EURO TECH HOLDINGS CO LTD
Form 20-F
June 30, 2008

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2007

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-22113

EURO TECH HOLDINGS COMPANY LIMITED

(Exact name of Registrant as specified in its charter)

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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)

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

Title of each class	Name of each exchange on which registered
Not Applicable	

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

Ordinary Shares, $0.01 par value

(Title of Class)

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

(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.

11,684,250 Ordinary Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

If this is an annual or transitional report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Yes o No x

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 x

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

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes o No x

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

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INTRODUCTION

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

Forward Looking Statements

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

GLOSSARY

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

Ambient Air:	Atmospheric air (outdoor as opposed to indoor air).
Anaerobic:	Treating waste water biologically in the absence of air.
Atomic Spectrometer:	An analytical instrument used to measure the presence of an element in a substance by testing a sample which is aspirated into a flame and atomized. The amount of light absorbed or emitted is measured. The amount of energy absorbed or emitted is proportional to the concentration of the element in the sample.
Coalescer:	A process that coalesces smaller oil particles to form larger oil particles that can readily float to a tank s surface.
Colorimeter:	An analytical instrument that measures substance concentration by color intensity when the substance reacts to a chemical reagent.
Flow Injection Analyzer:	An analytical instrument with a special sampling system that uses a continuous stream of reagent(s) into which fluid samples are injected.
Human Machine Interface Software:	A type of software to interface (or coordinate) the interaction between machine or equipment and a human being.
Lamella:	Synthetic media installed in a clarifier tank to assist in particle flocculation (coming together in a floc or flakes)
Mass Spectrometer:	An analytical instrument that separates and identifies chemical constituents according to their mass-to-charge ratios and is used to identify organic compounds.
Membrane Biological Reactor (MBR):	A suspended-growth bioreactor combined with a membrane liquid/solids separation unit. The MBR uses an advanced membrane technology that treats biological wastes to a quality level which in many industries is sufficient for reuse or low-cost disposal to sewers.

Moving Bed Biofilm Reactor (MBBR)	A biological wastewater treatment process that uses synthetic plastic media floating or fixed in the aeration stage of the treatment process to increase the contact area between the wastewater and the biomass (bacteria). The result is a higher efficiency of treatment in a unit volume of wastewater, hence smaller footprint. An additional advantage is reduction of the amount of sludge produced.
Multi-Channel Digital Recorder:	A device that measures and records more than one input of a digitized signal (signal in the form of pulses).
pH Controller:	A process instrument that measures and controls the acidity or alkalinity of a fluid.
Reagent:	A chemical substance used to cause a chemical reaction and detect another substance.
Sequential Batch Reactor (SBR):	A waste-water treatment process that combines aeration and settling in one reactor tank thus saving on space. Used for the treatment of industrial waste-water as well as municipal sewage. The SBR is a batch process that is ideal for waste-waters of changing characteristics.

PART I

ITEM 3. KEY INFORMATION

Item 3A. Selected Financial Data

SELECTED FINANCIAL INFORMATION

(Amounts expressed in thousands, except

share and per share data and unless otherwise stated)

The selected consolidated income statement data for years ended December 31, 2007, 2006 and 2005, and the selected consolidated balance sheet data as of December 31, 2007 and 2006 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 income statement data for the years ended December 31, 2004 and 2003 and the selected consolidated balance sheet data as of December 31, 2005, 2004 and 2003 set forth below are derived from audited consolidated financial statements of the Company which are not included herein.

	2007 US$	2006 US$	2005 US$	2004 US$	2003 US$
Balance Sheet Data:					
Cash and cash equivalents	9,387	9,160	5,362	5,242	2,752
Working capital(1)	10,099	10,267	6,931	5,457	4,914
Total assets	25,482	19,975	17,377	15,699	13,308
Short-term debt(2)	0	0	0	0	0
Net assets	17,958	12,990	9,754	7,837	7,243
Capital Stock	120	94	74	68	45

(1) Current assets minus current liabilities.

(2) Short-term debt includes short-term borrowings and current portion of long-term bank loans.

	2007 US$	2006 US$	2005 US$	2004 US$	2003 US$
Income Statement Data:					
Revenue	27,230	27,161	31,250	32,282	27,442
Cost of revenue	(20,398)	(20,606)	(24,681)	(27,033)	(22,805)
Gross profit	6,832	6,555	6,569	5,249	4,637
Selling and Administrative Expenses	(6,585)	(5,961)	(5,418)	(4,801)	(4,108)
Operating income	247	594	1,151	448	529
Interest Income	256	95	35	17	13
Other income, net	161	146	172	104	6
Income before taxes	664	835	1,358	569	548
Income taxes	(144)	(156)	(328)	(167)	(108)
Minority Interest in profits of subsidiaries	(345)	(318)	(318)		
Equity in profit of affiliates	247		21	192	91
Net income	422	361	733	594	531
Net income per Ordinary Share					
Basic	0.04	0.04	0.11	0.09	0.08
Diluted	0.03	0.03	0.07	0.06	0.08
Weighted Average Number of Ordinary Shares Outstanding					
Basic	11,105,556	8,047,911	6,598,201	6,434,667	6,434,667
Diluted	12,095,335	10,787,420	10,698,482	10,034,687	6,434,667

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

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 has generally been stable and maintained at the rate of approximately RMB8.30 = US$1.00. However, in 2007, the Renminbi appreciated and at the end of 2007, the exchange rate was approximately RMB 7.3141 = US$1.00. The value of the Renminbi fluctuates and is subject to changes in PRC political and economic conditions.

The high, low and average exchange rate set forth below:

	Rate at Period End	**Low**	**High**	**Average**
US$ to RMB				
Fiscal 2003	8.2867	8.2570	8.2700	8.2872
Fiscal 2004	8.2865	8.2354	8.2870	8.2782
Fiscal 2005	8.0734	8.0566	8.2666	8.2033
Fiscal 2006	7.8175	7.7845	8.0715	7.9819
Fiscal 2007	7.3141	7.2941	7.8062	7.6172
US$ to HK$				
Fiscal 2003	7.7648	7.6886	7.8931	7.7885
Fiscal 2004	7.7760	7.7511	7.8063	7.7893
Fiscal 2005	7.7535	7.7431	7.8116	7.7779
Fiscal 2006	7.7794	7.7502	7.7946	7.7690
Fiscal 2007	7.8049	7.7488	7.9102	7.8026

The Following Months	**Low**	**High**	**Average**
US$ to RMB			
July 2007	7.5445	7.6035	7.5877
August 2007	7.5330	7.5955	7.5849
September 2007	7.4915	7.5413	7.5335
October 2007	7.4515	7.5183	7.5135
November 2007	7.3673	7.4615	7.4334
December 2007	7.2941	7.4035	7.3832

US$ to HK$			
July 2007	7.8109	7.8254	7.8201
August 2007	7.7952	7.8301	7.8175
September 2007	7.7556	7.8007	7.7855
October 2007	7.7488	7.7731	7.7560
November 2007	7.7494	7.7942	7.7762
December 2007	7.7843	7.8076	7.7983

Item 3D. Risk Factors

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

Certain Risks Relating To Doing Business In Hong Kong And The People s Republic Of China (the PRC or China).

PRC Sovereignty Over Hong Kong Still Developing.

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

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

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

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

Economic Stability Uncertain; Earthquake.

Most economies in the Far East had suffered from an economic instability. Although the region, including the PRC, appears to have recovered, there can be no assurance that the recovery will continue, most especially in light of the recent catastrophic earthquakes that caused many deaths and widespread destruction. Continued growth in the PRC is dependent upon an adequate supply of energy and the recovery from recent earthquakes. There is no assurance that adequate supplies of energy can be developed or found to fuel the PRC s continued economic growth. The impact, if any, upon the Company of the recent catastrophes in the PRC cannot be predicted at this time.

The PRC s Economic, Political And Social Conditions.

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

The PRC economy appears to be moving from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. These actions, as well as future actions and policies of the PRC government, could materially affect our business and operations.

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

Economic Reforms May Not Continue Or Impact Positively On The Company; Changing Business Environment.

Over the past several years, the PRC s government has pursued economic reform policies including encouraging private economic activities and decentralization of economic deregulation. The PRC government may not continue to pursue these policies or may significantly alter them to our detriment from time to time without notice. Changes in policies by the PRC government resulting in changes in laws, regulations, or their interpretation, or the imposition of confiscatory taxes, restrictions on currency conversion and imports could materially and adversely effect our business and operating results. The nationalization or other expropriations of private enterprises by the PRC government could result in a loss of our investments in actual funds and time and effort, in China.

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

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

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

Uneven Economic Growth.

The PRC s economy has experienced significant growth in recent years, but that growth has been uneven among various geographic regions and economic sectors. Economic reforms and growth in the PRC have been more successful in certain provinces than in others, and the continuation or increase of such disparities could adversely effect political or social stability.

PRC Inflation.

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business historically. In response to the increased inflation rate during 2004, the Chinese government announced measures to restrict lending and investment in the PRC in order to reduce inflationary pressure on the PRC s economy; and the inflation rate was reduced in 2005 and 2006, but escalated in 2007. If the PRC rate of inflation continues to increase, the Chinese government may introduce further measures intended to reduce the inflation rate in the PRC. Any such measures adopted by the Chinese government may not be successful in reducing or slowing the increase in the PRC s inflation rate. Sustained or increased inflation in the PRC may have an adverse impact on the PRC s economy and may materially and adversely affect our business and financial results.

Uncertain Legal System And Application Of Laws.

The legislative trend in the PRC over the past decade has been to enhance the protection afforded to foreign investment and allow for more active control by foreign parties of foreign

invested enterprises. There can be no assurance that this will continue. In addition, as the PRC economy, business and commercial framework and legal system all continue to develop, that development may adversely effect the Company s activities in the PRC or the ability of the Company to enter into Sino-foreign agreements.

PRC Legal System Business Laws Developing.

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

Government Currency Controls.

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

Although the RMB to U.S. dollar exchange rate has generally been stable from 1994 through 2004, in 2007, the RMB appreciated against the U.S. Dollar. The PRC government has stated its intention to intervene in the future to support the value of the RMB, there can be no assurance that exchange rates will not become volatile. Exchange rate fluctuations may adversely effect the Company because of foreign currency denominated liabilities, and may materially adversely effect the value, translated into U.S. dollars, of the Company s net fixed assets situated and to be situated in the PRC, earnings and dividends.

Foreign Currency Risk.

The Company operates in Hong Kong, the PRC and trades with both local and overseas customers, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to purchases in, Hong Kong dollar, Renminbi and Euro. Foreign exchange risk arises from committed and unmatched future commercial transactions, such as confirmed import purchase orders and sales orders, recognized assets and liabilities, and net investment in the PRC operations. The Company uses derivative financial instruments such as foreign exchange contracts to hedge certain foreign currency exposures. There can be no assurances that the Company s hedging strategies will be adequate to avoid this foreign exchange risk.

Turbulent Relations With The United States Of America (United States).

Differences between the United States and PRC governments on some political issues, as the recent political conflicts over Myanmar, continue occasionally to color the relationship. These occasional controversies could materially and adversely effect our business and operations. Political or trade friction between the two countries could also materially and adversely effect the market price of our Ordinary Shares, whether or not they adversely effect our business.

Certain Risks Relating To The Company s Business

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

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

In October of 2005, we completed our acquisition of 51% of the capital stock of two entities, making the two entities our majority owned subsidiaries, and we have taken and are seeking to take equity positions in related businesses. We will not seek stockholder approval for any additional acquisitions unless required by applicable law and regulations. Our stockholders will not have an opportunity to review financial and other information on acquisition candidates prior to consummation of any acquisitions under almost all circumstances.

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

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

Dependence Upon Management.

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

Adverse Impact Upon The Company Of PRC s Credit Restrictions.

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

Competition With Vendors.

As the Company plans to assemble products of the kind that it presently distributes, the Company may directly compete with certain of its vendors. Any such direct competition may adversely effect its relationship with its vendors. See Item 4. Information on the Company.

Dependence On Vendors; Lack Of Long Term Agreements.

The Company distributes supplies manufactured by a number of vendors, including Hioki E.E. Corp. (Hioki), US Filter/Chemical Feed and Disinfection Group (USF) and Lachat Instruments, Inc. (Lachat)**,** which are the Company s largest suppliers. The Company has only a letter from Hioki appointing the Company as Hioki s sales representative in the PRC, Hong Kong and Macau. Although alternative sources of supply exist, there can be no assurance that the termination of the Company s relationship with any of the above or other vendors would not have a short-term adverse effect on the Company s operations due to the Company s dependence on these vendors. A substantial number of the Company s suppliers have been selling their products into China directly and through other distributors.

Risks Relating To The Company Itself; Control By T.C. Leung; Potential Conflict Of Interests.

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

Certain Legal Consequences Of Incorporation In The British Virgin Islands; Rights Of Shareholders Not As Extensive As In U.S. Corporations.

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

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

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

Anti-Takeover Provisions.

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

Uncertainty Of Enforcing United States Judgments.

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

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

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

Being A Foreign Private Issuer Exempts Us From Certain Securities And Exchange Commission (Commission) And National Association Of Securities Dealers Automated Quotation System (NASDAQ) Requirements.

We are a foreign private issuer within the meaning of rules promulgated under the Securities Exchange Act of 1934 (the Exchange Act). As such, we are exempt from certain provisions applicable to United States public companies including: (1) the rules under the Exchange Act requiring the filing with the Commission of quarterly reports on Form 10-Q or current reports on Form 8-K; (2) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act; (3) the provisions of Regulation FD aimed at preventing issuers from making selective disclosures of material information; (4) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and establishing insider liability for profits realized from any short-swing trading transaction (i.e., a purchase and sale, or sale and purchase, of the issuer s equity securities within less than six months); (5)Because of these exemptions, investors are not afforded the same protections or information generally available to investors holding shares in public companies organized in the United States.

Our Securities Must Continue To Meet Qualitative And Quantitative Listing Maintenance Criteria For The NASDAQ SmallCap Market.

Our securities are quoted and traded on the NASDAQ SmallCap Market. There can be no assurance that we will continue to meet both the qualitative and quantitative criteria for continued quotation and trading of our securities on the NASDAQ SmallCap Market. That criteria undergoes periodic review.

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

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

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

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

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

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

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

Recent Federal legislation, including the Sarbanes-Oxley Act of 2002 (SOX), has resulted in the adoption of various corporate governance measures by securities exchanges and NASDAQ designed to promote the integrity of the corporate management and the securities markets. Being a controlled company, we are exempt from many, but not all, of those requirements. Furthermore, the absence of such practices with respect to our Company may leave our shareholders without protections against interested director transactions, conflicts of interest and similar matters.

We May Be Exposed To Potential Risks Relating To Our Internal Controls Over Financial Reporting And Having Those Controls Attested To By Our Independent Auditors.

Pursuant to Section 404 of SOX, the SEC adopted rules requiring public companies to include a report of management on the company s internal controls over financial reporting in their annual reports, including Form 20-F. In addition, the independent registered public accounting firm auditing a company s financial statements must also attest to and report on management s assessment of the effectiveness of a company s internal controls over financial reporting as well as the operating effectiveness of a company s internal controls. We were not subject to these requirements for the fiscal year ended December 31, 2007 as a result of temporary rules adopted by the SEC. We are evaluating our internal control systems in order to allow our management to report on, and our independent auditors attest to, our internal controls, as a required part of our Annual Report on Form 20-F beginning with that report required when the temporary rules cease being effective**.**

While we expect to expend significant resources in developing the necessary documentation and testing procedures required by SOX, there is a risk that we will not comply with all of these requirements. At present, there is no precedent available with which to measure compliance adequacy. Accordingly, there can be no assurance that we will receive a positive attestation from our independent auditors.

In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the reliability of our financial statements, our ability to obtain equity or debt financing could suffer and the market price of our shares could decline.

The Market Price Of Our Securities Has Been Fluctuating Widely.

During the past five years, the market price of our Ordinary Shares has fluctuated widely on occasion. Additionally, the Company knows of no reason for these wide fluctuations. See Item 9.C- Markets.

There Are Risks In Purchasing Low-Priced Securities.

If our securities were to be suspended or delisted from the NASDAQ SmallCap Market, they could be subject to rules under the Exchange Act which impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established clients and accredited investors (for example, individuals with a net worth in excess of US$1,000,000 or an annual income exceeding US$200,000 or US$300,000 together with their spouses). For transactions covered by such rules, a broker-dealer must make a special suitability determination of the purchaser and have received the purchaser s written consent to the transaction prior to the sale. Consequently, such rules may affect the ability of broker-dealers to sell our securities and the ability to sell any of our securities in any secondary market that may develop for such securities.

