REPUBLIC SERVICES, INC.
Form 4
April 17, 2015

FORM 4

OMB APPROVAL	
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Serianni Charles F

(Last) (First) (Middle)

18500 NORTH ALLIED WAY

(Street)

PHOENIX, AZ 85054

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
REPUBLIC SERVICES, INC. [RSG]

3. Date of Earliest Transaction (Month/Day/Year)
04/15/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price Derivat Securit

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						(Instr. 5
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Restricted Stock Units	(1)	04/15/2015		A		260		(2)	(2)	Common Stock	260	$ 40.
Stock Units	(3)	04/15/2015		A		46		(3)	(3)	Common Stock	46	$ 40.

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Serianni Charles F 18500 NORTH ALLIED WAY PHOENIX, AZ 85054			EVP Chief Financial Officer	

Signatures

/s/ Eileen B. Schuler Attorney-in-Fact	04/17/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Based on 1 on 1 conversion.

(2) Reflects dividends paid on the Restricted Stock Units awarded per the Republic Services, Inc. Amended and Restated 2007 Stock Incentive Plan.

(3) Mr. Serianni holds these stock units under the Republic Services Stock Incentive Fund ("Investment Fund") pursuant to his election under the Company's Deferred Compensation Plan. The Investment Fund is a measurement fund under which units are equal in value to shares of the Company's common stock and are settled in cash and receive dividend equivalents, in the form of additional stock units, each time a dividend is paid on the Company's common stock.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. t-style:italic;">Revenue; Gross Profit and Cost of Revenue. Revenue increased by approximately US$ 4,508,000 or 16.5% to approximately US$31,738,000 in Fiscal 2008 from approximately US$27,230,000 in Fiscal 2007. The revenue from engineering activities increased by approximately US$3,079,000 as a result of an increase in the number of engineering contracts completed, whilst revenues from trading and manufacturing activities increased by approximately US$1,429,000 resulting from increases in sales of products for environmental pollution and food safety analysis application. Pact-Yixing s revenues of approximately US$9,260,000 and US$6,981,000 were included in our revenues in Fiscal 2008 and Fiscal 2007, respectively.

Gross profits increased by approximately US$752,000 or 11.0% to approximately US$7,584,000 for Fiscal 2008 as compared to approximately US$6,832,000 for Fiscal 2007. During Fiscal 2008, the Company s cost of revenue was approximately US$24,154,000, or 76.1% of revenues, in comparison to approximately US$20,398,000, or 74.9% for Fiscal 2007. Cost of revenue expressed as a percentage of revenue increased by 1.2% in Fiscal 2008 as compared with Fiscal 2007. The gross profit margin percentage decrease was due principally to a decrease in gross profit margin percentage for engineering activities as material prices generally increased in Fiscal 2008. Yixing-Pact contributed approximately US$2,610,000 to our gross profit margin in Fiscal 2008, an increase of approximately US$484,000 from Fiscal 2007.

Selling and Administrative Expenses. Selling and administrative expenses were approximately US$7,214,000 in Fiscal 2008, an increase of approximately US$648,000 or 9.9% from approximately US$6,566,000 in Fiscal 2007. The increase was principally due to the increase of Yixing-Pact expenses of approximately US$307,000 as a result of increases in expenses related to its increased revenue. These expenses included a staff increase from 57 in Fiscal 2007 to 76 in Fiscal 2008. The PRC inflation rate of 5.9%, the average appreciation rate of 6% for RMB against the US$ in 2008 and increases in stock-based compensation expenses of US$69,000 also contributed to the increase in selling and administrative expenses.

Equity in Profit of Affiliates. Equity in profit of affiliates of approximately US$273,000 represented our share of net profit after taxes of BlueSky and Jia Huan.

Interest Income. Interest income decreased by approximately US$211,000 or 82.4% to approximately US$45,000 in Fiscal 2008 from approximately US$256,000 for Fiscal 2007. The decrease was primarily due to the significant drop in interest rates and decrease in average bank deposit balances during Fiscal 2008 compared to Fiscal 2007 resulting from

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funds used in acquiring affiliates.

