended December 31, 2014 on April 29, 2015, management identified errors in the Company’s previously issued consolidated financial statements. The Company has incorrectly accounted for: (i) the recognition of CIP at the year ended December 31, 2014; (ii) overstated account and other receivables, other tax payable and income tax payable as of December 31, 2014.

The Company has an error on the accounting treatment regarding one of their construction projects from selling purpose to self-operation purpose in 2014. Therefore the income recognized for this project should be reversed and all the cost related to this project should recognize as a CIP at the year ended December 31, 2014.

The Company recognized RMB 77,841,000 in revenues of this project at the year ended December 31, 2014 in previous issue consolidated financial statement. Management considered this amount was overstated base on the changing of the project. As a result, the account receivable and other receivable related to this project have been overstated for RMB 10,000 and 13,596,000 respectively.

The Company recognized RMB 65,400,000 as cost of this project at the year ended December 31, 2014. Management considered this amount should be recognized as a CIP. As a result, the CIP would increase by RMB 65,400,000 as of December 31, 2014.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLDIATED FINANCIAL STATEMENTS

22 Restatement of Financial Statements (Continued)

Moreover, the Company identified that the income tax was also overstated by RMB1,791,000 for the year ended December 31, 2014 base on the above amendment.

The impact of the restatement on the December 31, 2014 financial statements is reflected in the following tables:

CONSOLIDATED BALANCE SHEETS

	December, 2014	
	As Previously Reported	As Restated
Total current assets	392,278	379,718
Accounts receivable, net (note 6)	156,618	156,608
Prepayments and other current assets (note 7)	190,409	177,859
Property, plant and equipment (Note 9)	96,524	161,924
Total Assets	500,938	553,778
Other payables and accrued expenses	49,203	113,438
Other taxes payable	10,681	8,902
Income tax payable	805	60
Total liabilities	335,627	397,338
Total stockholders' equity	165,311	156,440
Total liabilities and stockholders' equity	500,938	553,778

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the year Ended December 31, 2014	
	As Previously Reported	As Restated
Revenue	474,265	396,424
Cost of revenue	(380,955)	(313,776)
Income taxes	(2,559)	(768)
Net income	22,879	14,008

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLDIATED FINANCIAL STATEMENTS

22 Restatement of Financial Statements (Continued)

CONSOLIDATED STATEMENTS OF CASH FLOW

	For the year Ended December 31, 2014	
	As Previously Reported	As Restated
Net income	22,879	14,008
Accounts receivable, net	(9,491)	(9,481)
Prepayments and other current assets	(33,249)	(20,699)
Other payables and accrued expenses	(27,160)	37,075
Other tax payable	2,813	1,034
Income tax payable	296	(449)
Net cash provided by/(used in) operating activities	34,928	100,328
Purchase of property, plant and equipment	(52,566)	(117,966)
Net cash used in investing activities	(51,223)	(116,623)

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013 AND

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)

CONSOLIDATED STATEMENTS OF CASH FLOWS AND CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

F-56

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, 2014 and 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, 2014 and 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, 2014 and 2013 and the consolidated results of their operations and their cash flows for the year ended December 31 2014 and 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
April 29, 2015

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013

	Note	2014 RMB'000	2013 RMB'000
Assets			
Current assets:			
Cash and cash equivalents		3,129	4,867
Restricted cash		1,469	1,469
Accounts receivable, net	5	73,893	67,445
Notes receivables		5,704	5,382
Other receivables	6	14,400	8,326
Inventories	8	32,249	38,158
Total current assets		130,844	125,647
Property, plant and equipment, net	9	25,858	27,602
Land use right, net	10	6,614	6,777
Long term investment	7	69	69
Total assets		163,385	160,095
Liabilities and shareholders' equity			
Current liabilities:			
Short term bank loans	12	26,600	26,800
Accounts payable		24,861	23,094
Other payables and accrued expenses	11	13,367	11,236
Amount due to a shareholder	14	5,470	8,670
Income tax payable		1,771	1,366
Total current liabilities		72,069	71,166
Other long term liabilities	15	5,923	5,996
Shareholders' equity:			
Share capital			
11,250,000 shares issued		11,250	11,250
Capital reserves		8,542	8,542
PRC statutory reserves	16	20,931	20,931
Retained earnings		44,387	41,927
		85,110	82,650