In the event our securities are no longer listed on the NASDAQ SmallCap Market or are not otherwise exempt from the provisions of the SEC s penny stock rules, such rules may also affect the ability of broker-dealers and investors to sell our securities.

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

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

ITEM 4. INFORMATION ON THE COMPANY

Item 4A. History and Development of the Company

The Company was organized under the laws of the British Virgin Islands 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.

During Fiscal 2005, we completed our plan to increase our equity position in Yixing Pact Environmental Technology Company Limited (Yixing) and Pact Asia Pacific Limited (Pact), a company engaged in water and waste-water treatment solution business. We had previously owned thirty (30%) percent of their capital stock. With the addition of twenty-one (21%) percent of Pact s and Yixing s capital stock in October 2005, they became our majority-owned subsidiaries.

During Fiscal 2007, we purchased twenty (20%) percent of the equity in a company engaged in the air pollution control business. In January 2008, we purchased twenty (20%) percent of the equity in another related industry business. 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.

We are in the process of shifting our emphasis from the distribution of instruments and equipment to engineering and manufacturing activities. Revenues from our trading activities have fallen-off as a substantial number of our suppliers have been selling their products into China directly and through other distributors. Revenues and net income generated from our environmental engineering department and our majority owned subsidiaries, Pact and Yixing (companies engaged in the water and waste water treatment solution business), have more than offset our falling trading revenues.

In November of 2006 we established Shanghai Euro Tech Environmental Engineering Company Ltd. (Shanghai Environmental) as a wholly-owned subsidiary under the laws of the People s Republic of China, 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 and is planned to be the home of our planned expansion into the air pollution control business.

Item 4B. Business Overview

The Company is engaged in three different major activities:

(1) *Equipment and Instrument Distribution.*

The Company had been primarily a distributor of a wide range of advanced water treatment equipment (including chlorination equipment), laboratory instruments, analyzers, test kits and related supplies and power generation equipment (including recorders and power quality analyzers). The Company acts as an exclusive and non-exclusive distributor for well-known manufacturers of such equipment, primarily to commercial customers and governmental agencies or instrumentalities in Hong Kong and the PRC. During its fiscal year ended December 31, 2007 (Fiscal 2007) the Company distributed products to in excess of 1,000 customers, including the Hong Kong Environmental Protection Department, Hong Kong Water Supplies Department, Government Laboratory, Drainage Services Department China s National Environmental Protection Agency, Harbin Water, Harbin Environmental Monitoring Center, Guangzhou Water, Guiyang Environmental Monitoring Centre and to subdistributors located in Hong Kong, the PRC and Macau. These products are manufactured by a substantial number of major American, European and Japanese corporations, including Hioki, USF and Lachat, which are the Company s largest suppliers, with purchases from them accounting for approximately 36%, 9% and 8%, respectively, of the Company s sales during Fiscal 2006 and approximately 32%, 10%, and 5%, respectively of the Company s sales during Fiscal 2007.

The Company distributes products through its Hong Kong headquarters, its retail shops and representative offices located in Beijing, Shanghai, Guangzhou, Chongqing, Xi´An, Shenyang, Wuhan, Fuzhou, Chengdu and Urumqi and through non-exclusive arrangements with independent sub-distributors located in Hong Kong, the PRC and Macau.

(2) *Manufacturing.*

The Company believes that by assembling the products it distributes, it may realize increased gross profit margins and greater revenues and net income than if it remains only a distributor of such products with sales of the Company first product offering, an Infrared Photometric Oil Analyzer, commencing in 2003. Similarly, the Company believes that by using its existing regional sales efforts in the PRC, it may be better able to compete with increased competition from our own suppliers and other distributors.

(3) *Environmental Services.*

In January 2002, we acquired a 30% equity interest in Pact and Yixing. Pact and Yixing were privately owned engineering firms situated in Shanghai specializing in the design, manufacture and operation of water and waste-water treatment plant in several industries situated in China, Pact and Yixing, through associates and business alliances, also conduct similar operations in the Middle East. In October 2005, through our subsidiary Euro Tech (Far East) Limited (Far East) we purchased approximately 21% of the issued and outstanding shares of Pact and Yixing for approximately US$1,000,000 from Tamworth Industrial Limited (Tamworth).

In August 2007, Far East acquired a 20% equity interest in Zhejiang Tianlan Desulfurization and Dust-Removal Co. Ltd. (BlueSky), a company in flue gas desulphurization, flue gas de-nitration, dust removal and purification of industrial waste gases, for approximately US$4,648,000.

Blue Sky, founded in 2000, is a growing concern that we believe provides a comprehensive service for design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted from various boilers and industrial furnaces of power plants, steel works and chemical plants.

We expect that by securing an equity stake in BlueSky s business, we have a strategic partner to work within China s environmental protection business. With BlueSky 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.

Expansion Plans.

Acid rain and sulfur dioxide emissions are serious problems in China. We are planning to expand our activities in the air pollution control business by forming joint ventures, investing or acquiring some interest in companies, such as Blue Sky, involved in (i) the dust removal and/or (ii) the flue gas desulphurization for power plant industries and other similar industries.

We continuously search for other companies engaged in manufacturing these products and equipment and in engineering companies which design and build pollution control systems. We anticipate that the costs of any such acquisition would be drawn from our general working capital and, possibly, by private sales of our securities including the potential exercise by officers and directors of their options. We have no commitments or indications of interest for the private sales of our securities.

In January 2008, we acquired a 20% equity interest in Zhejiang Jia Huan Electronic Co. Ltd., (Jia Huan) for approximately US$2,500,000. Jia Huan has been in the environmental protection business since 1969 and is based in Jin Hua, Zhejiang.

In June 2006, PACT entered into a letter of intent with Pact Engineering FZC (PACTFZC), a Middle Eastern water treatment company based in Dubai, and Ecomacchine S.p.A. (ECO), an Italian based company engaged in the manufacture of sludge and dewatering equipment. In June 2007, the joint venture Pact Environmental Equipment Co. Limited, was registered in the PRC. PACT invested US$300,000 and has a 60% controlling interest of the JV, and ECO and PACTFCZ, (a company majority owned by George Hayek, the Company s Managing Director), each invested US$100,000 in consideration for 20% interests.

Revenue and income from distribution activities are declining gradually due to a greater number of our significant suppliers marketing and selling their products into the China market through other distributors as well as the Company. Many of these other distributors are local Chinese companies and can operate with a lower overhead.

Our plans for the near term also include: (a) continued use of our retail shops to sell low-tech products and our own products. We believe that these shops are operating with a lower overhead than the rest of the Company; and (b) we believe that the continued low-tech product sales through our retail shops coupled with our on-line product sales will allow us to continue to offer products at lower prices than our competitors.

Having low-tech products offered through our retail shops and the availability of on-line product offering are anticipated to allow our sales force to focus on high-tech and other products requiring personal or telephone contact directly with customers and potential customers.

Manufacturing

Sales of the Infrared Photometric Oil Analyzer commenced in 2003. During 2004, we began selling turbidity instruments and spectrometers that we developed and manufactured

ourselves and began assembling and selling the Total Organic Analyzer of O.I. Corporation. In November 2006, we began actively marketing our Total Organic Carbon (TOC) analytical instrument that measures the degree of the pollution level of drinking water, ground water and waste water. Our TOC analyzer has been two and a half years in research, development and field testing of prototypes sold to our customers. A number of target customers showed their interest in this product during our trade shows and seminars. We had made some modifications to this product to improve the quality and obtained updated Chinese Metrology Certification, a certificate issued by Bureau of Quality and Technical Supervision in November 2007. We have also upgraded other existing instruments and developed a quick response Chemical Oxygen Demand (COD) test instrument in 2007, for use on surface water, underground water and domestic and industrial wastewater.

In 2005, the Company also began offering two new company manufactured turbidimeters. One of the new turbidimeters is directed at water treatment plants, environmental monitoring status, hydrological stations and the second is directed at beer and other beverage processing facilities and it analyzes the particles contained in the beverage. See - Product Assembly Operations . During the next twelve months, we intend to assemble and/or manufacture additional products in the future and seek opportunities with our suppliers to assemble their products, secure manufacturing and/or assembly facilities and seek another manufacturer of analytical instruments to acquire.

Environmental Services

To allow the Company to bid on larger water, waste-water and power generation projects, we acquired Pact and Yixing (Pact-Yixing) and continue our search for other engineering companies and/or a system integrator (a company that provides hardware, software and solutions in the field of engineering) or enter into a joint venture with a third party to work in connection with our process control and engineering department.

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

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

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

In 2006, Pact-Yixing commenced selling water and waste-water treatment equipment. The equipment are components of systems traditionally marketed by Pact-Yixing. The equipment are partially manufactured to Pact-Yixing s in-house design and partially procured from approved Chinese suppliers. It is contemplated that Pact-Yixing s trading operation will mainly sell equipment to clients from outside China, starting with the Middle East, Africa and European and American companies operating in the Middle East and Africa.

The Company believes that the Pact-Yixing business is complementary to the Company s business as the Company continues to sell and market products of others. The Company expects that with this acquisition it may be able to gain a competitive advantage by offering customers and potential customers not only hardware but solutions to engineering problems as well. Also, the Company believes that its equity stake in Pact-Yixing enhances its position as a supplier to Pact. The Company continues to seek to make a similar acquisition of an engineering company specializing in air pollution control or other complementary environmental protection fields or in the power generation field.

A purpose of this acquisition was to reconfirm our direction to place a greater emphasis on developing an engineering solution business, instead of relying on its then current activities.

During Fiscal 2007 and Fiscal 2006, our share of Pact-Yixing s revenue represented 25% and 15%, respectively, of our revenue.

Equipment and Instrument Distribution

Environmental Protection Equipment.

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

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

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

Scientific Instruments. The Company distributes analytical instruments, environmental monitoring instruments and general purpose laboratory instruments. Analytical instruments include, but are not limited to, chromatographs, mass spectrometers, flow injector analyzers and atomic spectrometers. Environmental monitoring instruments include both air and water quality monitoring instruments. Air quality monitoring instruments are generally divided into those which monitor ambient (i.e., atmospheric) air, and those which monitor pollution sources. Additionally, the Company offers general purpose laboratory instruments including a variety of water quality monitoring and analysis equipment, such as continuous reading process analyzers, process turbidimeters, pH controllers, and test kits for monitoring chemical content in water (i.e., chlorine, fluorides, etc.). See Glossary.

Customers for the analytical instruments include government agencies, academic and research institutions and major laboratories. The Company also distributes products to beverage producers and restaurants, including water quality test kits to more than twelve bottling plants of a well known United States soft drink producer, which are located in the PRC; water quality monitoring instruments to well known United States fast food franchisor s restaurants located in Hong Kong and the PRC, and to well known United States and European beer producers bottling plants located in Wuhan, PRC. Each such soda producer, restaurant and beer bottler does not account for a significant portion of our sales.

Customers for air and water quality monitoring instruments also include government agencies such as the Hong Kong Environmental Protection Department, which uses a Company distributed water quality monitoring system to monitor the water quality of Hong Kong s Victoria Harbor, more than ten water treatment plants located in the PRC (including sites at Beijing, Tianjin, Guangzhou and Wuhan), China s National Environmental Protection Agency, Harbin Water, Harbin Environmental Monitoring Centre, Beijing Huai Rou, Shunyi District CDC and Liaoning Jinzhou Waste-water Treatment Plant and the Beijing Environmental Monitoring Centre.

The Company derived approximately 38.7%, 33.2% and 34.8% of its revenues from the sale of Scientific Instruments during Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

Energy Conservation And Related Products. The Company distributes general testing and measuring equipment including multi-channel digital and analogue recorders, signal amplifiers and calibration equipment for energy conservation, renewable energy equipment and power quality analyzers to industries including power plants, railway and aero-space industries, utilities, educational institutions and telecommunications companies.

The Company derived approximately 36.9%, 45.7% and 34.2% of its revenues from the sale of these Energy Conservation and Related Products during Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

Process Control and Engineering Products. The Company provides process control systems specifically designed for the industrial needs of clients including sensors, temperature gauges, pressure gauges, flow meters, valves, temperature and pressure transmitters and control devices, temperature and pressure calibrators, moisture, power, energy and harmonic analyzers. Chlorination disinfection systems are also distributed by Far East in conjunction with water treatment, sewage discharge and swimming pool water treatment. Customers for the foregoing distributed products include government water supply agencies, water treatment facilities, power and electric companies, petrochemical plants and instrument manufacturers. For example, the Company distributes chlorination disinfection systems to Hong Kong s Chek Lap Kok airport and its environs.

The Company derived approximately 18.9%, 13.1% and 19.5% of its revenues from the sale of Process Control and Engineering Products during Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

Special Projects And Engineering Department. In conjunction with the distribution of products such as programmable logic controllers, telemetry units and SCADA systems and software, the Company also provides systems engineering to government agencies, waste-water treatment and power generation plants and beverage producers.

The Company derived approximately 4.1%, 6.9% and 10.2% of its revenue from its Special Project Operation during Fiscal 2007, Fiscal 2006 and Fiscal 2005. This revenue was derived primarily from sales of products and supply systems. The Company is placing a greater emphasis on developing an engineering solution to business as one of our key suppliers Eurotherm has been directly marketing and selling their process automation product directly into the PRC and we have received fewer projects situated in Hong Kong.

Our special projects and engineering department is believed by the Company to be the main contractor and system integrator of a large number of industrial and municipal waste-water, water treatment and power generation plants in the PRC. Specific services provided by this group include automated control system design, the operation and management of various waste-water, water and power generation projects. We endeavor to introduce, develop, and promote new and advanced technologies, products, and appropriate technical developments from abroad. We have also been cooperating with established technology companies and engage in systems and special projects in Programmable Logic Control, Telemetry unit, SCADA systems, Human Machine Interface Software and Sequential Event Recording.

Technical Support. The Company s technical support staff provides customers with maintenance, installation assistance, and calibration services, and assists sales personnel in giving technical advice to and performing product demonstrations for customers. Technical Support services derived approximately 1.4%, 1.1% and 1.3% of its revenues from Technical Support Operations during Fiscal 2007, Fiscal 2006, Fiscal 2005, respectively.

Customers. During Fiscal 2007, the Company distributed products to in excess of 1,000 customers, including sub-distributors, located in Hong Kong, the PRC and Macau. No single customer accounted for more than 5% of the Company s revenues during Fiscal 2007. The Company does not believe that any single customer or sub-distributor is material to its operations.

Product Assembly Operations

The Company, through its PRC Corporation, Shanghai Euro Tech Limited established in 1999 in the Pudong Jin Qiao Export Processing Zone of Shanghai, engages in the development, production, sales and servicing of environmental equipment, including the development of modern laboratory analyzers, on-line measuring equipment and other analyzers for chemicals. Our products are tailor-made for the diversified needs of equipment users. Main products include Infrared Photometric Oil Analyzer (IPOA), COD analyzers, Total Organic Carbon Analyzer, turbidity meters, total suspended solid analyzers, dissolved oxygen analyzers, various types of spectrophotometers as well as a full spectrum of matching chemical reagents. In late 2005, we began offering two new turbidity meters, manufactured by the Company. In 2008 we introduced a Flue gas analyzer for use in environmental compliance monitoring. We are in the process of developing an energy meter (a device measuring electric energy consumption and corresponding carbon dioxide emissions) and water toxicity analysis instruments.

The Company believes that by establishing product assembly operations in the PRC will not only increase revenues, expand its customer base, but also its net income since the Company believes it will enjoy higher overall profit margins by assembling certain products which it now distributes rather than by only purchasing the finished product from vendors.

Sources of Supply

The Company distributes products manufactured by a number of vendors, including Hioki, USF and Lachat, which are the Company s primary suppliers, see - Business Overview . The Company has exclusivity agreements for specified geographic areas with many of its suppliers for certain products. Those agreements do not encompass all products distributed by the Company or all of the market areas serviced by the Company. In addition, some of these agreements are memorialized not as formal contracts but rather through other acknowledgements or correspondence which may contain a vague, if any, description of the terms and conditions of such agreement or arrangement, and therefore may be unenforceable. The Company has only a letter from Hioki appointing the Company as Hioki s sales representative in the PRC, Hong Kong and Macau. Hioki has its own PRC distribution company and appointed a Japanese trading company and other distributors to sell its products in China. The Company continues to be one of Hioki s non-exclusive distributors. The Company s agreement with USF continues in effect for successive renewal terms of one year each, unless either party gives written notice of non-renewal at least 30 days prior to the end of any renewal term. The Company s agreement with Lachat continues in effect for successive renewal terms of one year and is terminable on ninety days notice by either party. The Company s agreement with Hach is terminable on ninety days notice by either party. Although alternative sources of supply exist, there can be no assurance that the termination of the Company s relationship with any of the above or other vendors would not have a short-term adverse effect on operations.