Other Income. Other income increased by approximately US$3,000 or 0.2% to approximately US$145,000 in Fiscal 2008 from approximately US$142,000 in Fiscal 2007. The increase in other income was principally due to an increase of foreign exchange gain of approximately US$16,000.

Income Taxes. Taxes increased by US$177,000 to approximately US$321,000 in Fiscal 2008 from approximately US$144,000 in Fiscal 2007. This increase was primarily the result of increased taxable profits.

Net Income. Income from continuing operations decreased by approximately US$273,000 or 65% to approximately US$149,000 in Fiscal 2008 from approximately US$422,000 in Fiscal 2007. The decrease was primarily due to the decrease in interest income and the increase in selling and administrative expenses, partially offset by the increase in gross profit.

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 2009 and Fiscal 2008 were approximately US$8,203,000 and US$8,583,000, respectively.

During Fiscal 2009, the Company generated net cash of approximately US$240,000 from its operating activities from net income and decreases in inventories, accounts receivable, prepayments and other current assets while funding a decrease in accounts payable.

During Fiscal 2009 and Fiscal 2008, the Company used approximately US$124,000 and US$3,163,000 in investing activities, respectively. The Company used approximately US$118,000 and US$99,000 to purchase facilities and equipment in Fiscal 2009 and Fiscal 2008, respectively. During Fiscal 2009 and Fiscal 2008, the Company used approximately US$73,000 and US$56,000, respectively, as restricted cash to issue performance guarantees to its customers through its banks. During Fiscal 2009 and Fiscal 2008, Yixing-Pact paid dividends of approximately US$147,000 and US$NIL, respectively to non-controlling interest shareholders. During Fiscal 2008, the Company used approximately US$2,610,000 to acquire a 20% equity interest in Jia Huan. 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$692,000 was made in June 2009, based on Blue Sky s net profits for its fiscal year ended December 31, 2008. During Fiscal 2009 and Fiscal 2008, the Company received dividends of approximately US$58,000 and US$294,000, respectively from Blue Sky and approximately US$149,000 and US$Nil, respectively from Jia Huan.

The Company received approximately US$6,000 and US$51,000, respectively, in Fiscal 2009 and Fiscal 2008 from financing activities resulting from the issuance of its ordinary shares resulting from the exercise of stock options. The Company used approximately US$253,000 and US$44,000, respectively, in Fiscal 2009 and Fiscal 2008 for financing the purchase of its ordinary shares as treasury stock. The Company had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Company could have accessed up to approximately US$2,564,000 at December 31, 2009. 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 decreased from approximately US$7,146,000 at the end of Fiscal 2008 to approximately US$7,025,000 at the end of Fiscal 2009. The principal reasons for the decrease in cash were the payment of dividends to non-controlling interest shareholders of Pact-Yixing and purchase of its ordinary shares as treasury stock. The Company plans to use cash on hand primarily to expand its manufacturing plant and environmental engineering business by investing in product research and development and financing larger engineering projects .

The Company s net accounts receivable decreased from approximately US$6,707,000 at the end of Fiscal 2008 to approximately US$6,063,000 at the end of Fiscal 2009. This was principally the result of the collection of the receivables and decrease in sales revenue during Fiscal 2009.

The Company s inventory decreased from approximately US$2,600,000 at the end of Fiscal 2008 to approximately US$1,347,000 at the end of Fiscal 2009 due to some engineering sales orders completed before the year end.

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The Company s capital expenditures were approximately US$99,000 and US$118,000 in Fiscal 2008 and Fiscal 2009, respectively. Capital expenditures during Fiscal 2008 and Fiscal 2009 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.

Goodwill

Goodwill related to the engineering segment which is profitable. As of December 31, 2009, we completed the annual impairment test. Based on the result of the first step of the test, the Company determined that there was no impairment of goodwill.

Anticipated Future Resources and Uses of Cash

The Company has historically funded its working capital, capital expenditure, investing and expansions needs from operations, available bank credit facilities and proceeds from the issuances of our ordinary shares and expects to continue funding its Fiscal 2009 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 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 collectability 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 or engineering income are recorded under the percentage of completion method in accordance with FASB ASC Subtopic 605-35, Revenue Recognition Construction Type and Production Type Contracts, (previously 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.