Equity attributable to shareholders of Zhejiang Jiahuan Electronic Company Limited		
Non-controlling interest	283	283
Total shareholders' equity	85,393	82,933
Total liabilities and shareholders' equity	163,385	160,095

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, 2014, 2013 AND 2012

	Note	2014 RMB'000	2013 RMB'000	(Unaudited) 2012 RMB'000
Revenue		99,908	89,685	80,097
Cost of revenue		(72,490)	(67,015)	(59,570)
Gross profit		27,418	22,670	20,527
Selling and administrative expenses		(21,090)	(19,338)	(18,485)
Operating income		6,328	3,332	2,042
Interest expenses		(2,209)	(1,702)	(1,574)
Other income, net	3	1,075	697	1,067
Income before income taxes		5,194	2,327	1,535
Income taxes	4	(484)	(19)	-
Net income and total comprehensive income		4,710	2,308	1,535
Net income and total comprehensive income attributable to non-controlling interest		-	(3)	(16)
Net income and total comprehensive income attributable to Zhejiang Jiahuan Electronic Company Limited's shareholders		4,710	2,305	1,519

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

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	2014 RMB'000	2013 RMB'000	(Unaudited) 2012 RMB'000
Cash flows from operating activities:			
Net income	4,710	2,308	1,535
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	2,408	2,461	2,028
Amortisation of land use right	163	163	163
Changes in operating assets and liabilities:			
Accounts receivable, net	(6,448)	(4,115)	(1,349)
Restricted cash	-	(10)	(1,459)
Note receivables	(322)	(2,942)	6,285
Other receivables	(6,074)	(1,094)	1,127
Dividend received	-	-	210
Inventories	5,909	(6,520)	(9,725)
Accounts payable	1,767	5,457	4,570
Note payable	-	-	(1,183)
Other payables and accrued expenses	2,131	(920)	(8,251)
Income tax payable	405	805	211
Other long-term liability	(73)	(87)	102
Net cash provided by/ (used in) operating activities	4,576	(4,494)	(5,736)
Cash flows from investing activities:			
Purchase of short term investments	-	-	-
Purchase of property, plant and equipment	(664)	(1,404)	(3,540)
Proceeds from sales of long term investments	-	-	(556)
Net cash used in investing activities	(664)	(1,404)	(4,096)
Cash flows from financing activities:			
Repayment of bank loans	(50,300)	(18,200)	(300)
Advance of bank loans	50,100	26,800	-
Increase in amount due from shareholders	(3,200)	850	8,140
Dividend paid to owners	(2,250)	(2,250)	-
Net cash (used in)/provided by financing activities	(5,650)	7,200	7,840
Net (decrease) / increase in cash and cash equivalents	(1,738)	1,302	(1,992)
Cash and cash equivalents, beginning of year	4,867	3,565	5,557
Cash and cash equivalents, end of year	3,129	4,867	3,565

Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	17	32	68
Interest paid	(2,209)	(1,702)	(1,574)
Income tax paid	79	-	-
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, 2014, 2013AND 2012

	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
Net income and total comprehensive income	-	-	-	4,710	-	4,710
Dividend paid	-	-	-	(2,250)	-	(2,250)
Balance as of December 31, 2014	11,250	8,542	20,931	44,387	283	85,393

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 2014		2013		Place of incorporation	Principal activities
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

*The Company ceased its operation but not yet deregistered.

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 RMB4,981,000 and RMB3,893,000 for the years ended December 31, 2014 and 2013 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 2014, 2013 and 2012.

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, 2014, December 31, 2013 and December 31, 2012.

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 April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08 "Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 – Revenue from Contracts with Customers, that will supersede virtually all of the existing revenue recognition guidance in US GAAP and is effective for annual periods beginning on or after December 15, 2016. Early adoption is not permitted. The standard establishes a five-step model that will apply to revenue earned from a contract with a customer. The standard's requirements will also apply to the sale of some non-financial assets that are not part of the entity's ordinary activities. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management is in the process of assessing the impact of the new standard on Company's financial position.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15 – Presentation of Financial Statements—Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires an entity's management to evaluate at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether there are conditions or events, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to disclose the necessary information. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

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 2015, the FASB issued ASU No. 2015-01 “Income Statement—Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”. The concept of extraordinary items is removed and instead items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in notes to financial statements because those items satisfy the conditions for an item that is unusual in nature or infrequently occurring. The new accounting guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. Companies have the option to apply the amendments of ASU No. 2015-01 either prospectively or retrospectively.