Expansion

The Company continues to seek: development of manufacturing and engineering operations as part of its core business through (a) the development and assembly of more of the Company s own energy and environment-related equipment (see Product Assembly Operations), (b) forming joint ventures with some of our suppliers, (c) potential acquisitions of manufacturing plants in the water, air pollution and energy conversation and related businesses, and (d) potential acquisitions of engineering companies to enhance our ability to bid for and take on larger engineering projects.

Regulatory Environment

Concerns about and awareness of pollution problems and environmental issues have grown at all levels of PRC government as the PRC experienced economic growth. Environmental protection laws and strict regulations have been enacted and are buttressed by increased budget allocations for environmental regulation, monitoring and enforcement. The PRC s primary environmental protection agency is the State Environmental Protection Agency (SEPA), under which there are Environment Protection Bureaus in each city and county. According to oral information received by management from SEPA, under bureau management, there are two environment monitoring systems: one system consists of over 2,200 monitoring stations to collect and analyze the environmental data of each city and county; another system consists of over 2,500 stations to monitor specific industrial districts or factories which have been identified as major pollution sources due to their non-compliance with environmental regulations. The PRC government has established ambitious targets in its 11th Five-Year Program (2006-2010) to slash emissions of pollutants, including sulfur dioxide emissions, by 10%. The PRC government passed a law requiring power distributors to combat global warming. A central government fund, financed by a national tariff increase, will subside the tariff gap between more expensive renewable energy and the national average tariff. Preferential policies also encourage construction of renewable energy projects, projects in poorer interior regions that are often rich in water, solar and wind resources. The Company has supplied water and air quality monitoring and analytic instruments to these monitoring stations for several years. There can be no assurance that the agencies will continue to use the Company s products for these purposes, or that other market competitors will not enter the market with superior products, distribution systems or more competitive prices. See Competition.

Competition

The Company faces competition from other distributors of substantially similar products as well as the manufacturers of such products, and in both foreign and Chinese markets. The Company faces its principal competition from manufacturers and other distributors of its core products located in Hong Kong and the PRC. Moreover, the Company has implemented plans to assemble products of the kind that it presently distributes (see -Product Assembly Operations). Assembly operations have developed to the stage where some products have already been presented to the market and the Company is in direct and unavoidable competition with certain of its vendors. There can be no assurance that the existence of this direct competition will not impair the Company s ability or such competitor s willingness to continue providing other products for continued distribution by the Company and that such a development would not materially adversely effect the Company s core business.

During Fiscal 2007, Fiscal 2006 and Fiscal 2005, the Company s gross profit margins were approximately 25.1%, 24.1% and 21%, respectively. The Company believes that it competes with the PRC manufacturers on the basis of quality and technology. The Company believes it offers foreign-manufactured products which are of higher quality and use more advanced technology than products manufactured in the PRC. The Company believes that it competes with foreign manufacturers and other distributors of their products on the basis of the Company s more extensive distribution network and an established reputation. Pact-Yixing focuses on a market of providing water and waste water treatment services to multinational companies. The Company competes in this market based upon the quality of its products and having knowledgeable staff.

Website

The Company, through its subsidiary, ChinaH2O.com Limited, a Hong Kong corporation, has a internet platform. The website is located at (http://www.chinah2o.com). The website is directed at environmental businesses in China. The website provides environmental news, directories of western suppliers, potential clients in China, advertisement space and business opportunities. The business and other activities generated by ChinaH2O.com Limited have had a synergistic effect with those of the Company indirectly by feeding market information, sales leads and tender information to the Company.

Sales and Marketing

The Company distributes products through its principal office located in Hong Kong and its representative PRC offices located in Beijing, Shanghai, Guangzhou and Fuzhou. During 2007, the Company closed 1 representative office and consolidated their personnel into our retail shop, as the office did not financially contribute to the Company as anticipated. The Company has a marketing and sales force of 72 people who are paid a salary plus commission based on sales. The Company s offices also coordinate the sales efforts of approximately fifty other companies located in the PRC which act as sub-distributors. These sub-distributors are engaged on a non-exclusive basis to distribute the products of other distributors. Each of the fifty sub-distributors accounted for less than two percent of the Company s sales during Fiscal 2007, Fiscal 2006 and Fiscal 2005.

Following the opening of our first retail shop in Shanghai in 2001, (closed in 2007 but absorbed into our own Shanghai Euro Tech Trading (Shanghai Limited)) Euro Tech retail outlets are now found in a number of major cities in the PRC, including Beijing and Guangzhou. Our staff at these shops assists customers in selecting the equipment, auxiliary parts and products to suit customer specifications. Equipment that needs to be repaired or provided with routine maintenance can be returned to us via these shops, as our retail shops, except for the Beijing shop, are also maintenance centers. The Company has found the six existing shops to be useful as demonstration locations easily accessed by local customers who can pay in local currency while off the shelf sales are made which move its inventory more readily. In addition to the shops, we also have four branches or representative offices of these shops. All of the foregoing are perceived by the Company to have had a positive impact on its business reputation while reducing the

Company s dependency on sub-distributors who may not be loyal to the Company and distribute products of our competitors. As foreign entities are not generally permitted to own these facilities, these shops are owned by non-officer/director, employees of the Company with funds from the Company through non-fixed term loans aggregating approximately US$267,000 bearing a nominal rate of interest. The shops do not have financing from other sources. There can be no assurance that these shops will continue to be economically viable, that the Company will not sustain losses in connection with the loans to the shops; or the shops will result in any significant revenues or profits for the Company. Also, similar shops may be established by our competitors and/or third parties.

Foreign entities are now permitted to own retail shops in some regions of PRC. The Company has established two wholly-owned retail shops in Chongqing and Xi An. We plan to establish another wholly-owned retail shop in Guangzhou and close the current retail shop in Guangzhou owned by non-officer/director, employees of the Company. During 2007, we closed the Wuhan representative office, merging personnel into our Wuhan shop. We will continue to consolidate our operations by combining the retail shops and representative offices in the same cities or close shops and offices that do not appear to be contributing to the Company as expected.

These shops (or their representative offices) were opened on the following dates:

Retail Shops

Owned by non-officer/director, employees of the Company:

Beijing	October 2001
Guangzhou	June 2002
Wuhan	November 2002
Shenyang	December 2002

Owned by the Company:

Chongqing	November 2006
Xi´An	April 2007

Representative Offices

ChengDu	March 2007
Urumqi	October 2007

Item 4C. Organizational Structure

The Company presently wholly owns Far East, a Hong Kong corporation, which, in turn, owns the following corporations:

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Wholly-Owned

- Euro Tech Trading (Shanghai) Limited a People s Republic of China corporation
- Euro Tech (China) Limited a Hong Kong corporation
- ChinaH2O.com Limited a Hong Kong corporation
- Shanghai Euro Tech Limited a People s Republic of China corporation
- Shanghai Euro Tech Environmental Engineering Company, Ltd. a People s Republic of China corporation
- Chongqing Euro Tech Rizhi Technology Company, Limited a People s Republic of China corporation
- Rizhi Euro Tech Instrument (Shaanxi) Company Limited a People s Republic of China corporation

Majority Owned

- Yixing Pact Environmental Technology Company Limited a PRC corporation
- Pact Asia Pacific Limited a BVI corporation

The Company s wholly-owned subsidiary and primary operational arm is Far East, which it acquired in March 1997. Far East has engaged in the distribution of various industrial control equipment, which continues to be the core business of the Company, since its inception in 1971.

Item 4D. Property, Plant and Equipment

The Company maintains an executive office at 18/F Gee Chang Hong Centre, 65 Wong Chuk Hang Road, Hong Kong. The Company occupies approximately 12,800 square feet of office and warehouse storage space under a two (2) year lease that expires in May 2009 for monthly rental payments of approximately US$8,140. The warehouse storage space is used to hold products for distribution to our customers via common carriers.

In August 1995, the Company purchased approximately 1,200 square feet of space in a building in Hong Kong. This property is now rented out to a third party.

The Company also maintains representative offices within the PRC in the cities of Beijing, Shanghai, Guangzhou and Fuzhou. The Beijing and Shanghai sales offices are owned by the Company. The remaining sales offices are rented pursuant to short-term leases aggregating approximately US$1,774 per month**.**

Euro Tech Trading (Shanghai) Ltd. has two offices rented pursuant to short term leases, at an aggregate monthly rental of approximately US$963. Shanghai Euro Tech Limited s premises are also rented pursuant to a short term lease for a monthly rental of approximately US$2,882.

Pact occupies a 700 square meter facility in Shanghai, pursuant to a 3 year lease expiring in January 2009, providing for a monthly rental of approximately US$5,705.

The Company s registered office in the British Virgin Islands is located at TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands and its telephone number is (284) 494-5296.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

The Company is engaged in three different major activities, namely Equipment and Instrument Distribution, Manufacturing, and Environmental Services.

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

The Company, through its PRC corporation, Shanghai Euro Tech Limited established in 1999 in the Pudong Jin Qiao Export Processing Zone of Shanghai, engages in the development, production, sales and servicing of environmental protection equipment, and energy conservation and related products.

The Company, through its majority owned subsidiaries, Pact and Yixing, its wholly-owned subsidiary, Shanghai Environmental, and its affiliate, BlueSky, engages in water and waste-water treatment engineering business and air pollution control business.

The Company s operations are located almost entirely within, and revenues are almost entirely generated from Hong Kong and the PRC. The Company derived approximately 20% and approximately 79% of its revenue from Hong Kong and the PRC, respectively in Fiscal 2007. Net income increased approximately US$61,000, or 17%, in Fiscal 2007 to US$422,000, compared to US$361,000 in Fiscal 2006, primarily due to the contribution from the share of equity in net income of BlueSky of approximately US$247,000, partially offset by the increase in selling and administrative expenses.

The Company continued to consolidate its trading business by combining some of its regional sales efforts in the PRC with the retail shops and using online ordering in the PRC to sell the Company s products. The Company manufactures and sells its own developed products such as Infrared Photometric Oil Analyzer, turbidity instruments, spectrophotometers and the Total Organic Analyzer. The Company intends to assemble and/or manufacture additional products in the future and seek opportunities with its suppliers to assemble their products, secure manufacturing and/or assembly facilities and seek another manufacturer of analytical instruments to acquire.

The Company continued to accept more engineering projects in water and waste-water industries and also in power generation industries. The Company intends to continue its search for acquisition candidates of other firms engaged in engineering and/or system integration or

enter into a joint venture with a third party to work in connection with its process control and engineering department.

Item 5A. Operating Results

Background - Political and Economic Conditions in Hong Kong and the People s Republic of China

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
2005	80%	19%
2006	83%	16%
2007	79%	20%

Sales to customers situated in Macau and elsewhere through Fiscal 2007 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. See Item 3D. Key Information Risk Factors.

PRC. The PRC has been a socialist state since 1949. For more than forty years, 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 effect these reform initiatives and, in turn, the Company. See Item 3D. Key Information Risk Factors.

Results from Operations

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

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

	2007 US$		2006 US$		2005 US$		2004 US$		2003 US$	
Revenue	27,230	100%	27,161	100%	31,250	100%	32,282	100%	27,442	100%
Cost of revenue	20,398	74.9%	20,606	75.9%	24,681	79.0%	27,033	83.7%	22,805	83.1%
Gross Profit	6,832	25.1%	6,555	24.1%	6,569	21.0%	5,249	16.3%	4,637	16.9%
Selling and administrative Expenses	6,585	24.2%	5,961	21.9%	5,418	17.3%	4,801	14.9%	4,108	15.0%
Income before income taxes	664	2.4%	835	3.1%	1,358	4.3%	569	1.8%	548	2.0%
Income taxes	144	0.5%	156	0.6%	328	1.0%	167	0.5%	108	0.4%
Minority Interest in profits of subsidiaries	(345)	1.3%	(318)	1.2%	(318)	1.0%		0.0%		0.0%
Equity in profit of affiliates	247	0.9%		0.0%	21	0.0%	192	0.6%	91	0.3%
Net income	422	1.5%	361	1.3%	733	2.3%	594	1.8%	531	1.9%

Fiscal Year ended December 31, 2007 compared to Fiscal Year Ended December 31, 2006

Revenue; Gross Profit and Cost of Revenue. Revenue increased by approximately US$69,000 or 0.3% to approximately US$27,230,000 in Fiscal 2007 from approximately US$27,161,000 in Fiscal 2006. The increase in revenues was primarily due to increasing revenues of approximately US$2,302,000 from engineering activities as there was an increase in the number of engineering jobs completed in Fiscal 2007, as a result of Pact and Yixing having established operations in the PRC and they have been receiving a greater volume of orders in the recent years, despite declining revenues of approximately US$2,233,000 from trading activities as a greater number of our key or exclusive suppliers have been marketing their products or selling into the China market, either directly or through distributors other than the Company. After the Company acquired its majority interest in Pact-Yixing in October 2005, Pact-Yixing s revenues of approximately US$6,981,000 and US$3,953,000 were included in our revenues in Fiscal 2007 and Fiscal 2006, respectively.

Gross profits increased by approximately US$277,000 or 4.2% to approximately US$6,832,000 for Fiscal 2007 as compared to approximately US$6,555,000 for Fiscal 2006.

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During Fiscal 2007, the Company s cost of revenue was approximately US$20,398,000, or 74.9% of revenue, in comparison to approximately US$20,606,000, or 75.9% for Fiscal 2006. Cost of revenue expressed as a percentage of revenue decreased by 1.0% in Fiscal 2007 as compared with Fiscal 2006. The gross profit margin percentage increase was due principally to an increase in revenue from engineering activities which are of higher gross margin percentage than those of trading activities. Yixing-Pact contributed approximately US$2,126,000 to our gross profit margin in Fiscal 2007.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$6,585,000 in Fiscal 2007, an increase of approximately US$624,000 or 10.5% from approximately US$5,961,000 in Fiscal 2006. The increase was principally due to the increase of Yixing-Pact expenses of approximately US$512,000 due to expenses of approximately US$211,000 for the manufacturing joint venture and increase in expenses related to increase in revenue. The PRC inflation rate of 4.8% and average appreciation rate of 6% for RMB against the US$ in 2007 also accounted for the increase in selling and administrative expenses.

Equity in Profit of Affiliates. Equity in profit of affiliates of approximately US$247,000 represented the share of net profit after tax of BlueSky after its acquisition in August 2007.

Interest Income. Interest income increased by approximately US$161,000 or 169.5% to approximately US$256,000 in Fiscal 2007 from approximately US$95,000 for Fiscal 2006. The increase was primarily due to the increase in bank deposits during the year.

Other Income. Other income increased by approximately US$15,000 or 10.3% to approximately US$161,000 in Fiscal 2007 from approximately US$146,000 in Fiscal 2006. The increase in other income was principally due to increase in gain of disposal of plant and equipment.

Income Taxes. Taxes decreased by US$12,000 to approximately US$144,000 in Fiscal 2007 from approximately US$156,000 in Fiscal 2006. This decrease was primarily the result of decreased taxable profits and an increase in income which are not subject to income taxes, such as offshore income and interest income.

Net Income. Income from continuing operations increased by approximately US$61,000 or 17% to approximately US$422,000 in Fiscal 2007 from approximately US$361,000 in Fiscal 2006. The increase was primarily due to the contribution from shares of equity in BlueSky s net income of approximately US$247,000, partially offset by the increase in selling and administrative expenses.

Fiscal Year ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005

Revenue; Gross Profit and Cost of Revenue. Revenue decreased by approximately US$4,089,000 or 13.1% to approximately US$27,161,000 in Fiscal 2006 from approximately US$31,250,000 in Fiscal 2005. The decrease in revenues was primarily due to declining revenues of approximately US$4,105,000 from trading and manufacturing activities as a greater number of our key or exclusive suppliers have been marketing their products or selling into the China market, either directly or through distributors other than the Company. After the Company acquired its majority interest in Pact-Yixing in October 2005, Pact-Yixing s revenues of approximately US$3,953,000 and US$3,662,000 were included in our revenues in Fiscal 2006 and Fiscal 2005, respectively.