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

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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 May 2009, the FASB issued SFAS No. 165, Subsequent Events (now codified within ASC 855-10, *Subsequent Events* (ASC 855-10)). ASC 855-10 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 is applicable for interim or annual periods after June 15, 2009. In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, Subsequent Events , which is codified as ASC 855, Amendments to Certain Recognition and Disclosure Requirements . This Update amends the ASC855-10, to replace the term public entity with the term an SEC filer , in order to avoid potential conflict with some of the Securities and Exchange Commission s (SEC) guidance. All of the amendments in this Update are effective immediately. The application of ASC 855 did not have a material effect on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, (now codified within ASC 105, Generally Accepted Accounting Principles (ASC 105)). ASC 105 establishes the Codification as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Following this statement, FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve only to: (1) update the Codification; (2) provide background information about the guidance; and (3) provide the bases for conclusions on the change(s) in the Codification. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. The adoption of ASC 105 did not have an impact on the Company s consolidated results of operations or financial position.

In August 2009, FASB issued ASU 2009-5 Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-5). ASU 2009-5 provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of liabilities. ASU 2009-5 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value. ASU 2009-5 was effective for the Company for interim and annual periods ending after September 30, 2009. The adoption of ASU 2009-5 did not have a material impact on the Company s consolidated results of operations or financial position.

In December 2009, FASB issued ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) . The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise s involvement in variable interest entities. ASU 2009-17 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009. The Company does not expect the adoption of ASU 2009-17 to have a material impact on its consolidated results of operations or financial position.

In January 2010, FASB issued ASU 2010-01, Entity, which is codified as ASC505, Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force) . The amendments in this Update clarify that the stock portion of a distribution to shareholders that allow them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The application of ASC 505 did not have a material effect on the Company s consolidated financial statements.

In January 2010, FASB issued ASU 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification (ASU 2010-2). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification , originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership

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interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 1, 2010. The Company does not expect the adoption of ASU 2010-2 to have a material impact on the Company s consolidated results of operations or financial position.

In January 2010, FASB issued ASU 2010-6 Improving Disclosures about Fair Measurements (ASU 2010-6). ASU 2010-6 provides amendments to subtopic 820-10 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to subtopic 820-10 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for financial statements issued for interim and annual periods ending after December 15, 2010. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its consolidated results of operations or financial position.

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 2009, Fiscal 2008 and Fiscal 2007, the Company expensed approximately US$99,000, US$89,000 and US$47,000, respectively, on the development of its products. It is anticipated that an additional US$150,000 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 2010.

Item 5D. **Trend Information**

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

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

Item 5E. **Off Balance Sheet Arrangements**

None.

Item 5F. **Tabular Disclosure of Contractual Obligations**

Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating Leases	US$ 224,000	US$ 175,000	US$ 49,000		
Total Contractual Cash Obligations	US$ 224,000	US$ 175,000	US$ 49,000		

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	66	Chairman of the Board of Directors and Chief Executive Officer
Jerry Wong	51	Director and Chief Financial Officer
Alex Sham	44	Director

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Name	Age	Position
Y.K. Liang	78	Director
Ka Chong Cheang	81	Director
Xu Hong Wang	42	Director
Li Da Weng	65	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 Exchange Act.

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The Company had 2 meetings of its Board of Directors during Fiscal 2009, while its Audit Committee had 4 meetings during Fiscal 2009.

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.

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 subsidiaries during Fiscal 2009, Fiscal 2008 and Fiscal 2007 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

		Salary US$	**Bonus US$**
T.C. Leung, Chairman of the Board of Directors and Chief Executive Officer	2009	154,000	
	2008	154,000	
	2007	155,000	
George Hayek			
	2009	110,000	
	2008	110,000	

	2007	110,000

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

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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, 2009, 2008 and 2007, the aggregate contributions of the Company to the aforementioned pension plans and retirement benefit schemes were approximately US$327,000, US$291,000 and US$245.000 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. A 2000 Stock Option Plan provided for the issuance of options to officers, directors, directors and employees as the Company s Chairman of the Board of Directors and Chief Executive Officer may direct (the 2000 Stock Option Plan). All foregoing plans are collectively referred to as the Plans .