3 Other income, net

	2014 RMB’000	2013 RMB’000	(Unaudited) 2012 RMB’000
Government grant	73	-	-
Rental income (i)	850	665	701
Interest income	17	32	68
Sundry income	135	-	298
	1,075	697	1,067

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

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:

	2014 RMB'000	2013 RMB'000	(Unaudited) 2012 RMB'000
Income taxes	484	19	-

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

	2014 RMB'000	2013 RMB'000	(Unaudited) 2012 RMB'000
Income before income taxes	5,194	2,327	1,535
Computed tax using respective companies' statutory tax rates	1,299	582	384
Tax effect on revenue not subject to tax	(537)	(20,983)	(20,291)
Tax effect on expenses not deductible for tax purposes	-	20,455	19,907
Over-provision for income tax in prior years	(278)	-	-
Others	-	(35)	-
Total provision for income tax at effective tax rate	484	19	-

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, 2014, and 2013.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Accounts receivable, net

	2014 RMB'000	2013 RMB'000
Accounts receivable, gross	74,024	75,445
Less: Allowance for doubtful debts	(131)	(8,000)
Accounts receivable, net	73,893	67,445

	2014 RMB'000	2013 RMB'000
Allowance for doubtful debts:		
Balance at beginning	(8,000)	(8,461)
Charged to statement of income		
Recovered	7,869	461
Balance at end	(131)	(8,000)

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.

	2014 RMB'000	2013 RMB'000
Prepayments and other receivables	11,333	5,141
Deposits	3,067	3,185
	14,400	8,326

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 Long term investments

	2014			
		Gross unrealized		
	Amortized cost RMB'000	Gains RMB'000	Losses RMB'000	Fair Value RMB'000
Long term investment:				
Unlisted investment	69	-	-	69

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

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

8 Inventories

	2014 RMB'000	2013 RMB'000
Raw materials	3,763	2,680
Work in progress	9,840	15,068
Finished goods	18,646	20,410
	32,249	38,158

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Property, plant and equipment

	2014 RMB'000	2013 RMB'000
Buildings	34,493	33,707
Plant and machinery	7,780	7,938
Office equipment	2,936	2,899
Motor vehicles	1,124	1,125
	46,333	45,669
Less: Accumulated depreciation	(20,475)	(18,067)
	25,858	27,602

			(Unaudited)
	2014	2013	2012
	RMB'000	RMB'000	RMB'000
Depreciation charge	2,408	2,461	2,028

Buildings with carrying amount of approximately RMB34,493,000 and RMB33,707,000 as of December 31, 2014 and 2013 respectively were pledged, along with the land use right as discussed below, to secure the Company's short-term bank loans.

10 Land use right, net

	2014 RMB'000	2013 RMB'000
Land use right	7,987	7,987
Less: Accumulated amortisation	(1,373)	(1,210)
	6,614	6,777

			(Unaudited)
	2014 RMB'000	2013 RMB'000	2012 RMB'000
Amortisation expense	163	163	163

Land use right with a carrying amount of approximately RMB6,614,000 and RMB6,777,000 as of December 31, 2014 and 2013 was pledged, along with the buildings discussed above, to secure the Company's short-term bank loans.

ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Other payables and accrued expenses

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

12 Short term bank loans

The short term loans as of December 31, 2014 bear interest at fixed rates ranging from 6.72% to 7.80% per annum with maturity dates from 18 June, 2015 to 10 August, 2015 and are secured by the Company's buildings and land use right. Interest paid during the years ended December 31, 2014 and 2013 were approximately RMB 2,210,000 and RMB 1,702,000 respectively.

13 Dividends to shareholders

In the fiscal year ended December 31, 2014 and 2013, the Company declared dividend of RMB 2,250,000 and RMB2,250,000 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, 2014 and 2013, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB 1,324,000 and RMB1,963,000 respectively.