Gross profits decreased by approximately US$14,000 or 0.2% to approximately US$6,555,000 for Fiscal 2006 as compared to approximately US$6,569,000 for Fiscal 2005. During Fiscal 2006, the Company s cost of revenue was approximately US$20,606,000, or 75.9% of revenue, in comparison to approximately US$24,681,000, or 79% for Fiscal 2005. Cost of revenue expressed as a percentage of revenue decreased by 3.1% in Fiscal 2006 as compared with Fiscal 2005. The gross profit margin percentage increase was due principally to an increase in gross margin percentage of approximately 4% for trading activities as the Company s sales of lower gross margin products declined. Yixing-Pact contributed approximately US$1,417,000 to our gross profit margin in Fiscal 2006.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$5,961,000 in Fiscal 2006, an increase of approximately US$543,000 or 10.9% from approximately US$5,418,000 in Fiscal 2005. The increase was principally due to the inclusion of our share of Yixing-Pact expenses, approximately $568,000 for a full year, while the Yixing-Pact expenses of approximately US$122,000, included in Fiscal 2005, were for only a partial year, with Yixing-Pact not becoming our majority-owned subsidiaries until October 2005. The selling and administrative expenses for trading and manufacturing activities decreased slightly as the Company streamlined operations.

Equity in Profit of Affiliates. Equity in profit of affiliates decreased by approximately US $21,000 or 100% to approximately US$Nil in Fiscal 2006 from approximately US $21,000 in Fiscal 2005. The decrease in equity in profit of affiliates was due to the results of Yixing-Pact being consolidated after the Company owned its majority interest in October 2005.

Interest Income. Interest income increased by approximately US$60,000 or 171.4% to approximately US$95,000 in Fiscal 2006 from approximately US$35,000 for Fiscal 2005. The increase was primarily due to the increase in bank deposits.

Other Income. Other income decreased by approximately US$26,000 or 15.1% to approximately US$146,000 in Fiscal 2006 from approximately US$172,000 in Fiscal 2005. The decrease in other income was principally due to decrease in our foreign exchange gains of US$28,000 in Fiscal 2006.

Income Taxes. Taxes decreased by US$172,000 to approximately US$156,000 in Fiscal 2006 from approximately US$328,000 in Fiscal 2005. This decrease was primarily the result of decreased taxable profits and a decrease of effective tax rates from 24.2% in Fiscal 2005 to 18.7% in Fiscal 2006. The decrease in the effective tax rate was principally due to a tax rate decrease on the net income of Pact-Yixing, as a result of establishing a service company that paid taxes at a lower rate.

Net Income. Income from continuing operations decreased by approximately US$372,000 or 50.8% to approximately US$361,000 in Fiscal 2006 from approximately US$733,000 in Fiscal 2005. The decrease was primarily due to the decrease in revenues from trading activities, partially offset by higher gross margin and selling and administrative expense percentages resulting from inclusion of Pact-Yixing s operating results after October 2005.

Item 5B. Liquidity and Capital Resources

The Company has primarily used its 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, existing available bank credit facilities and proceeds from the issuance of our ordinary shares pursuant to stock option exercises would be sufficient to fund its future capital expenditure requirements. Working capital at the end of Fiscal 2007 and Fiscal 2006 were approximately US$10,099,000 and US$10,267,000, respectively.

At the end of Fiscal 2007 and Fiscal 2006, the Company s accounts receivable were approximately US$4,968,000 and US$4,914,000, respectively. During Fiscal 2007, the Company generated net cash of approximately US$449,000 from its operating activities from net income, reduction in inventories, and increase in other payables and accrued expenses while funding an increase in accounts receivable, prepayments and other current assets and decrease in accounts payable.

During Fiscal 2007, the Company used approximately US$4,415,000 in investing activities. In Fiscal 2006, the Company used approximately US$352,000 from investing activities. The Company used approximately US$250,000 and US$106,000 to purchase facilities and equipment in Fiscal 2007 and Fiscal 2006, respectively. During Fiscal 2007 and Fiscal 2006, the Company released approximately US$83,000 and used US$111,000, respectively, as restricted cash to issue performance guarantees to its customers through its banks. During Fiscal 2007, Yixing-Pact paid a dividend of approximately US$140,000 to minority interest shareholders. During Fiscal 2007, the Company used approximately US$4,151,000 to acquire 20% equity interest in Blue Sky. Additionally, a final payment of US$648,000 is to be made by the end of June 30, 2008, based on Blue Sky s net profits for its fiscal year ended December 31, 2007.

The Company received approximately US$3,720,000 and US$2,607,000, respectively, in Fiscal 2007 and Fiscal 2006 from financing activities resulting from the issuance of its ordinary shares being issued on stock options that were exercised. During Fiscal 2007, the Company received approximately US$200,000 as a return on its interest in the Yixing-Pact s manufacturing joint venture. The Company had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Company can access up to approximately US$4,167,000 at December 31, 2007. 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.

Cash increased from approximately US$9,160,000 at the end of Fiscal 2006 to approximately US$9,387,000 at the end of Fiscal 2007. The principal reasons for the increase in cash were the increase in other payables by approximately US$896,000 and proceeds of approximately US$3,720,000 from the exercise of stock options by Company management and employees. However, the Company used cash to fund its decrease in accounts payable by approximately US$1,080,000 and used US$4,151,000 for investment in affiliates. The Company plans to use cash on hand primarily to acquire a manufacturing plant and/or environmental engineering company in the PRC and to expand its manufacturing plant and environmental engineering business.

The Company s net accounts receivable slightly increased from approximately US$4,914,000 at the end of Fiscal 2006 to approximately US$4,968,000 at the end of Fiscal 2007.

The Company s inventory decreased from approximately US$2,028,000 at the end of Fiscal 2006 to approximately US$2,012,000 at the end of Fiscal 2007.

The Company s capital expenditures were approximately US$106,000 and US$250,000 in Fiscal 2006 and Fiscal 2007, respectively. Capital expenditures during Fiscal 2006 and Fiscal 2007 were incurred primarily in connection with the purchase of office equipment, furniture and fixtures. The Company continues to seek targets for acquisition and facilities for assembly operations or engineering companies. If such acquisitions 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, available bank credit facilities and proceeds from the issuance of our ordinary shares to fund such capital expenditures.

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 its Fiscal 2008 these requirements from operations, available bank credit facilities and proceeds from the exercise of options. The Company may use its funds to acquire other businesses, make equity investments in related business, form strategic alliances with third parties, invest in product research and development, or expand its sales offices and retail shops 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 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

Revenue Recognition

Pursuant to the revenue recognition criteria set forth in Securities and Exchange Commission s Staff Accounting Bulletin (SAB) No. 104: Revenue Recognition , the Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, the product has been delivered, the sales price is fixed or determinable and collectibility is reasonably assured. For certain products where installation is necessary, revenue is recognized upon completion of installation. Revenue earned from customer support, which represents a minor percentage of total revenues, it is recognized when such services are provided.

Revenues and profits in long term fixed price contracts are recorded under the percentage of completion method in accordance with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts . This approach relies on estimates of total expected direct costs of completion, which are compared to actual direct costs incurred to date to arrive at an estimate of revenue and profit earned to date. Recognized revenue and profit are subject to revisions as the contract progresses to completion. Revisions to profit estimate are reflected in income in the period in which the facts that give rise to the revision become known. For any contract where it is identified that a loss will be incurred, the full loss will be recognized immediately. There were no long-term fixed price contracts during 2007.

Inventory Valuation

The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional write-downs may be required.

Deferred Taxes

As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes and tax bases of assets and liabilities in each of the jurisdictions in which it operates. This process involves the Company estimating its current tax exposure together with assessing temporary differences resulting from its differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company s consolidated balance sheet. The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income, and, to the extent the Company believes that recovery is more unlikely than likely, it must establish a valuation allowance. To the extent the Company establishes a valuation allowance or increases this allowance in a period, it must include an expense within the tax provision in the statement of operations.

Recent Accounting Pronouncements

In September 2006, the FASB issued FAS 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 are effective for the fiscal year beginning after November 15, 2007. We are currently evaluating the impact of the provisions of FAS 157.

On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted. The Company does not anticipate that the adoption of this statement will have a material effect on the Company s financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS No. 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of FAS No. 160 on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, (FAS No. 141(R)), which replaces FASB Statement No. 141. FAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. FAS No. 141(R) is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, which will be our year beginning January 1, 2009. We are currently evaluating the potential impact, if any, of the adoption of FAS No. 141(R) on the consolidated financial statements.

The Company does not believe that any other recently issued and adopted, but not yet effective, accounting standards should have a material effect on the accompanying financial statements.

Item 5C. Research and Development, Patents and Licenses

During Fiscal 2007, Fiscal 2006 and Fiscal 2005, the Company expensed approximately US$47,000, US$55,000 and US$48,000, respectively, on the development of its products. It is anticipated that an additional US$250,000 in research and development costs will be expended on similar projects and potential research and development projects for the development of air and water testing equipment and monitoring equipment during Fiscal 2008.

Item 5D. Trend Information

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

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

Item 5E. Off Balance Sheet Arrangements

None.

Item 5F. Tabular Disclosure of Contractual Obligations

Contractual Obligations		**Total**		**Less than 1 Year**		**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating Leases	US$	263,000	US$	235,000	US$	28,000		
Total Contractual Cash Obligations	US$	263,000	US$	235,000	US$	28,000		

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6A. Directors and Senior Management

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

Name	Age	Position
T.C. Leung	64	Chairman of the Board of Directors and Chief Executive Officer
Jerry Wong	49	Director and Chief Financial Officer
Alex Sham	44	Director
Y.K. Liang	78	Director
Ka Chong Cheang	79	Director
Xu Hong Wang	40	Director
Li Da Weng	63	Director

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

T.C. Leung has been Chief Executive Officer and Chairman of the Board of Directors of both the Company and Far East since their inception. Before establishing Far East, Mr. Leung was an engineer for English Electric in England, from 1965 to 1968, and Lockheed Aircraft in Hong Kong, from 1968 to 1970. Mr. Leung also served as managing director of Eurotherm (Far East) Ltd. (Eurotherm) between 1971 and 1992. From 1988 until he retired in February 2005, Mr. Leung had also served as managing director of Eurotherm Hong Kong. Mr. Leung received a Masters degree in Business Administration from the University of East Asia, Macau in 1986 and is a Chartered Engineer, a title bestowed upon a member of the Council of Engineering Institutions in the United Kingdom.

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

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

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

Ka Chong Cheang has been a Director of the Company since December 2005. From 1952 until 1977, he had been shipping manager for John Swire & Sons (Hong Kong) Ltd., a firm engaged in the importing and exporting shipping industry. For more than the past five years, Mr. Chong has been a business consultant.

Xu Hong Wang has been a director of the Company since August 2002. Mr. Wang is the East China sales manager of Euro Tech (Far East) Limited, a wholly-owned subsidiary of the Company, since mid 1994. From mid 1997 until joining Euro Tech, he was employed as a Research Associate and Lecturer at the Analysis and Research Center of Shanghai s Tongji University. Wang Xu Hong received Bachelor s and Master s degrees in Science from Fudan University in 1984 and 1988, respectively.

Li Da Weng, from 1993 until January 2005, was the General Director of the Yangtze Valley Water Resources Protection Bureau (YVWRPB). He was employed by the YVWRPB in various positions, for more than 25 years, before he became the General Director in 1993. Since 2005, he has been the Secretary General of Yangtze Forum, a group of governments, businesses, universities and research institutes meeting on occasion to discuss issues on protecting and developing the Yangtze River, and since 1994 he has been a member of the Science and Technical Committee of Changjiang Water Resources Commission. Mr. Li Da Weng graduated from Hengyang Mining and Metallurgy College (now known as Nanhua University) in 1965 with a Bachelor s Degree in Analytical Chemistry. From December 1981 to December 1983, he was a visiting scholar at the Canada s Centre for Inland Waters, National Water Research Institute.

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

None of the Company s directors, officers or beneficial owners of ten percent or more of its Common Stock are required to file any reports pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended (the 1934 Act).

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The Company had 2 meetings of its Board of Directors during Fiscal 2007, while its Audit Committee had 3 meetings during Fiscal 2007.

There are no material legal proceedings involving any director, officer or affiliate of the Company, owner of record or beneficially of more than five percent of the Company s Common Stock or any associate of any of the foregoing.

Two prior directors of the Company, Nancy Wong and C.P. Kwan, were not elected by stockholders of the Company at the last annual meeting of stockholders.

Key Employees

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

Yvonne Xia manages Pact and Yixing s Procurement Department, as well as assisting the managing director in management of the various departments. She joined Pact-Yixing at the time of their formation in 1998. Ms. Xia is an environmental engineering graduate from Qing Hua University of Beijing (1989) and an EMBA graduate from the Olin School of Management of the Washington University (2003). She has several positions of increasing responsibility, including management of engineering, sales, procurement and projects while with Pact-Yixing.

Item 6B. Compensation

The following table sets forth certain summary information with respect to the compensation paid by the Company and its subsidiaries, for services rendered in all capacities to the Company and its subsidiary during Fiscal 2007, Fiscal 2006 and Fiscal 2005 to the Chairman of the Board and Chief Executive Officer and a key employee of the Company. No other executive officer or employee received in excess of US$100,000 as cash compensation during those fiscal periods.

Summary Compensation Table

Key Employees **Name and Principal Position**	**Year**	**Salary (US$)**	**Bonus (US$)**
T.C. Leung, Chairman of the Board of	2007	155,000	
Directors and Chief Executive Officer	2006	159,000	
	2005	162,000	
George Hayek	2007	110,000	
	2006	110,000	
	2005	108,000	

Mr. Hayek is to continue his employment relationship with Pact and Yixing for a period of three years ending October 2008.

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

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

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

As stipulated by the rules and regulations in the PRC, the Company contributes to state-sponsored retirement plans for its employees in the PRC. The Company contributes approximately 10% to 22% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the years ended December 31, 2007, 2006 and 2005, the aggregate contributions of the Company to the aforementioned pension plans and retirement benefit schemes were approximately US$245,000, US$202.000 and US$191,000, respectively.

Management Option Plan. The Company had authorized the issuance of Options to purchase up to an aggregate of 4,586,400 Ordinary Shares (the Management Options) to its officers, directors and employees as the Company s Chairman of the Board and Chief Executive Officer may direct. The Management Options became exercisable on March 14, 1998 and expired on March 14, 2007.

The following executive officers and directors of the Company had exercised the Management Options at prices/price ranges as indicated below prior to the end terms of the options.

Name of Executive Officers and Directors	**Number of Shares Exercised**	**Price Range**
T.C. Leung	3,423,600	US$1.221 1.6789
Alex Sham	163,800	US$1.221 1.6789
Jerry Wong	173,204	US$1.221 1.6789
C.P. Kwan	24,570	US$1.221

Company Option Plans. The Company s 2000 Officers and Directors Plan and 2002 Officers and Directors Plan (collectively referred to as the Officers Plans) provide for the grant of options to acquire Ordinary Shares to the Company s executive officers and directors and persons holding the same positions with the Company s subsidiaries. The 2000 Employees Plan and 2002 Employees Plan (collectively referred to as the Employees Plan) provides for the grant of options to acquire Ordinary Shares to key employees of the Company and its subsidiaries. All four plans are collectively referred to as the Plans .

692,580 and 1,637,160 shares had been originally authorized for issuance under the Employees Plan and the Officers Plans, respectively.

The Board of Directors or a committee (the Committee) appointed by the Board of Directors administers the Plans. The Board of Directors or the Committee also has the authority to delegate decisions with respect to Options granted to key employees under the Employees Plan who are not elected officers or directors of the Company or its subsidiaries and to delegate decisions with respect to key employees to the Chief Executive Officer.

Any decision by the Committee or the Chief Executive Officer to grant an award under the Plans is subject to ratification by the Board of Directors of the Company. The Board is also to ratify any decision that effects the terms or conditions of options awarded to elected officers or directors of the Company or its subsidiaries.

In the event that the Ordinary Shares of the Company are subdivided or consolidated as a result of a reorganization, stock split, payment of a stock dividend, reverse stock split or other change in the Company s capitalization, the Committee or the Board of Directors has the authority to make appropriate adjustments in the Ordinary Shares available for issuance under the Plans, the number of shares subject to options that may have been or may be awarded to any participant in any 12 month period, the price, number of Ordinary Shares or kind of securities subject to outstanding options, or the terms of such options in order to prevent dilution or enlargement of rights under the options. In addition, the Board may also change the kind of securities available for grant under the Plans to reflect any such corporate changes.