1,195,740, 692,580 and 1,637,160 shares had been originally authorized for issuance under the 2000 Stock Option Plan, 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.

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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 Global Market or Capital Market at the time of grant, the Company is required to use, at 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 Global Market or Capital 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, one of the Nasdaq s Markets 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.

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 granted under the Plans.

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Names of Executive Officers and Directors	Shares Subject To the (Remaining) Plans Options	Per Share Exercise Price (US$)
T.C. Leung	170,000(1)	0.5857
Xu Hong Wang		
	10,920(2)	0.5787
	31,500(2)	0.8191
All executive officers and Directors as a group	212,420	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.

As of December 31, 2009, 1,541,920 options had been exercised, including 300,300 options, 397,300 options and 205,800 options exercised by Mr. Leung at prices of US$0.5787, US$0.5857 and US$0.8191 per share, respectively and 42,000 options exercised by Xu Hong Wang at a price of US$0.587 per share.

2007 Officers and Directors Stock Option and Incentive Plan

A total of 880,000 ordinary shares had been reserved for issuance under the Company s 2007 Officers and Directors Stock Option and Incentive Plan (the 2007 D&O Stock Options). All the 672,000 options granted to the executive officers and directors of the Company were surrendered and cancelled in 2008. The Company plans to make no further use of this plan.

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, Fiscal 2008 and Fiscal 2009.

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

	As of December 31,					
	2009		2008		2007	
	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	583,470	0.84	1,290,840	1.74	3,938,296	1.32
Granted			205,000	2.56	499,000	3.27
Cancelled	(51,200)	(0.87)	(704,000)	(3.07)	(451,210)	(1.58)
Exercised	(10,000)	(0.59)	(208,370)	(0.60)	(2,695,246)	(1.44)
Outstanding, end of year	522,270	0.85	583,470	0.84	1,290,840	1.74
Exercisable, end of year	522,270	0.85	583,470	0.84	791,840	0.78

As of December 31, 2009, the options outstanding and exercisable had exercise prices in the range of US$0.5787 to US$3.33 and a weighted average unexpired life of approximately 1.7 years.

As of December 31, 2009	Shares	IntrinsicValue US$ 000
Total outstanding in-the-money options	482,270	719
Total vested in-the-money options	482,270	719

The total intrinsic value of share option exercised for the twelve months ended December 31, 2009, 2008 and 2007 were approximately $8,000, $374,000 and $3,492,000, respectively. As of December 31, 2009, there was no unrecognized stock-based compensation expense related to unvested stock options.

The Group adopted the provisions of ASC 718-10, which 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.

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 seven directors, all were re-elected at the Company s last annual meeting of shareholders in September 2009.

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 2009, the Audit Committee met 4 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:

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- 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**

At June 1, 2010, the Company (exclusive of Yixing-Pact) had approximately 137 full-time employees. At December 31, 2009, 2008 and 2007, staffing levels were approximately as follows:

	2009	**2008**	**2007**
Marketing and sales	54	61	65
Administrative	48	49	49
Technical	38	39	32
Total full time employees	140	149	146

At June 1, 2010 Pact and Yixing had approximately 207 full-time employees. At December 31, 2009, 2008 and 2007, respectively, staffing levels were approximately as follows: Engineers; 50, 54, and 35, Administrative Persons; 20, 22 and 22.

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

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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, 2010, certain information concerning beneficial ownership of the Company s voting shares that date, with respect to (i) each person known to the Company to own 5% or more of the outstanding Ordinary Shares, (ii) each director and executive officer of the Company, and (iii) all officers and directors of the Company as a group:

	Amount and Nature of Beneficial Ownership(3)	Approximate Percentage Of Ordinary Shares Owned
T.C. Leung (1)(2)(3)	6,118,998	52.2%
Pearl Venture Ltd.(1)(2)	1,478,675	12.8%
Alex Sham(1)	295,480	2.6%
Jerry Wong(1)	191,766	1.7%
Y.K. Liang(1)	*	*
Xu Hong Wang(1)(3)	82,420	0.7%
Ka Chong Cheang(1)	*	*
Li Da Weng(1)	*	*
All Executive Officers And Directors of the Company as a group (7 persons)(2) (3)	6,688,664	56.9%

* 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 and 2002 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.