18 Commitments and contingencies

Operating leases

The Group has no rental expense during the year ended December 31, 2014 (2013 and 2012: RMB Nil. As of December 31, 2014, 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:-

	2014 RMB'000	2013 RMB'000
Within 1 year	715	680
After 1 year but within 5 years	1,535	2,250
After 5 years	-	-
	2,250	2,930

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.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2014 AND 2013 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, 2014, 2013 AND 2012

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, 2014 and 2013, and the related consolidated statements of operations and comprehensive income/(loss), changes in shareholders' equity and cash flows for the years ended December 31, 2014, 2013 and 2012. 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, 2014 and 2013 and the consolidated results of their operations and their cash flows for the years ended December 31 2014, 2013 and 2012, 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, 2015

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013

	Note	2014 RMB'000	2013 RMB'000
Assets			
Current assets:			
Cash and cash equivalents		29,197	21,462
Accounts receivable, net	6	156,618	147,127
Prepayments and other current assets	7	190,409	157,160
Inventories	8	16,054	14,976
Total current assets		392,278	340,725
Property, plant and equipment, net	9	96,524	48,091
Intangible asset, net	10	1,741	2,250
Land use right, net	11	6,045	6,194
Deferred tax assets		4,350	2,959
Total assets		500,938	400,219
Liabilities and shareholders' equity			
Current liabilities:			
Short term borrowings	12	97,900	64,690
Accounts payable		177,038	99,177
Other payables and accrued expenses	13	49,203	76,363
Other taxes payable	5	10,681	7,868
Income tax payable		805	509
Total current liabilities		335,627	248,607
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	7,708	5,517
Retained earnings		51,694	40,194

Equity attributable to shareholders of Zhejiang Tianlan Environmental Protection Technology Company Limited	163,791	150,100
Non-controlling interest	1,520	1,512
Total shareholders' equity	165,311	151,612
Total liabilities and shareholders' equity	500,938	400,219

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, 2014, 2013 AND 2012

	Note	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue		474,265	378,956	281,203
Cost of revenue		(380,955)	(303,039)	(216,362)
Gross profit		93,310	75,917	64,841
Selling and administrative expenses		(66,343)	(70,823)	(66,902)
Operating income/(loss)		26,967	5,094	(2,061)
Interest income		148	194	149
Interest expenses		(6,272)	(4,751)	(4,496)
Other income, net	3	4,595	7,424	7,341
Income before income taxes		25,438	7,961	933
Income taxes	4	(2,559)	(2,663)	(2,434)
Net income/(loss)		22,879	5,298	(1,501)
Net (income)/ loss attributable to non-controlling interest		(8)	2,328	251
Net income/(loss) attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited's shareholders		22,871	7,626	(1,250)
Other comprehensive income/(loss)		-	-	-
Net income/(loss)		22,879	5,298	(1,501)
Foreign exchange translation adjustments		-	-	-
Comprehensive income/(loss)		22,879	5,298	(1,501)
Less: Comprehensive (income)/ loss attributable to non-controlling interest		(8)	2,328	251
Net income/(loss) attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited's shareholders		22,871	7,626	(1,250)

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, 2014, 2013 AND 2012

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Cash flows from operating activities:			
Net income/(loss)	22,879	5,298	(1,501)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of property, plant and equipment	2,985	2,956	3,017
Amortisation of intangible asset	239	395	164
Amortisation of land use right	149	141	177
Loss/(gain) on disposal of property, plant and equipment	225	(40)	4,186
(Gain)/loss on disposal of intangible asset	(150)	(23)	92
Deferred tax assets	(1,391)	(446)	784
(Increase)/decrease in current assets:			
Accounts receivable, net	(9,491)	79,243	(38,607)
Amounts due from owners	-	-	2
Prepayments and other current assets	(33,249)	(52,792)	(27,508)
Inventories	(1,078)	(5,822)	(542)
Increase/(decrease) in current liabilities:			
Accounts payable	77,861	(76,615)	43,737
Amount due to owner	-	9	-
Other payables and accrued expenses	(27,160)	48,898	(2,501)
Other taxes payable	2,813	6,040	(11,579)
Income tax payable	296	(5,175)	(1,203)
Net cash provided by/(used in) operating activities	34,928	2,067	(31,282)
Cash flows from investing activities:			
Purchase of intangible asset	-	(39)	(126)
Purchase of property, plant and equipment	(52,566)	(1,983)	(3,358)
Sales proceed form intangible assets	420	110	-
Sales proceed from property, plant and equipment	923	69	-
Net cash used in investing activities	(51,223)	(1,843)	(3,484)
Cash flows from financing activities:			
Repayment of bank borrowings	(104,690)	(88,100)	(41,000)
Advance of bank borrowings	137,900	92,790	60,000
Capital injection	-	-	-
Dividend paid to owners	(9,180)	(6,120)	-
Net cash provided by/(used in) financing activities	24,030	(1,430)	19,000