The Committee or the Chief Executive Officer has the discretion to determine which employees constitute key employees to whom options will be awarded under the Employees Plan.

The Committee or Chief Executive Officer, as the case may be, determines the number of Ordinary Shares subject to options to be granted.

The purchase price per share of the Ordinary Shares to be paid upon the exercise of the option must be at least 100% of the fair market value of an Ordinary Shares on the date on which the option was granted. Under the Plans, if the Ordinary Shares are principally traded on a national securities exchange or the Nasdaq Stock Market s National Market or Small Cap Market at the time of grant, the Company is required to use, as fair market value, the average of the closing prices of the Ordinary Shares for the ten consecutive trading days immediately before the date of grant. If the Ordinary Shares are traded on a national securities exchange or the Nasdaq Stock Market s National Market or Small Cap Market, but no closing prices are reported for such ten-day period, or if the Ordinary Shares are principally traded in the over-the-counter market, the Company is required to use, as fair market value, the average of the mean between the bid and asked prices reported for the Company s Ordinary Shares at the close of trading during such ten-day period before the date of grant. If the Ordinary Shares are traded neither on a national securities exchange, the Nasdaq Stock Market s National Market, Small Cap Market nor in the over-the-counter market or if bid and asked prices are otherwise not available, the fair market value of the Ordinary Shares on the date of grant will be determined in good faith by the Committee or the Board of Directors, as the case may be.

The Board of Directors or the Committee, as the case may be, or, to the extent that such authority has been delegated to the Chief Executive Officer, the Chief Executive Officer determines, at the time of grant, when each option granted under the Plans will become exercisable. Notwithstanding the foregoing, all options held by a key employee of the Company or its subsidiaries become immediately exercisable, whether or not exercisable at the time, upon the death or disability.

No option is to be exercisable more than ten years from the date the option is granted.

Payment of Exercise Price for Options. Under the Plans, payment for shares purchased upon exercise of an option may be made by any of the following methods, subject to certain requirements: (1) in cash, paid by either the optionholder or a broker to whom the optionee has tendered the option; (2) in Ordinary Shares valued at the fair market value of such shares on the date of exercise, provided that such shares were held by the optionholder for not less than six months prior to the date of exercise of the option; (3) by any other medium of payment that the Board, Committee or the Chief Executive Officer, as applicable, has authorized at the time of grant (other than the withholding of shares issuable upon the exercise of options); or (4) by any combination of the preceding methods.

Transfer Of Options. Under the Plans, an option may not be sold, assigned or otherwise transferred except to:

- the spouse or lineal descendant of a plan participant;
- the trustee of a trust for the primary benefit of a plan participant s spouse or lineal descendant;
- a partnership of which a plan participant and lineal descendants are the only partners; or
- a charitable organization.

These assignments are only permitted if the assigning optionee does not receive any compensation in connection with the assignment and the assignment is expressly approved by the Board or Committee, as the case may be.

The Company indemnifies the members of any Committee and its delegates and the Chief Executive Officer against (1) reasonable expenses incurred in connection with the defense of any action, suit or proceeding to which they may be a party by reason of any action taken or failure to act in connection with the Plans, and (2) all amounts paid by them in settlement of or satisfaction of a judgment entered in any such action, suit or proceeding, except in cases where such a person is adjudged liable for gross negligence or gross misconduct in the performance of his or her duties.

The Board may terminate, suspend, or amend the Plans at any time without the authorization of shareholders to the extent allowed by law or the rules of any market on which the Company s shares are then listed or quoted.

During Fiscal 2000 and in January 2002, the Company granted options to certain of its officers and directors pursuant to the 2000 Officers and Directors Plan and, in November 2002, options were granted to certain of its officers and directors pursuant to the 2002 Officers and Directors Plan. The table below shows, as to each of the executive officers and directors of the Company and as to all executive officers and directors of the Company as a group, the aggregate amounts of Ordinary Shares remaining (unexercised), subject to such options.

Names of Executive Officers and Directors	**Shares Subject To the (Remaining) Officers Plans Options**	**Per Share Exercise Price (US$)**
T.C. Leung	170,000(1)	0.5857
Xu Hong Wang	10,000(1)	0.5857
	10,920(2)	0.5787

Names of Executive Officers and Directors	**Shares Subject To the (Remaining) Officers Plans Options**	**Per Share Exercise Price (US$)**
	31,500(2)	0.8191
All executive officers and Directors as a group	222,420	0.5787 0.8191(3)

(1) Granted pursuant to the 2002 Officers and Directors Plan.

(2) Granted pursuant to the 2000 Employees Plan.

(3) Price range.

The foregoing options will expire in August 2010.

Pursuant to its 2000 Employees Plan, the Company had originally granted options to 32 of its non-officer/director employees to purchase an aggregate of 398,580 of its Ordinary Shares exercisable at a price of US$0.5787 per share for a ten year term expiring in February 2011.

Pursuant to its 2002 Employees Plan, the Company had originally granted options to 32 of its non-officer/director employees to purchase an aggregate of 294,000 of its Ordinary Shares exercisable at a price of US$0.7618 per share for a ten year term expiring in April 2012.

As of December 31, 2007, 1,322,920 options had been exercised, including 572,300 options and 205,800 options exercised by Mr. Leung at prices of US$0.5857 and US$0.8191 per share, respectively.

2007 Officers and Directors Stock Option and Incentive Plan

A total of 880,000 ordinary shares have been reserved for issuance under the Company s 2007 Officers and Directors Stock Option and Incentive Plan (the 2007 D&O Stock Options). The 2007 D&O Stock Options provide for the grant of options to its directors and officers as the Company s Chairman of the Board of Directors and Chief Executive Officer may direct. The management, terms and conditions of the 2007 Officers and Directors Stock Option Plan are substantially similar to the Company s 2000 Officers and Directors Plan. The table below shows, as to each of the executive officers and directors of the Company and as to all executive officers and directors of the Company as a group, the aggregate amounts of Ordinary Shares remaining (unexercised), as of June 1, 2008, subject to such options.

Names of Executive Officers and Directors	Shares Subject To the (Remaining) Officers Plans Options	Per Share Exercise Price (US$)
T.C. Leung	125,000	2.85
	62,500	4.00
	62,500	4.05
	100,000	3.66
	125,000	2.66
	150,000	2.56
Jerry Wong	8,000	2.85
	4,000	4.00
	4,000	4.05
	8,000	2.66
	13,000	2.56
Xu Hong Wang	10,000	2.56
All executive officers and Directors as a group	672,000	2.56 4.05(1)

(1) Price range.

The foregoing options will expire in January 2010.

The Company has set forth in this Report all required disclosure of additional compensation to its executive officers and directors including personal benefits and securities or properties paid or distributed which was not offered on the same terms to all full time employees during Fiscal 2007.

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

	As of December 31,					
	2007		2006		2005	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	3,938,296	1.32	5,978,806	1.31	6,724,042	1.26
Granted	499,000	3.27	55,000	2.91		
Cancelled	(451,210)	(1.58)	(46,620)	(1.13)	(104,706)	(1.16)
Exercised	(2,695,246)	(1.44)	(2,048,890)	(1.33)	(640,530)	(0.78)
Outstanding, end of year	1,290,840	1.74	3,938,296	1.32	5,978,806	1.31
Exercisable, end of year	791,840	0.78	3,923,296	1.32	5,978,806	1.31

As of December 31, 2007, the options outstanding and exercisable had exercise prices in the range of US$0.5787 to US$4.05 and a weighted average unexpired life of approximately 3.1 years.

On January 1, 2006, the Group adopted the provisions of Statement 123 (revised 2004) (Statement 123(R), Share-Based Payment, which revises Statement 123, Accounting for Stock-Based Compensation using the modified prospective application transition method, and supersedes APB Opinion 25, Accounting for Stock Issued to Employees. Statement 123(R) requires us to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options.

The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected volatility of stock price. Because changes in subjective input assumptions can materially effect the fair value estimate, in directors opinion, the existing model may not necessarily provide a realizable measure of the fair value of the stock options.

Had compensation expense for the Company s stock-based compensation plan been recognized based on the fair value of the options on the grant date in accordance with SFAS No. 123, the Company s pro forma net income and earnings per common share would have been as follows:

		As of December 31, 2005 US$ (amounts expressed in thousands, except share and per share date)
Net income as reported		733
Less: Stock compensation expense determined under the fair value method, net of tax		(39)
Pro forma net income		694
Income per share:		
Basic, as reported	US$	0.11
Diluted, as reported	US$	0.07
Basic, pro forma	US$	0.11
Diluted, pro forma	US$	0.07

Item 6C. Board Practices

The term of each of the Company s directors expires at the election and qualification of their successors at the next annual meeting of the Company s shareholders, anticipated to be held in August of this year. Of the Company s nine directors, seven were re-elected at the Company s last annual meeting of shareholders in August 2007.

The Board has a standing Audit Committee to assist the Board in carrying out its duties. The Audit Committee has a written charter approved by the Board. The chair of the Audit Committee determines the meeting agenda of the Audit Committee. The Audit Committee members receive materials in advance of Committee meetings allowing them to prepare for the meeting.

During Fiscal 2007, the Audit Committee met 3 times, being attended by all members.

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

- reviews the Company s auditing, accounting and financial reporting process;
- reviews the adequacy of the Company s internal controls;

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

The Audit Committee is currently composed of Y.K. Liang, Ka Chong Cheang and Li Da Weng. The Audit Committee s financial expert is Y.K. Liang. The Board has determined that the membership of the Audit Committee meets the current independence requirements of the NASDAQ listing standards as same applies to private foreign issuers and the applicable rules and regulations of the SEC.

Item 6D. *Employees*

The Company (exclusive of Yixing-Pact) has approximately 146 full-time employees. At December 31, 2007, 2006 and 2005, staffing levels were approximately as follows:

	2007	**2006**	**2005**
Marketing and sales	65	71	76
Administrative	49	55	59
Technical	32	32	45
Total full time employees	146	158	180

Pact and Yixing have approximately 57 full-time employees. At December 31, 2007, 2006 and 2005, respectively, staffing levels were approximately as follows:

	2007	**2006**	**2005**
Engineers	35	24	21
Administrative Persons	22	11	9

The Company s management consists of its officers and directors.

The Company is not subject to any collective bargaining agreement and believes that its relations with its employees are good.

Item 6E. **Share Ownership**

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7A. Major Shareholders

The following table sets forth, as of June 1, 2008, certain information concerning beneficial ownership of the Company s Ordinary Shares with respect to (i) each person known to the Company to own 5% or more of the outstanding Ordinary Shares, (ii) each director and executive officer of the Company, and (iii) all officers and directors of the Company as a group:

	Amount and Nature of Beneficial Ownership(3)	Approximate Percentage Of Ordinary Shares Owned (4)
T.C. Leung (1)(2)(3)	6,730,998	53.2%
Pearl Venture Ltd.(1)(2)	1,474,075	12.4%
Alex Sham(1)	342,300	2.9%
Jerry Wong(1)(3)	228,766	1.9%
Y.K. Liang(1)	*	*
Xu Hong Wang(1)(3)	94,420	0.8%
Ka Chong Cheang(1)	*	*
Li Da Weng(1)	*	*
All Executive Officers And Directors of the Company as a group (7 persons)(2) (3)	7,396,483	58.0%

* Denotes Nil.

(1) The address for the Company s officers and directors is c/o Euro Tech (Far East) Ltd., 18/F Gee Chang Hong Centre, 65 Wong Chuk Hang Road, Hong Kong. The address for Pearl is Columbus Centre Building, Wichhams Cay, Road Town, Tortola, British Virgin Islands.

(2) Includes shares of the Company s Common Stock owned of record by Pearl, which is a trust established for the benefit of Mr. Leung. Also includes those Company Ordinary Shares owned of record by Regent, of which Pearl is the majority shareholder.

(3) Gives effect to the exercise of the 2000 Officers and Directors Plan, 2000 Employees Plan, 2002 Officers and Directors Plan and 2007 Officers and Directors Plan Options owned of record by such persons and which have vested or will vest within six (6) months of the date of this Report. See Item 6B. Compensation.

(4) Calculated on the basis of 11,861,380 Ordinary Shares issued and outstanding on June 1, 2008.

Item 7B. Related Party Transactions

During Fiscal 2005, the Company made purchases from Eurotherm of approximately US$242,000.

Additionally, during Fiscal 2005, the Company paid Eurotherm approximately US$4,000 in management fees to assist in the management of some of the Company s PRC offices while the Company earned approximately US$2,000 from Eurotherm for office space rentals in Fiscal 2005.

The payments to Eurotherm were based on actual office space usage and the time cost of personnel used, respectively.

T.C. Leung, the Company s Chairman of the Board and Chief Executive Officer was also a director of Eurotherm until he retired from that position in February 2005.

ITEM 8. FINANCIAL INFORMATION

Item 8A. Consolidated Statements and Other Financial Information

Item 8A.1 See Item 18.

Item 8A.2 See Item 18.

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

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

Item 8A.5 Not applicable.

Item 8A.6 Not applicable.

Item 8A.7 Legal Proceedings.

The Company is not a party to any material legal proceedings.

Item 8A.8 Dividend Policy.

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

Item 8B. Significant Changes

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

ITEM 9. THE OFFERING AND LISTING

Item 9A. Listing Details

The Company has one class of securities presently registered: Ordinary Shares. These securities are presently traded on the NASDAQ SmallCap Market under the trading symbols CLWT , and have so traded since the Company s Public Offering in March 1997.

The following prices are not adjusted to reflect stock dividends of 40% and 50% issued in September 2003 and August 2004, respectively.

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

Years Ended December 31,	**Low US$**	**High US$**
2003	0.650	3.7143
2004	0.933	7.327
2005	2.700	6.590
2006	1.680	5.740
2007	1.81	5.14

Quarters Ended	**Low US$**	**High US$**
June 30, 2006	2.850	3.880
September 30, 2006	1.680	2.980
December 31, 2006	1.940	5.740
March 31, 2007	2.450	4.520
June 30, 2007	2.18	3.70
September 30, 2007	1.81	3.97
December 31, 2007	2.21	5.14
March 31, 2008	1.93	3.04

The Following Months	**Low US$**	**High US$**
January 2008	2.300	3.040
February 2008	2.230	2.720
March 2008	1.930	2.460
April 2008	2.160	2.620
May 2008	2.300	2.150

The Ordinary Shares were held by approximately 52 holders of record as of June 12, 2008 Based upon information received from broker-dealers, clearing firms and others, the Company believes that it has approximately 1,930 beneficial shareholders of its Ordinary Shares.

Item 9B. Plan of Distribution

Not Applicable.

Item 9C. ***Markets***

See Item 9A. Listing Details.

Item 9D. ***Selling Shareholders***

Not Applicable.

Item 9E. Dilution

Not Applicable.

Item 9F. Expenses Of The Issue

Not Applicable.

Not Applicable.

ITEM 10. ADDITIONAL INFORMATION

Item 10A. Share Capital

Not Applicable.

Authorized Capital. The authorized capital of the Company is US$250,000 comprised of 20,000,000 Ordinary Shares and 5,000,000 shares of Preferred Stock. As of December 31, 2007, there were 11,684,250 Ordinary Shares and no shares of Preferred Stock, issued and outstanding. An additional approximately 341,000 Ordinary Shares were repurchased by the Company as treasury stock and are non-voting. All of the Company s shares of capital stock have a par value of US$0.01 per share.

Holders of the Company s Ordinary Shares are entitled to one vote for each whole share on all matters to be voted upon by shareholders, including the election of directors. Holders of Ordinary Shares do not have cumulative voting rights in the election of directors. All shares of Ordinary Shares are equal to each other with respect to liquidation and dividend rights. Holders of Ordinary Shares are entitled to receive dividends if and when declared by the Company s Board of Directors out of funds legally available under British Virgin Islands law. In the event of the liquidation of the Company, all assets available for distribution to the holders of Ordinary

Shares are distributable among them according to their respective share holdings. All of the outstanding shares of Ordinary Shares of the Company are duly authorized, validly issued, fully paid and non-assessable.

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

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

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

Item 10B. Memorandum and Articles of Association

Set forth below is a summary of the material provisions of our Memorandum and Articles of Association (the Articles) and the British Virgin Islands (BVI) International Business Companies Act of 1984 relating to the shares. This description does not purport to be complete and is qualified in its entirety by reference to BVI statutory law and to the Articles.

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

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

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

A meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than fifty (50%) percent of the votes of the shares or class series of shares entitled to vote on resolutions of shareholders to be considered at the meeting.