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Item 7B. **Related Party Transactions**

See Item 4.B. Business Overview - Business for the discussion of the formation of the joint venture. Pact Environmental Equipment Co. Limited in June 2007.

See Item 6B. Compensation.

ITEM 8. FINANCIAL INFORMATION

Item 8A. **Consolidated Statements and Other Financial Information**

Item 8A.1 See Item 18.

Item 8A.2 See Item 18.

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

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

Item 8A.5 Not applicable.

Item 8A.6 Not applicable.

Item 8A.7 Legal Proceedings.

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 s Capital Market under the trading symbols CLWT , and have so traded since the Company s Public Offering in March 1997.

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$
2005	2.700	6.590
2006	1.680	5.740
2007	1.81	5.14
2008	0.66	3.15
2009	0.40	4.22

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Quarters Ended	Low US$	High US$
March 31, 2008	1.93	3.04
June 30, 2008	1.70	3.15
September 30, 2008	1.13	2.30
December 31, 2008	0.66	1.46
March 31, 2009	0.40	1.09
June 30, 2009	0.64	1.76
September 30, 2009	0.81	1.69
December 31, 2009	1.36	4.22
March 31, 2010	1.75	2.68

The Following Months	Low US$	High US$
January 2010	1.80	2.68
February 2010	1.75	2.35
March 2010	1.97	2.38
April 2010	1.92	2.57
May 2010	1.50	1.94

The Ordinary Shares were held by approximately 39 holders of record as of June 1, 2010. Based upon information received from broker-dealers, clearing firms and others, the Company believes that it has in excess of 1,900 beneficial holders of its Ordinary Shares.

Item 9C. Markets

See Item 9A. Listing Details.

ITEM 10. ADDITIONAL INFORMATION

Item 10A. Share Capital

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, 2009, there were 11,544,711 Ordinary Shares and no shares of Preferred Stock, issued and outstanding. As of December 31, 2009 approximately 667,320 Ordinary Shares were held 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.

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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 Article 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.

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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$692,000 paid in Fiscal 2008. 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, engaging in any transaction having a material adverse effect on its financial status or outlook, voluntarily winding up its affairs, dismissing management or changing their rates of compensation, appointing directors and similar provisions. Far East also has the right to and has appointed a non-executive director to Blue Sky, who does 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. Blue Sky s dividends to Far East were US$294,000 in 2008.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 January 20, 2008, pursuant to a subscription agreement, of July 18, 2007, with Jia Huan and Jia Huan s management shareholders, Far East purchased 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, engaging in any transaction having a material adverse effect on its financial status or outlook, voluntarily winding up its affairs dismissing management or changing their rates of compensation, appointing directors and similar provisions. Far East, also has the right to and has appointed a non-executive director who does 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.

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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 US$1,795,000. On January 2, 2010, the Company purchased an additional two (2%) of Pact for approximately US$73,000. There has been no further 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

BVI

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

HONG KONG

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 16.5% in 2009 on the basis of their income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for profits tax purposes.

PRC

Euro Tech Trading (Shanghai) Limited, a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 20% (a rate currently levied by the Pudong Local Tax Bureau despite the National Tax Bureau Rate of 25%), 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 2008, after offsetting losses brought forward, if any, followed by a 50% reduction for the next three years thereafter. As of December 31, 2009, SET had an assessable loss brought forward of US$313,386 as agreed by the local tax authority to offset its profits for the coming years. This loss will expire in five years.

According to the relevant PRC tax rules and regulations, Shanghai Euro Tech Environmental Engineering Limited is exempt from the PRC Enterprise Income Tax of 20% for two year period that ended in 2009, followed by a 50% reduction for the next three years thereafter. Chongqing Euro Tech Rizhi Technology Co., Ltd, Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd and Guangzhou Euro Tech Environmental Equipment Co., Ltd provide for PRC Enterprise Income Tax at a rate of 25%, after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

According to the relevant PRC tax rules and regulations, Yixing Pact Environmental Technology Co., Ltd is registered in Shanghai as Foreign Owned Enterprise that is entitled to a tax rate of 25%. 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 16.5% in Fiscal 2009 as to those profits earned in Hong Kong.