Net increase/(decrease) in cash and cash equivalents	7,735	(1,206)	(15,766)
Cash and cash equivalents, beginning of year	21,462	22,668	38,434
Cash and cash equivalents, end of year	29,197	21,462	22,668
Supplementary information	RMB'000	RMB'000	RMB'000
Interest received	148	194	149
Interest paid	6,279	4,695	3,920
Income tax paid	2,263	396	6,348

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, 2014, 2013 AND 2012

	Share 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, 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 income	-	-	-	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
Net income	-	-	-	22,871	8	22,879
Dividend paid	-	-	-	(9,180)	-	(9,180)
Appropriation of reserves	-	-	2,191	(2,191)	-	-
Balance as of December 31, 2014	61,200	43,189	7,708	51,694	1,520	165,311

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
	2014		2013			
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
Da Tong Tianlan Environmental Protection Technology Service Company Limited ( ) *	100	%	-		PRC	Provision of maintenance services of environmental protection equipment

* The Company was incorporated on November 10, 2014.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies

(a) Basis of Consolidation

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

(b) Subsidiaries

A subsidiary is a company in which the Company 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 RMB21,796,000, RMB15,018,000 and RMB14,890,000 for the years ended December 31, 2014, 2013 and 2012 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 RMB11,000, RMB25,000 and RMB26,000 for the years December 31, 2014, 2013 and 2012 respectively and were included in "Selling and Administrative" expenses in the Group's consolidated statements of income.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(f) Taxation

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

In accordance with ASC-740-10, the Company recognises tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits. The Company did not have such uncertain tax positions in 2014, 2013 and 2012.

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, 2014, accounts receivable in more than one year amounted to RMB 46,144,000 (2013: RMB 52,272,000 and 2012: RMB 12,719,000).

(i) Inventories

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

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

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

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

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

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

(k) Intangible Assets

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

(l) Impairment

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, which requires impairment losses to be recorded for property, plant and equipment to be held and used in operations when indicators of impairment are present. Reviews are regularly performed to determine whether the carrying value of assets is impaired. The Group determines the existence of such impairment by measuring the expected future cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There were no impairment losses recorded during each of the three years ended December 31, 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, 2014 and 2013, 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.

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 April 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-08 “Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when the component meets the criteria to be classified as held-for-sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. Early adoption is permitted but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance.
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 – Revenue from Contracts with Customers, that will supersede virtually all of the existing revenue recognition guidance in US GAAP and is effective for annual periods beginning on or after December 15, 2016. Early adoption is not permitted. The standard establishes a five-step model that will apply to revenue earned from a contract with a customer. The standard’s requirements will also apply to the sale of some non-financial assets that are not part of the entity’s ordinary activities. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management is in the process of assessing the impact of the new standard on Company’s financial position.

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(t) Recent Accounting Pronouncements – continued

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15 – Presentation of Financial Statements—Going Concern. ASU 2014-15 provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires an entity's management to evaluate at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether there are conditions or events, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued and to disclose the necessary information. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted.

In January 2015, the FASB issued ASU No. 2015-01 "Income Statement—Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items". The concept of extraordinary items is removed and instead items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in notes to financial statements because those items satisfy the conditions for an item that is unusual in nature or infrequently occurring. The new accounting guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. Companies have the option to apply the amendments of ASU No. 2015-01 either prospectively or retrospectively.