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

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

Net Profits and Dividends. Under BVI law, dividends may only be declared and paid out of surplus, such that after payment of dividends the Company must be able to satisfy its liabilities as they become due in the ordinary course of business and the realizable value of the assets of such company must not be less than the sum of its liabilities (other than deferred taxes and capital). There are no other BVI restrictions regarding dividends.

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

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

Repurchase of Shares. The Company may purchase, redeem or otherwise acquire and hold its own shares, but only out of surplus or in exchange for newly issued shares of equal value. Subject to provisions to the contrary in:

(a) the designations, powers, preferences, rights, qualifications, limitations and restrictions with which the shares were issued; or

(b) the subscription agreement for the issue of the shares,

the Company may not purchase, redeem or otherwise acquire its own shares without the consent of shareholders whose shares are to be purchased, redeemed or otherwise acquired.

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

Duration, Liquidation, Merger. The Company shall continue until wound-up and dissolved by a resolution of shareholders, or under the terms of any insolvency or liquidation laws in force in the BVI. Under BVI law the

Company may merge with another company, including a parent company or subsidiary, incorporated in the BVI, or in a jurisdiction outside of the BVI where the laws of that jurisdiction permit the merger. A merger must be authorized by the directors of the Company and approved by the shareholders.

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

Item 10C. Material Contracts

On April 29, 2007, Far East entered into a subscription agreement with Blue Sky and Blue Sky s management shareholders to purchase twenty (20%) percent of the equity capital of Blue Sky (the Blue Sky Agreement) for a total of US$4,700,000 of which US$4,000,000 was paid in August 2007 with a final payment of US$648,000 to be paid by the end of June 2008 based upon Blue Sky s net profits for its fiscal year ended December 31, 2007. The Blue Sky Agreement contains certain provisions requiring Far East s written consent prior to Blue Sky; taking on new shareholders, pledging or selling assets, declaring a dividend, amending its constitution, guaranteeing the obligations of third parties, dismissing management or changing their rates of compensation, appointing directors and similar provisions. Far East also has the right to appoint a non-executive director to Blue Sky, who will not participate in the day to day management of Blue Sky. In the event Blue Sky sells additional shares, Far East has the right to maintain its 20% interest by paying the same price as any proposed purchaser. Pursuant to the Blue Sky Agreement, in March 2008, Blue Sky declared a dividend to be paid in December 2008, to its shareholders. The Company estimates Blue Sky s dividends to Far East will approximate US$80,000. As part of the Blue Sky Agreement, Far East agreed that if it was able and circumstances permit, it would undertake the obligation of guaranteeing loans of not more than US$2,900,000 for Blue Sky.

On July 18, 2007, Far East entered into a subscription agreement with Jia Huan and Jia Huan s management shareholders to purchase twenty (20%) percent of the equity capital of Jia Huan for US$2,500,000 (the Jia Huan Agreement). The Jia Huan Agreement contains certain provisions requiring Far East s written consent prior to Jia Huan; taking on new shareholders, pledging or selling assets, declaring a dividend, amending its constitution, guaranteeing the obligations of third parties, dismissing management or changing their rates of compensation, appointing directors and similar provisions. Far East also has the right to appoint a non-executive director who will not participate in the day to day management of Jia Huan. In the event Jia Huan sells additional shares, Far East has the right to maintain its 20% interest by paying the same price as any proposed purchaser. The Jia Huan transaction was completed on January 20, 2008.

As part of its acquisitions of Yixing and Pact, the Company granted the minority shareholders of both entities the right to require the Company to purchase the remaining securities of Yixing and Pact pursuant to a formula that would obligate the Company to pay the minority shareholders approximately $1,758,000. There has been no indication to the Company from the minority shareholders that they desire to sell their shares. See Item 4A. History and Development of the Company and Item 4B. Business Overview .

Item 10D. ***Exchange Controls***

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

Item 10E. Taxation

The Company is exempted from taxation in the British Virgin Islands.

The Company s subsidiaries organized in Hong Kong, Far East, Euro Tech (China) Limited and ChinaH2O.com Limited, provide for Hong Kong profits tax at a rate of 17.5% 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. Hong Kong levies no capital gains or dividends tax.

Euro Tech Trading (Shanghai) Limited, a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 15%, after offsetting losses brought forward, if any, on the basis of its income for financing reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

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 PRC Enterprise Income Tax of 15% for two years starting from its first profit-making year, after offsetting losses brought forward, if any, followed by a 50% reduction for the next three years thereafter. As of December 31, 2007, SET remained exempt from the PRC enterprise income tax.

According to the relevant PRC tax rules and regulations, Shanghai Euro Tech Environmental Engineering Limited is exempt from the PRC Enterprise Income Tax of 15% for two years starting from 2007, followed by a 50% reduction for the next three years thereafter. Chongqing Euro Tech Rizhi Technology Co., Ltd and Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd provide for PRC Enterprise Income Tax at a rate of 30%, 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 is entitled to a lower Enterprise Income Tax rate of 27%. Pact Asia Pacific Limited is situated in the British Virgin Islands where there are no taxes imposed on it. However, part of its profits is subject to Hong Kong profits tax at a rate of 17.5% in Fiscal 2007 as to those profits earned in Hong Kong.

VIES of the Group provide for PRC Enterprise Income Tax at a rate of 33%, 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, 2007, certain VIEs had aggregated assessable losses carried forward of US$118,161 as agreed by the local tax authority.

The Company s effective tax rates for Fiscal 2007, Fiscal 2006 and Fiscal 2005 were 21.6%, 18.7% and 24.2%, respectively. Weighted average statutory tax rates of 11.3%, 14.3% and 23% were in effect for Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively. Principal adjustments to this statutory tax rate were valuation allowances of 17.1%, 5.5% and 0.3% during Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

PRC Enterprise Income Tax applied at 15% for Euro Tech Trading (Shanghai) Limited, a subsidiary incorporated in the PRC, for the year ended December 31, 2005. Accumulated tax losses of Shanghai Euro Tech Limited, another subsidiary incorporated in the PRC, available to offset against future profit were US$225,300 and US$305,975, respectively, during Fiscal 2007 and Fiscal 2006.

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

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

Effective January 1, 2007, the Company adopted FIN No. 48, Accounting for Uncertainty in Income Taxes. In accordance with FIN No. 48, the Company recognizes tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits.

Item 10H. Documents on Display

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Risks

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

Inflation

The Company cannot accurately determine the precise effect of inflation on its operations, it does not believe inflation has had a material effect on sales or results of operations during the past several years.

The Company is currently not exposed to material future earnings or cash flow exposures from changes in interest rates on debt obligations as the Company had no bank indebtedness in Fiscal 2007. The Company does not currently anticipate entering into interest rate swaps and/or similar instruments.

PART II

ITEM 13. DEFAULTS, DIVIDENDS, ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable.

ITEM 15. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d -14(c) under the Securities Exchange Act of 1934 (Exchange Act) as of the end of the period covered by this Annual Report on Form 20-F. Based on such evaluation, he has concluded that as of such date, our disclosure controls and procedures are effective and designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

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

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(c) and Rule 15d-15(e) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, they used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our Chief Executive Officer and Chief Financial Officer have conducted that, as of December 31, 2007, our internal control over financial reporting is effective based on those criteria. Notwithstanding the foregoing, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has performed preliminary evaluations of internal controls during the period ended December 31, 2007 and that some deficiencies have been noted. Furthermore, Management of the Company is in the process of developing complete evaluations in order to rectify those deficiencies.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management s report in this annual report.

(c) Changes in Internal Controls

No significant changes in our internal controls or in other factors that could significantly effect these controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses, were made as a result of the evaluation.

ITEM 16. [RESERVED]

Item 16A. Audit Committee Financial Expert

The Committee includes one non-employee director who meets the independence and financial expert requirements and two other members who meet the independence requirements of the NASDAQ listing standards and the rules and regulations of U.S. Securities and Exchange Commission. The Committee includes Messrs. Y.K. Liang , Ka Chong Cheang and Li Da Weng. Mr. Y.K. Liang is the financial expert on that committee.

Item 16B. Code Of Ethics

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

Item 16C. **Principal Accountant Fees And Services**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by BDO McCabe Lo Limited who were our principal external auditors, for 2005, 2006 and 2007.

	For the Year Ended December, 31		
	2005 **US$**	**2006** **US$**	**2007** **US$**
Audit fees(1)	103,500	127,000	189,800
Audit-related fees(2)	Nil	Nil	25,000
Tax fees(3)	6,000	3,300	8,100
All other fees	Nil	Nil	Nil

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

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

(2) Audit-related fees means the aggregate fees billed in each of the fiscal years listed for assurance and related services by our principal auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit fees. Services comprising the fees disclosed under the category of Audit-related fees involve principally the performance of certain agreed upon procedures for the years ended December 31, 2005, 2006 and 2007, respectively.

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

Item 16D. Exemptions From Listing Standards

The Company is a Controlled Company as defined in NASDAQ s corporate governance rules as a majority of our shares are owned by a control group consisting of T.C. Leung, Pearl Venture Ltd. and Regent Earnings Limited, who have disclosed their control group status in their filings with the Commission. So long as that controlled company status remains in effect, the Company will be exempt from certain of NASDAQ corporate governance rules that, including among other things, would require: (a) a majority of our directors be independent; (b) the compensation of our chief executive officer be determined or recommended by independent directors; and (c) director nominations be determined or recommended by independent directors.

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

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

Index to consolidated financial statements

Reports of Independent Registered Public Accounting Firms

Consolidated balance sheets

Consolidated income statements

Consolidated cash flow statements

Consolidated statement of changes in shareholders equity

Notes to the consolidated financial statements

ITEM 19. EXHIBITS

Lists of Exhibits

Exhibit No.	Description

1.1	Amended and Restated Memorandum and Articles of Association (1)
1.2	Amendments to Exhibit 3.1 adopted by shareholders on August 15, 2000 (3)
4.5	2000 Officers and Directors Stock Option and Incentive Plan (3)
4.6	2000 Employees Stock Option and Incentive Plan (3)
4.7	Equity Interest Transfer Agreement between Tamworth Industrial Ltd. (Tamworth) and Registrant (4)
4.8	Equity Interest Transfer and Shareholders Agreement among Tamworth, Registrant and Pact Asia Pacific Limited (4)
4.10	2002 Officers and Directors Stock Option Plan (6)
4.11	Registrant s Audit Committee Charter (7)

4.12	2007 Officers and Directors Option Plan (8)
8.1	List of Subsidiaries (9)
10.1	Share Sale and Purchase Agreement between Tamworth Industrial Ltd. And Registrant s subsidiary (5)
10.2	Equity Interest Transfer Agreement between Tamworth Industrial Ltd. And the Registrant s subsidiary (5)
10.3	Share Transfer and Subscription Agreement among Registrant s subsidiary, Zhejiang Jia Huan Limited (Jia Huan) and the Management Shareholders of Jia Huan (9)
10.4	Share Subscription Agreement among Registrant s subsidiary, Zhejang Tianlan Limited (Blue Sky) and the Management Shareholders of Blue Sky (9)
12.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (9)
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (9)
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 (9)
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 (9)

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(1) Incorporated by reference, previously filed as an Exhibit to Registration Statement, SEC File No. 333-16277 and is incorporated by reference herein.

(2) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 20-F for its year ended December 31, 1999.

(3) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 20-F for its year ended December 31, 2000.

(4) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 6-K filed on February 11, 2002.

(5) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 6-K, filed on December 8, 2005.

(6) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 6-K filed on July 24, 2002.

(7) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 6-K filed on August 19, 2002.

(8) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 6-K, filed on August 14, 2007.

(9) Filed herewith.

SIGNATURES

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

EURO TECH HOLDINGS COMPANY LIMITED
(Registrant)

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

Dated: June 27, 2008

EURO TECH HOLDINGS COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2007 AND 2006 AND

CONSOLIDATED STATEMENTS OF INCOME,

CONSOLIDATED CASH FLOWS AND CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

To the Board of Directors and shareholders of

Euro Tech Holdings Company Limited

We have audited the accompanying consolidated balance sheets of Euro Tech Holdings Company Limited as of December 31, 2007 and 2006 and the related consolidated statements of operations, shareholders equity and cash flows for the years ended December 31, 2007, 2006 and 2005. 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 audits.

We conducted our audit in accordance with 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 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. The audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Euro Tech Holdings Company Limited as of December 31, 2007 and 2006 and the results of its consolidated operations and cash flows for the years ended December 31, 2007, 2006 and 2005, in conformity with generally accepted accounting principles in the United States of America.

/s/ BDO McCabe Lo Limited

Hong Kong, June 27, 2008

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31

	Note	2007 US$ 000	2006 US$ 000
Assets			
Current assets:			
Cash and cash equivalents		9,387	9,160
Restricted cash		332	415
Accounts receivable, net	6	4,968	4,914
Prepayments and other current assets		912	723
Inventories, net	7	2,012	2,028
Taxation recoverable		12	12
Total current assets		17,623	17,252
Property, plant and equipment, net	8 & 21(iii)	1,622	1,628
Investments in affiliates	9	5,046	
Goodwill	12	1,060	1,060
Deferred tax assets	4	131	35
Total assets		25,482	19,975
Liabilities and shareholders equity			
Current liabilities:			
Accounts payable		3,112	4,192
Amounts due to related companies	18		
Other payables and accrued expenses	10	3,892	2,348
Taxation payable		520	445
Total current liabilities		7,524	6,985
Minority interest		1,545	1,067
Commitments and contingencies	19		
Shareholders equity:			
Ordinary share, par value US$0.01 each, 20,000,000 (2006: 20,000,000) shares authorized; 12,024,901 (2006: 9,375,192) shares issued and outstanding	11	120	94
Additional paid-in capital		9,229	5,387
Treasury stock, 340,651 (2006: 340,651) shares at cost	13	(237)	(237)
PRC statutory reserve	14	165	88
Accumulated other comprehensive income		271	69
Retained earnings		6,865	6,522
Total shareholders equity		16,413	11,923
Total liabilities and shareholders equity		25,482	19,975

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

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	Note	2007 US$ 000	2006 US$ 000	2005 US$ 000
Revenue	21(i) & (ii)	27,230	27,161	31,250
Cost of revenue		(20,398)	(20,606)	(24,681)
Gross profit		6,832	6,555	6,569
Selling and administrative expenses		(6,585)	(5,961)	(5,418)
Operating income		247	594	1,151
Interest income		256	95	35
Other income, net	3	161	146	172
Income before income taxes, minority interest and equity in profit of affiliates		664	835	1,358
Income taxes	4	(144)	(156)	(328)
Minority interest in profits of subsidiaries		(345)	(318)	(318)
Equity in profit of affiliates		247		21
Net income for the year		422	361	733
Net income per ordinary share				
- Basic		US$ 0.04	US$ 0.04	US$ 0.11
- Diluted		US$ 0.03	US$ 0.03	US$ 0.07
Weighted average number of ordinary shares outstanding				
- Basic	5	11,105,556	8,047,911	6,598,201
- Diluted	5	12,095,335	10,787,420	10,689,482

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, 2007, 2006 AND 2005

	2007 **US$ 000**	**2006** **US$ 000**	**2005** **US$ 000**
Cash flows from operating activities:			
Net income	422	361	733
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of property, plant and equipment	232	216	181
Stock based compensation expense	148		
(Gain) loss on disposal of property, plant and equipment	(19)	1	1
Minority interest in profits of subsidiaries	345	318	318
Equity in profit of affiliates	(247)		(21)
Deferred tax assets	(96)		11
Deferred tax liabilities		(4)	4
(Increase) decrease in current assets:			
Accounts receivable, net	(54)	553	(1,237)
Prepayments and other current assets	(189)	(80)	327
Inventories, net	16	704	2,387
Taxation recoverable		30	(35)
Increase (decrease) in current liabilities:			
Accounts payable	(1,080)	(435)	(148)
Amounts due to related companies			(1,267)
Other payables and accrued expenses	896	(222)	(1,665)
Taxation payable	75	23	137
Net cash provided by/(used in) operating activities	449	465	(274)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(250)	(106)	(110)
Proceeds on disposal of property, plant and equipment	43		
Cash flow on business combination, net of cash acquired			486
Investments in affiliates	(4,151)		
Restricted cash for issuance of bank guarantees	83	(111)	(304)
Dividend paid to minority interest	(140)	(135)	
Net cash (used in)/provided by investing activities	(4,415)	(352)	72
Cash flows from financing activities:			
Issuance of ordinary shares on exercise of options	3,720	2,607	306
Cash from issuance of registered capital in subsidiary to minority interest	200		
Net cash provided by financing activities	3,920	2,607	306
Effect of exchange rate changes on cash and cash equivalents	273	78	16
Net increase in cash and cash equivalents	227	3,798	120
Cash and cash equivalents, beginning of year	9,160	5,362	5,242
Cash and cash equivalents, end of year	9,387	9,160	5,362
Supplementary information	US$ 000	US$ 000	US$ 000
Interest received	256	95	35

Interest paid			
Income taxes paid	166	125	121
Shares surrendered for exercise of stock options	155	168	195

As at December 31, 2007 there was a final consideration of US$648,000 payable in relation to the acquisition of Zhejiang Tianlan Desulfurization and Dust Removal Co., Ltd. included in other payables and accrued expenses.