Variable Interest Entities (VIES), as defined by the Financial Accounting Standards Board are included in the consolidated financial statements, where applicable, of the Company and its subsidiaries (the Group). VIES of the Group provide for PRC Enterprise Income Tax at a rate of 25%, after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

As of December 31, 2009, certain VIEs had aggregated assessable losses carried forward of US$151,706 as agreed by the local tax authority.

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The Company s effective tax rate for Fiscal 2009, was a weighted average statutory tax rate of 533%. Principal adjustments to this statutory tax rate was a valuation allowance of 295% for Fiscal 2009.

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 FASB ASC Subtopic 740-10 Income Taxes - Overall, (FIN No. 48, Accounting for Uncertainty in Income Taxes.). In accordance with ASC 740-10, 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.

PRC statutory reserve.

Under the relevant PRC laws and regulations, the Company s PRC subsidiaries are required to appropriate certain percentages 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 an expansion fund.

(i) Statutory reserve funds

Pursuant to applicable PRC laws and regulations, the Company s PRC subsidiaries are required to allocate at least 10% of their net income to the statutory reserve funds until such funds reaches 50% of their respective 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 Company s PRC subsidiaries are required to allocate certain amounts of their respective net income to the staff welfare funds determined by the Company. The staff welfare funds can only be used to provide staff welfare facilities and other collective benefits to their employees. This fund is non-distributable other than upon liquidation of the PRC subsidiaries.

(iii) Expansion funds

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

UNITED STATES FEDERAL INCOME TAXATION

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

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This discussion is general in nature and does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual circumstances, including investors subject to special U.S. taxation rules, such as: (a) banks (b) dealers in securities or currencies; (c) insurance companies; (d) Tax-exempt organizations; (e) persons holding our ordinary shares as part of hedging, conversion, constructive sale, straddle or other integrated transactions; (f) traders in securities that have elected the mark-to-market method of accounting; (g) persons who own 5% or more of our shares; (h) U.S. persons whose functional currency is not the U.S. dollar; or (i) Non-U.S. Holders (as defined below).

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and U.S. Treasury regulations (including temporary and proposed regulations), rulings and judicial decisions thereunder as of the date hereof. Such authorities are subject to change, possibly on a retroactive basis, which may result in U.S. federal income tax consequences different from those discussed below.

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

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

A beneficial owner of our ordinary shares that is not a U.S. Holder is referred to herein as a Non-U.S. Holder.

If a partnership holds our ordinary shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding our ordinary shares is urged to consult its own tax advisor regarding an investment in our ordinary shares.

Passive foreign investment company rules. In general, we will be a passive foreign investment company for any taxable year in which either (a) at least 75% of our gross income is passive income or (b) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own at least 25% by value of the equity shares of another corporation, we will be treated for purposes of the passive foreign investment company tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation s income. The tax rules do not clearly indicate whether our contractual arrangements with our VIES would be treated as ownership of equity in such entities.

The annual PFIC determination to be made by a U.S. Holder of our ordinary shares is an inherently factual determination and there is limited guidance regarding the application of the PFIC rules to specific situations. Although the determination of PFIC status is subject to factual uncertainties because it depends upon the valuation of our ordinary shares as well as our goodwill and other assets and income. In addition, as the determination of PFIC status is made on an annual basis and depends on variables over which we have limited control, there can be no assurance that we will not be classified as a PFIC for 2010 or any future calendar years. If we are a PFIC in any year, U.S. Holders would be subject to the tax regime described in the following paragraphs.