3 Other income, net

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Gain on disposal of intangible asset	150	23	-
Gain on disposal of property, plant and equipment	7	41	-
Subsidy income (note i)	4,163	6,893	7,170
Sales of scrapped materials	6	18	31
Others	269	449	140
	4,595	7,424	7,341

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

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes

According to relevant PRC tax laws and regulations, entities incorporated in the PRC are subject to Enterprise Income Tax ("EIT") at a statutory rate of 25% or reduced national EIT rates 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%. Shihezi Tianlan Environmental Protection Technology Company Limited and Da Tong Tianlan Environmental Protection Technology Service Company Limited are subject to Enterprise Income Tax rate of 25%.

During the year, the PRC tax laws and regulations have launched a tax reduction scheme for small enterprises and Hangzhou Tianlan Environmental Engineering and Design Company Limited is entitled to enjoy this tax benefit. It, thus, subjects to Enterprise Income Tax rate of 10% only.

The provision for income taxes consists of:

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Current PRC EIT:			
Domestic	3,950	3,110	1,650
Income taxes	3,950	3,110	1,650
Deferred tax benefit:	(1,391)	(447)	784
Total deferred taxes	(1,391)	(447)	784

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

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Income before income taxes	25,438	7,961	933
Computed tax using respective companies' statutory tax rates	3,797	1,194	140
(Over)/under-provision for income tax in prior years	(2,208)	(123)	1,358
Temporary differences	1,575	(445)	-
Tax effect on revenue not subject to tax	(695)	(242)	(56)
Tax effect on expenses not deductible for tax purposes	90	2,279	992
Total provision for income tax at effective tax rate	2,559	2,663	2,434

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes - Continued

The components of deferred tax assets are as follows:

	2014 RMB'000	2013 RMB'000
Tax losses	-	-
Allowance for doubtful debts	4,350	2,959
Net deferred tax assets	4,350	2,959

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.

6 Accounts receivable, net

	2014 RMB'000	2013 RMB'000
Accounts receivable	185,453	166,433
Less: Allowance for doubtful debts	(28,835)	(19,306)
	156,618	147,127

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

	2014 RMB'000	2013 RMB'000
Contracts costs incurred plus estimated earnings	229,994	548,026
Less: Progress billings	(62,489)	(424,397)

Cost and estimated earnings in excess of billings	167,505	123,629

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Inventories

	2014 RMB'000	2013 RMB'000
Raw materials	9,121	7,425
Work in progress	6,360	5,485
Finished goods	573	2,066
	16,054	14,976

9 Property, plant and equipment

	2014 RMB'000	2013 RMB'000
Office premises and leasehold improvements	47,091	47,092
Furniture, fixtures and office equipment	9,629	8,511
Motor vehicles	3,682	3,258
Plant and machineries	715	711
Construction in progress	50,245	437
	111,362	60,009
Less: Accumulated depreciation	(14,838)	(11,918)
	96,524	48,091

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Depreciation charge	2,985	2,956	3,017

10 Intangible assets, net

	2014 RMB'000	2013 RMB'000
Patents	2,400	2,750
Others	165	165
	2,565	2,915

Less: Accumulated amortisation	(824)	(665)
	1,741	2,250

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 Intangible assets, net (continued)

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Amortisation expense	239	395	164

11 Land use right, net

	2014 RMB'000	2013 RMB'000
Land use right	7,361	7,361
Less: Accumulated amortisation	(1,316)	(1,167)
	6,045	6,194

	2014 RMB'000	2013 RMB'000	2012 RMB'000
Amortisation expense	149	141	177

12 Short term borrowings

	2014 RMB'000	2013 RMB'000
Bank loan borrowed by the Company (note i)	92,900	59,690
Bank loan borrowed by a subsidiary of the Company (note ii)	5,000	5,000
	97,900	64,690

(i)The bank loan is denominated in Renminbi and repayable within 1 year. The bank loan borrowed by the Company as of December 31, 2014 bear interest at fixed rates 5.88% to 6.90% (2013: 5.60% 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, 2014 was approximately RMB4,688,000 (2013: RMB3,704,000 and 2012: RMB3,137,000).

(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, 2014 bear interest at fixed rates 7.50% (2013: 7.50%) 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, 2014 was approximately RMB377,000 (2013: RMB391,000).

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 Other payables and accrued expenses

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

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, 2014, 2013 and 2012, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB3,027,000, RMB2,516,000 and RMB2,564,000 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.

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 2014 and 2013 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, 2014 (2013 and 2012: RMB Nil). As of December 31, 2014, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2014.

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.