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

EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	Number of Ordinary share	Ordinary share US$ 000	Additional paid-in capital US$ 000	Treasury stock US$ 000	Accumulated other comprehensive income (loss) US$ 000	PRC statutory reserve US$ 000	Retained earnings US$ 000	Total US$ 000
Balance as of January 1, 2005	6,775,318	68	2,500	(237)	(26)	69	5,463	7,837
Net income							733	733
Other comprehensive income:								
Foreign exchange translation adjustment					16			16
Total comprehensive income								749
Shares surrendered for exercise of stock options	(52,846)	(1)	(194)					(195)
Exercise of stock options	640,530	7	494					501
Transfer of reserve						3	(3)	
Balance as of December 31, 2005	7,363,002	74	2,800	(237)	(10)	72	6,193	8,892
Net income							361	361
Other comprehensive income:								
Foreign exchange translation adjustment					79			79
Total comprehensive income								440
Shares surrendered for exercise of stock options	(36,700)		(168)					(168)
Exercise of stock options	2,048,890	20	2,706					2,726
Transfer of reserve						16	(32)	(16)
Stock-based compensation expense			49					49
Balance as of December 31, 2006	9,375,192	94	5,387	(237)	69	88	6,522	11,923
Net income							422	422
Other comprehensive income:								
Foreign exchange translation adjustment					202			202
Total comprehensive income								624
Shares surrendered for exercise of stock options	(45,537)	(1)	(154)					(155)
Exercise of stock options	2,695,246	27	3,848					3,875
Transfer of reserve						77	(79)	(2)
Stock-based compensation expense			148					148
Balance as of December 31, 2007	12,024,901	120	9,229	(237)	271	165	6,865	16,413

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

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organization 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 summarized as follows:

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Subsidiaries:			
Euro Tech (Far East) Limited	100%	Hong Kong	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Euro Tech (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
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
Yixing Pact Environmental Technology Co., Ltd	51%*	The PRC	Design, manufacturing and operation of water and waste water treatment machinery and equipment
Pact Asia Pacific Limited	51%*	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 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

* In the year 2004, these two companies are affiliates of the Company, with 30% of equity ownership by the Company. The Company acquired additional 21% of equity interest of each of the affiliate on October 18, 2005. (See also note 9).

** In the year 2007, the Company acquired 20% equity interest of this company.

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) Interpretation No. 46 (R) (FIN 46 (R)), are included in the consolidated financial statements, if applicable. In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities and amended it by issuing FIN 46 (R) in December 2003. FIN 46 (R) addresses consolidation by business enterprises of VIEs that either: (1) do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) have equity investors that lack an essential characteristic of a controlling financial interest.

The Group identified that certain retail shops established in the PRC qualified as variable interest entities as defined in FIN 46 (R). 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 effective December 31, 2004. 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$150,602 and US$289,127, as of December 31, 2007 and US$392,162 and US$297,377, as of December 31, 2006, respectively. The cumulative profits on consolidating these VIEs in the Group s consolidated statement of income in 2007 were US$17,638 (2006: losses of US$152,723 and 2005: losses of US$174,902), including taxes of US$11,118 (2006: US$6,814 and 2005: US$658). 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 entities do not have recourse to the general credit of the Group.

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. All material 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 sale of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems. The Company recognizes revenue when the product is delivered and the title is transferred. For certain products where installation is necessary, revenue is recognized upon completion of installation. Revenue earned from customer support services, which represents a minor percentage of total revenues, is recognized 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 are recorded under the percentage of completion method in accordance with SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts .. This approach relies on estimates of total expected direct costs at completion, which are compared to actual direct costs incurred to date to arrive at an estimate of revenue and profit earned to date. Recognized revenue and profit are subject to revisions as the contract progresses to completion. Revisions to profit estimates are reflected in income in the period in which the facts that give rise to the revision become known. For any contract where it is identified that a loss will be incurred, the full loss will be recognized immediately. There were no long term fixed price contracts during 2007.

(d) Research and Development Costs

Research and development costs (R&D costs) are expensed as incurred. The R&D costs amounted to approximately US$47,000, US$55,000 and US$48,000 for the years December 31, 2007, 2006 and 2005 respectively and were included in Selling and Administrative expenses in the Group s consolidated statement 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$78,000, US$76,000 and US$240,000 for the years December 31, 2007, 2006 and 2005 respectively and were included in Selling and Administrative expenses in the Group s consolidated statement of income.

(f) Taxation

The Group accounts for income and deferred tax under the provision of Statement of Financial Accounting Standards (SFAS) No. 109: Accounting for Income Taxes , under which deferred taxes are recognized for all temporary differences between the applicable tax balance sheets and the consolidated balance sheet. Deferred tax assets and liabilities are recognized 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. SFAS No. 109 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 realized within a reasonable period of time.

Effective January 1, 2007, the Company adopted FIN No. 48, Accounting for Uncertainty in Income Taxes. In accordance with FIN No. 48, the Company recognizes tax benefits that satisfy a greater than 50% probability threshold and provides for the estimated impact of interest and penalties for such tax benefits.

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 recognized in income for the period that includes the enactment date.

Note 4 shows the applicable tax rates for individual subsidiary and variable interest entities, as well as the major temporary differences so recorded.

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, demand deposits with banks.

(h) Receivables and Other Assets

Receivables and other assets are recorded at their nominal values. Valuation allowances are provided for identified individual risks for these line items. If the loss of a certain part of the receivables is probable, valuation allowances are provided to cover the expected loss.

(i) 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. Provision is made for obsolete, slow moving or defective items, where appropriate.

(j) 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 capitalized. 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

(k) Impairment

The Group has adopted SFAS No. 144: Accounting for Impairment or Disposal of Long-Lived Assets 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. There were no impairment losses recorded during each of the three years ended December 31, 2007.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(l) 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.

(m) Goodwill

The Group has adopted SFAS No.142: Goodwill and other intangible assets which assess the possible impairment of goodwill existing at the date of adoption and perform a subsequent impairment test on an annual basis.

(n) 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 recognized in the consolidated statements of income during the year in which they occur. Translation adjustments on subsidiaries equity are included as cumulative translation adjustments.

(o) Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133 an amendment of FASB Statement No. 133 , and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities an amendment of FASB Statement No. 133 , as well as the interpretations of the Derivatives Implementation Group (DIG), are applied as amended by SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . SFAS No. 133 contains accounting and reporting standards for hedging accounting and for derivative financial instruments, including certain derivative financial instruments embedded in other contracts.

SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities in the consolidated balance sheet and measured at fair value. Depending on the documented designation of a derivative instrument, any change in fair value is recognized either in net income or shareholders equity (as a component of accumulated other comprehensive income).

Fair values of derivative instruments are classified as operating assets or liabilities. Changes in fair value of derivative instruments affecting income are classified as other operating income or expenses. Please see note 17 for additional information regarding the Company s use of derivative instruments.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(p) Comprehensive Income

The Group has adopted SFAS No. 130: Reporting 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 recognized. The Group has presented comprehensive income, which encompasses net income and foreign currency translation adjustments, in the consolidated statement of changes in shareholders equity.

(q) Ordinary Share

Ordinary share refers to the $0.01 par value capital stock as designated in the Company s Certificate of Incorporation. 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.

(r) Net income per Ordinary Share

Net income per ordinary share is computed in accordance with SFAS No. 128 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.

(s) Stock-based Compensation

On January 1, 2006, the Group adopted the provisions of Statement 123 (revised 2004) (Statement 123(R)), Share-Based Payment, which revises Statement 123, Accounting for Stock-Based Compensation using the modified prospective application transition method, and supersedes APB Opinion 25, Accounting for Stock Issued to Employees. Statement 123(R) requires the Group to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options.

Prior to the adoption of Statement 123(R), in accordance with the provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, the Group has selected the disclosure only of provisions related to employee stock options and share purchases and follows the provisions of Accounting Principles Board Opinion No. 25: Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for stock options and shares issued to employees. Under APB 25, compensation expense, if any, is recognized as the excess of the estimated fair value of the ordinary shares over the exercise price on the measurement date, which is typically the date of grant, and is expensed ratably over the service period, which is typically the vesting period. The Company accounts for share-based compensation using the intrinsic value method prescribed by APB 25, under which no compensation cost is recognized as all stock options granted under the Management Options, the 2000 Stock Options, the 2002 Employee Stock Options and the 2002 D&O

Stock Options have exercise prices at or above the fair market value of the underlying stock at the date of grant.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(s) Stock-based Compensation (Continued)

Had compensation expense for the Company s share-based compensation plan been recognized based on the fair value of the options on the grant date in accordance with SFAS No. 123, the Company s pro forma net income and earnings per ordinary share for the year ended December 31, 2005 would have been as follows:

		2005 US$ 000
Net income as reported		733
Less: Stock compensation expense determined under the fair value method, net of tax		(39)
Pro forma net income		694
Income per share:		
Basic, as reported	US$	0.11
Diluted, as reported	US$	0.07
Basic, pro forma	US$	0.11
Diluted, pro forma	US$	0.07

(t) 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.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(u) 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.

(v) Segment Information

The Company s segment reporting is prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information . The management approach required by SFAS No. 131 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.

(w) Recent Accounting Pronouncements

In September 2006, the FASB issued FAS 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 are effective for the fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact of the provisions of FAS 157.

On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, with earlier adoption permitted. The Company does not anticipate that the adoption of this statement will have a material effect on the Company s financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS No. 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of FAS No. 160 on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, (FAS No. 141(R)), which replaces FASB Statement No. 141. FAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. FAS No. 141(R) is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, which will be the Company s year beginning January 1, 2009. The Company is currently evaluating the potential impact, if any, of the adoption of FAS No. 141(R) on the consolidated financial statements.

The Company does not believe that any other of the recently issued and adopted, but not yet effective, accounting standards would have a material effect on the accompanying financial statements.

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Other income, net

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Gain/(loss) on disposal of property, plant and equipment	19	(1)	(1)
Exchange gain, net	104	130	158
Rental income	38	17	15
	161	146	172

4 Income taxes

The Company is exempt from taxation in the British Virgin Islands.

Euro Tech (Far East) Limited, Euro Tech (China) Limited and ChinaH2O.com Limited provided for Hong Kong profits tax at a rate of 17.5% in the years of 2007, 2006 and 2005 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, a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 15%, 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.

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 of 15% for two years starting from its first profit-making year, after offsetting losses brought forward, if any, followed by a 50% reduction for the next three years thereafter. As of December 31, 2007, SET is still exempt from the PRC enterprise income tax as it had an assessable loss brought forward of US$225,300 as agreed by the local tax authority to offset its profit for the coming year (2006: US$305,975).

According to the relevant PRC tax rules and regulations, Shanghai Euro Tech Environmental Engineering Limited is exempt from the PRC Enterprise Income Tax of 15% for two years starting from 2007, followed by a 50% reduction for the next three years thereafter. Chongqing Euro Tech Rizhi Technology Co., Ltd and Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd provide for PRC Enterprise Income Tax at a rate of 30%, 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 a lower Enterprise Income Tax rate of 27%. Pact Asia Pacific Limited operates in the British Virgin Islands where there are no taxes imposed on it. However, part of its profit is subject to Hong Kong profits tax at a rate of 17.5% in year 2007 as the profit is earned in Hong Kong.

VIEs of the Group provide for PRC Enterprise Income Tax at a rate of 33%, 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, 2007, certain VIEs had aggregated assessable losses carried forward of US$118,161 as agreed by the local tax authority (2006: US$143,318).

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

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

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes (Continued)

Income before income taxes:

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Domestic			
Foreign	664	835	1,358
	664	835	1,358

The provision for income taxes consists of:

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Current tax expenses:			
Domestic			
Foreign	240	163	313
Total current provision	240	163	313
Deferred tax expense / (benefit):			
Domestic			
Foreign	(96)	(7)	15
Total deferred provision	(96)	(7)	15

The reconciliation of the weighted average statutory income tax rate to the effective income tax rate as stated in the consolidated statements of income is as follows:

	2007	2006	2005
Weighted average statutory tax rate	11.3%	14.3%	23.0%
Change in valuation allowances	17.1%	5.5%	0.3%
Over-provision for income tax in prior years	%	(0.5)%	(0.2)%
Others	(6.8)%	(0.6)%	1.1%
Effective tax rate	21.6%	18.7%	24.2%

The components of deferred tax assets are as follows:

	2007 US$ 000	2006 US$ 000
Deferred tax assets arising from tax losses	137	27
Deferred tax (liabilities)/assets arising from temporary differences	(6)	8
Less: Valuation allowances		
Net deferred tax assets	131	35

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Net income per ordinary share

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

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Number of shares			
Weighted average number of ordinary shares for the purposes of basic net income per share	11,105,556	8,047,911	6,598,201
Effect of dilutive potential ordinary shares:			
Stock options	989,779	2,739,509	4,091,281
Weighted average number of ordinary shares for the purposes of diluted net income per share	12,095,335	10,787,420	10,689,482

6 Accounts receivable

	2007 US$ 000	2006 US$ 000
Trade receivables	5,063	5,000
Less: Allowance for doubtful debts	(95)	(86)
	4,968	4,914

	2007 US$ 000	2006 US$ 000
Allowance for doubtful debts		
Balance at beginning	86	122
Released/(charged) to costs and expenses	28	(26)
Write off	(19)	(10)
Balance at end	95	86

As of December 31, 2007, accounts receivables in the form of bills receivable through banks amounted to US$26,000 (2006: US$ 187,000).

7 Inventories, net

	2007 US$ 000	2006 US$ 000
Raw materials	76	59
Work in progress	108	21
Finished goods	1,828	1,948
	2,012	2,028

Management continuously reviews obsolete and slow moving inventories and assesses the inventory valuation to determine if the provision is deemed appropriate. At December 31, 2007 and 2006, provision for obsolete and slow moving inventories amounted to US$28,064 and US$15,581, respectively.

8 Property, plant and equipment

	2007 US$ 000	2006 US$ 000
Office premises	2,257	2,257
Leasehold improvements	140	131
Furniture, fixtures and office equipment	776	656
Motor vehicles	173	127
Testing equipment	77	71
	3,423	3,242
Less: Accumulated depreciation	(1,801)	(1,614)
	1,622	1,628

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Depreciation charge	232	216	181

EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

9 Investments in affiliates and acquisition of subsidiaries

During the year ended December 31, 2002, the Group acquired 30% equity interests in Yixing Pact Environmental Technology Co., Ltd, a company incorporated in the PRC, and Pact Asia Pacific Limited, a company incorporated in the British Virgin Islands, from an independent third party for a total consideration of US$335,000. The Group believes that the business of these two investments was complementary to the Group s business as the Group continued to focus on sales and marketing of other products. The Group believes that by aligning itself with an engineering firm, such as these affiliates, it was able to gain a competitive advantage by offering customers and potential customers not only hardware but solutions to engineering problems as well. Details of these affiliates are disclosed in Note 1. Investments in these affiliates are accounted for using the equity method of accounting.

During the year ended December 31, 2005, the Group acquired additional 21% equity interests in Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited for a total consideration of US$1,000,000 and these two companies become subsidiaries of the Group. The acquisition has been accounted for as an asset purchase. Assets acquired and liabilities assumed were recorded on the Company s Consolidated Balance Sheet as of the acquisition date based upon their estimated fair values at such date. The results of operations have been included in the Consolidated Statements of Income since date of acquisition.

The aggregate purchase price was calculated as follows:

	US$ 000
Cash consideration	1,000
Direct costs relating to the acquisition	34
Total purchase consideration for 21% equity	1,034
Investment in affiliates for 30% equity at December 31, 2004	571
Equity in profit of affiliates for the year	21
Total consideration	1,626

The purchase price has been allocated based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following represents the allocation of the purchase price:

Current assets	1,922
Property, plant and equipment	21

Goodwill	1,060
Total assets	3,003
Current liabilities	(1,377)
Total liabilities	(1,377)
Total consideration	1,626

The value was based on an independent appraisal. The amount of goodwill allocated to the purchase was US$1,060,000. The following table sets forth the unaudited pro forma results of operations of the Company as if the acquisition had occurred at the beginning of the fiscal year. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisition occurred as of the beginning of each of the periods presented or that not be obtained in the future.

Unaudited Pro Forma Results

		2005
		US$ 000
Revenue		32,415
Net income		1,101
Basic earnings per share	US$	0.11
Diluted earnings per share	US$	0.07

The Group granted The minority shareholder of Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited a three-year put option requiring the Group to acquire all remaining securities of these two companies at 5.2 times of their average net income for the three prior fiscal years.

During the year ended December 31, 2007, the Group acquired 20% equity interests in Zhejiang Tianlan Desulfurization and Dust Removal Co. Ltd, a company incorporated in the PRC for a total consideration of US$4,648,000. The Group believes that after this acquisition, it has a strategic partner to work with in China for the environmental protection business. With this affiliate s technology and technical support, it can now provide services and environmental solutions not only for water and wastewater treatment but also for air pollution control for industrial clients in China. Investments in this affiliate are accounted for using the equity method of accounting.

A summary of the financial information of the affiliate, Zhejiang Tianlan Desulfurization and Dust Removal Co. Ltd, is set forth below:

	2007
	US$ 000
Balance Sheet:	
Current assets	16,110
Non-current assets	2,487
Total assets	18,597
Current and total liabilities	(7,328)
Total shareholders equity	11,269

	2007 US$ 000
Operating results:	
Net sales	10,535
Operating profits	2,281
Net profits	1,927

10 Other payables and accrued expenses

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

11 Ordinary share

During the year ended December 31, 2005, the Company issued 640,530 ordinary shares for stock options exercised and cancelled 52,846 shares surrendered for exercise of stock options.

During the year ended December 31, 2006, the Company issued 2,048,890 ordinary shares for stock options exercised and cancelled 36,700 shares surrendered for exercise of stock options.

During the year ended December 31, 2007, the Company issued 2,695,246 ordinary shares for stock options exercised and cancelled 45,537 shares surrendered for exercise of stock options.

12 Goodwill

The Company accounted for the acquisition in accordance with SFAS No. 141 Business Combinations , which resulted in the recognition of goodwill. Goodwill represents the excess of acquisition cost over the estimated fair value of net assets acquired as of October 18, 2005 as described in Note 9.

As of December 31, 2007, 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, 2007) Based on the result of the first step of the test, the Company believes that there was no further impairment of goodwill as of December 31, 2007.

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13 Treasury stock

The Company authorized a stock buyback program in December 2000 pursuant to which up to 341,250 shares, but not to exceed US$281,250 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 36,445 shares and 304,206 shares of ordinary share during 2000 and 2001 for considerations of approximately US$16,000 and US$221,000, respectively. There was no reissuance of treasury stock during each of the three years ended December 31, 2007.

14 PRC statutory reserve

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 also appropriated certain amount of their net income to the expansion funds.

(i) Statutory reserve funds

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 funds until such funds reaches 50% of the companies registered capital. The statutory reserve funds can be utilized upon the approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such funds be maintained at a minimum of 25% of the companies registered capital.

(ii) Statutory welfare funds

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 funds determined by the Company. The staff welfare funds 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) Expansion funds

The expansion reserve 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 utilized upon approval by relevant authorities, to convert into registered capital and issue bonus capital to existing investors, provided that such funds be maintained at a minimum of 25% of the companies registered capital.

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15 Stock options

(i) Management Options Plan

A total of 4,586,400 shares of ordinary share have been reserved for issuance under the Company s management option plan (the Management Options). The Management Options provide for the grant of options to its officers, directors and employees as the Company s Chairman of the Board of Directors and Chief Executive Officer may direct. In 1997, the Company granted its officers, directors and employees options under the Management Options, which allow them to purchase up to 4,353,804 shares of ordinary share. The exercise price of the options granted was US$ 1.221 per share for 1,310,400 of such options and US$ 1.6789 per share for the remaining 3,043,404. During the year ended December 31, 2000, 36,036 options with the exercise price of US$ 1.6789 were cancelled. During the same year, the Company further granted 242,697 options under the Management Options with the exercise price of US$ 1.6789 per share to its officers, directors and employees, which allowed them to purchase up to 242,697 shares of ordinary share. The options vested for a period of one year and expired in March 2007. During the year ended December 31, 2002, 27,573 options with the exercise price of US$1.6789 were cancelled. During the year ended December 31, 2003, no options were exercised, cancelled or granted.

In 2004, the Company granted 46,000 shares with the exercise price of US$1.6789 per share to its officers, directors and employees, which allowed them to purchase up to 46,000 shares of ordinary share. The options expired in March 2007. The Company further cancelled 32,760 options with an exercise price of US$1.6789. No options were exercised during the financial year 2004.

During the year ended December 31, 2005, 52,416 options with the exercise price of US$ 1.6789 were cancelled. During the same year, 180,000 options under the Management Options with the exercise price of US$ 1.221 per share were exercised.

During the year ended December 31, 2006, the Company granted 10,000 shares with the exercise price of US$1.6789 per share to its officers, directors and employees, which allowed them to purchase up to 10,000 shares of ordinary share. The options expired in March 2007. The Company further cancelled 21,840 options with an exercise price of US$1.6789. During the same year, 1,015,740 options and 757,000 options under the Management Options with the exercise price of US$ 1.221 per share and US$1.6789 per share, respectively, were exercised.

During the year ended December 31, 2007, 90,090 options and 2,018,916 options under the Management Options with the exercise price of US$ 1.221 per share and US$1.6789 per share, respectively, were exercised. All the remaining unexercised options expired in March 2007.

(ii) 2000 Stock Option Plan

A total of 1,195,740 shares of ordinary share have been reserved for issuance under the Company s 2000 Stock Option Plan (the 2000 Stock Options). The 2000 Stock Options provide for the grant of options to its officers, directors and employees as the Company s Chairman of the Board of Directors and Chief Executive Officer may direct. During the year ended December 31, 2000, the Company granted such options to its officers, directors and employees under the 2000 Stock Options, which allow them to purchase up to 742,560 shares of ordinary share. The exercise price of all options granted is US$ 0.5787 per share. During the year ended December 31, 2002, 43,680 options with exercise price of US$0.5787 were cancelled. The Company further granted 477,750 options and 19,110 options under the 2000 Stock Options with an exercise price of US$0.8191 and US$0.6809 per share, respectively, to its officers, directors and employees, which allow them to purchase up to 496,860 shares of ordinary share. The options vested within a six-month to one-year period and will expire in August 2010.

During the year ended December 31, 2004, 35,490 options with an exercise price of US$0.5787 per share and 23,940 options with exercise price of US$0.8191 year share were cancelled. Further, there were no options exercised or granted in 2004.

During the year ended December 31, 2005, 35,490 options with the exercise price of US$ 0.5787 were cancelled. During the same year, 338,520 options, 52,500 options and 6,510 options with exercise price of US$ 0.5787, US$0.8191 and US$0.6809 per share, respectively, were exercised.

During the year ended December 31, 2006, 16,380 options with exercise price of US$0.5787 were cancelled. The Company further granted 40,000 options and 5,000 options under the 2000 Stock Options with an exercise price of US$3.33 and US$2.02 per share, respectively, to its officers, directors and employees, which allow them to purchase up to 45,000 shares of ordinary share. The options vested within a six-month period and will expire in August 2010. During the same year, 40,950 options and 214,200 options with exercise price of US$ 0.5787 and US$0.8191 per share, respectively, were exercised.

During the year ended December 31, 2007, 16,380 options and 6,300 options with exercise price of US$0.5787 and US$0.6809, respectively, were cancelled. During the same year, 46,410 options and 101,430 options with exercise price of US$ 0.5787 and US$0.8191 per share, respectively, were exercised.

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NOTES TO THE CONSOLIDATED ACCOUNTS

15 Stock options (Continued)

(iii) 2002 Employees Stock Option and Incentive Plan and 2002 Officers and Directors Stock Option and Incentive Plan

A total of 294,000 shares and 840,000 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 provide 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, 2002, the Company granted such options to its employees, officers and directors under the 2002 Employee Stock Options and the 2002 D&O Stock Options, which allow them to purchase up to 294,000 and 840,000 shares of ordinary share at an exercise price of US$0.7618 and US$0.5857, respectively. The options vested for a period of a six-month period and will expire in April 2012 and November 2012, respectively. During the years ended December 31, 2004, 2003 and 2002, no options were exercised.

In 2004, 92,400 options with an exercise price of US$0.7618 per share were cancelled and no further options were granted.

During the year ended December 31, 2005, 16,800 options with the exercise price of US$ 0.7618 were cancelled. During the same year, 63,000 options with exercise price of US$ 0.5857 per share were exercised.

During the year ended December 31, 2006, 8,400 options with the exercise price of US$ 0.7618 were cancelled. During the same year, 21,000 options with exercise price of US$ 0.7618 per share were exercised.

During the year ended December 31, 2007, 8,400 options with the exercise price of US$ 0.7618 were cancelled. During the same year, 50,400 options and 388,000 options with exercise price of US$ 0.7618 and US$0.5857 per share, respectively, were exercised.

(iv) 2007 Officers and Directors Stock Option and Incentive Plan

A total of 880,000 shares of ordinary share have been reserved for issuance under the Company s 2007 Officers and Directors Stock Option and Incentive Plan (the 2007 D&O Stock Options). The 2007 D&O Stock Options provide for the grant of options to its directors and officers as the Company s Chairman of the Board of Directors and Chief Executive Officer may direct. During the year ended December 31, 2007, the Company granted such options to its officers and directors under the 2007 D&O Stock Options, which allow them to purchase up to 133,000, 66,500, 66,500, 100,000 and 133,000 shares of ordinary share at an exercise price of US$2.85, US$4.00, US$4.05, US$3.66 and US$2.66, respectively. The options vested for a period of a six-month period and will expire before end of November 2009. During the same year, no options had been exercised.

The Company estimate the fair value of the options granted under the Black-Scholes pricing model, Changes in outstanding options under various plans mentioned above were as follows:

	2007		2006		2005	
	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	3,938,296	1.32	5,978,806	1.31	6,724,042	1.26
Granted	499,000	3.27	55,000	2.91		
Cancelled/Expired	(451,210)	(1.58)	(46,620)	(1.13)	(104,706)	(1.16)
Exercised	(2,695,246)	(1.44)	(2,048,890)	(1.33)	(640,530)	(0.78)
Outstanding, end of year	1,290,840	1.74	3,938,296	1.32	5,978,806	1.31
Exercisable, end of year	791,840	0.78	3,923,296	1.32	5,978,806	1.31

As of December 31, 2007, the options outstanding and exercisable had exercise prices in the range of US$0.5787 to US$4.05 and a weighted average unexpired life of approximately 3.1 years.

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15 Stock options (Continued)

On January 1, 2006, the Group adopted the provisions of Statement 123 (revised 2004) (Statement 123(R)), Share-Based Payment, which revises Statement 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion 25, Accounting for Stock Issued to Employees. Statement 123(R) requires us to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options.

Prior to the adoption of Statement 123(R), the Group accounted for stock-based compensation awards using the intrinsic value method of Opinion 25. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. There were no options granted during the year ended December 31, 2005.

The Black-Scholes option-pricing model is used to estimate the fair value of the options granted. This requires the input of subjective assumptions, including the expected volatility of stock price, expected option term, expected risk-free rate over the expected option term and expected dividend yield rate over the expected option term. Because changes in subjective input assumptions can materially affect the fair value estimate, in directors opinion, the existing model may not necessarily provide a realizable 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.

The following table summarizes the assumptions used during the years ended December 31, 2007 and 2006;

Assumptions	**2007**	**2006**
Expected volatility	75.9-86.7%	64.97%
Expected dividends	0%	0%
Expected term (years)	1.25	1.04-2.51
Risk-free rate	3.2-4.3%	4.6-4.7%

As of December 31, 2007 there was US$217,000 of total unrecognized compensation expense related to non-vested stock acquisition rights. This expense is expected to be recognized over a weighted-average period of 0.24 years.

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16 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 contributes approximately ranging from 10% to 22% of the basic salaries of its employees, and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the years ended December 31, 2007, 2006 and 2005, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately US$245,000, US$202,000 and US$191,000 respectively.

17 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

17 Risk Factor and Derivative Instruments (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, recognized 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.

18 Related party transactions

A related party is an entity that can control or significantly influence the management or operating policies of another entity to the extent one of the entities may be prevented from pursuing its own interests. A related party may also be any party the entity deals with that can exercise that control.

The transactions with related parties are summarized as follows:

	2007	**2006**	**2005**
	US$ 000	**US$ 000**	**US$ 000**
Purchase of goods from - Eurotherm Limited			242
Rental income of office premises earned from Eurotherm Limited			2

Rental expenses for office premises charged by Armtison Limited	11

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NOTES TO THE CONSOLIDATED ACCOUNTS

18 Related party transactions (Continued)

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Management fees charged by			
Eurotherm Limited			4
Patwin Inc.			18
Management fees received from			
Armtison Limited			2

Armtison Limited is beneficially owned by Mr. T. C. Leung, Chief Executive Officer and Chairman of the Board of Directors. Patwin Inc. is beneficially owned by the brother of Mr. T.C. Leung. Mr. T. C. Leung is also a director of Eurotherm Limited as at December 31, 2004 and retired in February 2005.

19 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, 2007, 2006 and 2005 were approximately US$448,000, US$404,000, and US$321,000, respectively. Future minimum rental payments as of December 31, 2007, under agreements classified as operating leases with non-cancellable terms amounted to US$263,000 of which US$235,000 are payable in the year 2008 and US$28,000 are payable each year from 2009 to 2011.

(ii) Banking facilities

As at December 31, 2007, 2006 and 2005, the Group has various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Group can access up to approximately US$4,167,000, US$4,167,000 and US$4,167,000 respectively, of which approximately US$138,000, US$726,000 and US$422,000 was utilized.

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 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 amounts are not significant and are eliminated to arrive at consolidated totals.

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Revenue			
Trading and manufacturing	20,010	22,243	26,348
Engineering	7,220	4,918	4,902
	27,230	27,161	31,250
Operating income			
Trading and manufacturing	(76)	(237)	(180)
Engineering	323	831	1,331
	247	594	1,151

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Depreciation:			
Trading and manufacturing	197	197	178
Engineering	35	19	3
	232	216	181
Capital Expenditures, Gross			
Trading and manufacturing	147	63	108
Engineering	103	43	2
	250	106	110

	2007 US$ 000	2006 US$ 000
Assets		
Trading and manufacturing	13,187	14,808
Engineering	7,249	5,167
Unallocated	5,046	
	25,482	19,975
Liabilities		
Trading and manufacturing	4,213	4,898
Engineering	2,663	2,087
Unallocated	648	
	7,524	6,985

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

	2007 US$ 000	2006 US$ 000	2005 US$ 000
Revenue -			
The PRC	21,595	22,457	25,005
Hong Kong	5,401	4,324	5,932
Others	234	380	313
	27,230	27,161	31,250

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21 Segment information (Continued)

(iii) Long-lived assets (1)

Geographical analysis of long-lived assets is as follows:

	2007 US$ 000	**2006 US$ 000**
Hong Kong	881	905
The PRC	741	723
	1,622	1,628

(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:

	2007	**2006**	**2005**
Hioki E.E. Corp.	32%	36%	29%
Hach Company Inc.	6%	9%	9%
Lachat Instruments Inc.	5%	8%	6%
US Filter/Chemical Feed and Disinfection Group	10%	6%	8%
ThermoQuest Corporation	5%	2%	2%
Calipers Life Sciences Inc.	6%	4%	5%
Hach Ultra	5%	4%	3%

Some of the purchase agreements signed with the Group s suppliers are memorialized. They are not formal contracts and are arranged through other acknowledgements or correspondence which may contain vague description of the terms and conditions of such arrangements, and therefore may be unenforceable.

22 Post balance sheet events

In January 2008, the Group acquired a 20% equity interest in Zhejiang Jia Huan Electronic Co. Ltd., (Jia Huan) a company incorporated in the PRC, for approximately $2,500,000. Jia Huan has been in the environmental protection business since 1969 and is based in Jin Hua, Zhejiang. The Group believes that after this acquisition, it has a strategic partner to help it make inroads into the rapidly growing air pollution control market in China.