If we are a passive foreign investment company for any taxable year during which a U.S. Holder has an equity interest in us, such U.S. Holder will be subject to special tax rules in any future taxable year. Unless the U.S. Holder makes a mark-to-market election, those special rules will apply to (a) excess distributions and (b) gain from the sale or other disposition of stock. Excess distributions are defined generally as the excess of the amount received with respect to the equity interests in the taxable year over 125% of the average annual distributions received in the shorter of either the three previous years or a U.S. Holder s holding period before the taxable year. Under these special tax rules:

- the gain or excess distribution will be allocated ratably over the holding period for the ordinary shares;

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- the amount allocated to the taxable year in which the gain or excess distribution is realized and to years before we became a PFIC will be taxed as ordinary income;

- the amount allocated to each other taxable year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and

- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such other taxable year.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections, which if available could materially affect the tax consequences of the ownership and disposition of our ordinary shares.

In certain circumstances, instead of being subject to the excess distribution rules discussed above, a U.S. Holder may make an election to include gain on ordinary shares of a passive foreign investment company as ordinary income under a mark-to-market method, provided that ordinary shares are regularly traded on a qualified exchange. The mark-to-market election is available only for ordinary shares that are regularly traded within the meaning of U.S. Treasury regulations on certain designated U.S. exchanges and foreign exchanges that meet trading, listing, financial disclosure and other requirements to be treated as a qualified exchange.

If a U.S. Holder makes a mark-to-market election, the U.S. Holder will include each year as ordinary income, rather than capital gain, the excess, if any, of the fair market value of the U.S. Holder s ordinary shares at the end of the taxable year over such U.S. Holder s adjusted basis in the ordinary shares and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of these ordinary shares over their fair market value at the end of the taxable year, but limited to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s basis in the ordinary shares will be adjusted to reflect any such income or loss amounts.

Furthermore, if we were a PFIC or, with respect to a particular U.S. Holder, were treated as a PFIC for the taxable year in which we paid a dividend or the prior taxable year, the favorable dividend rate with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If a U.S. Holder has held our ordinary shares at any time when we were a PFIC, such U.S. Holder must generally file an annual report with his or her federal income tax return.

A U.S. Holder is urged to consult his or her tax advisor concerning the U.S. federal income tax consequences of an investment in our ordinary shares under the passive foreign investment company rules.

Sale, exchange or other disposition of our ordinary shares. Subject to the application of the passive foreign investment company rules, as discussed above, upon the sale, exchange or other disposition of ordinary shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ordinary shares. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ordinary share for more than one year. Net long-term capital gains of non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Gains realized on the disposition of our ordinary shares could be subject to PRC withholding tax. Any gain or loss recognized by a U.S. Holder on a disposition of our ordinary shares will generally be treated as U.S.-source income or loss for foreign tax credit limitation purposes. A U.S. Holder that is eligible for the benefits of the Treaty may be able to elect to treat disposition gain that is subject to PRC taxation as foreign-source gain and claim a credit in respect of the tax. The rules governing foreign tax credits are complex, and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances.

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 10I. Subsidiary Information

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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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. Efforts by the PRC to curb inflation may also curb economic growth, increase our overhead costs and adversely affect our sales. If the PRC rate of inflation continues to increase, the Chinese government may introduce further measures intended to reduce the inflation rate in the PRC. Any such measures adopted by the Chinese government may not be successful in reducing or slowing the increase in the PRC s inflation rate. Sustained or increased inflation in the PRC may have an adverse impact on the PRC s economy and may materially and adversely affect our business and financial results.

The Company is currently not exposed to material future earnings or cash flow exposures from changes in interest rates on debt obligations as the Company had no bank indebtedness in Fiscal 2009. The Company does not currently anticipate entering into interest rate swaps and/or similar instruments.

PART II

ITEM15. 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-15(e) and 15d -15(e) 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, they have 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 Securities and Exchange Commission (SEC) rules and forms and they effectively ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including, our Chief Executive Officer and Principal Financial Officer, allowing for timely decisions regarding required disclosures.

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

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles. Our Chief Executive Officer and Chief Financial Officer assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, they used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2009, 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.

(c) Changes in Internal Controls

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

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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 Limited who were our principal external auditors, for 2009, 2008 and 2007.

	For the Year Ended December, 31		
	2009	**2008**	**2007**
	US$	**US$**	**US$**
Audit fees(1)	190,000	154,000	189,000
Audit-related fees(2)	Nil	Nil	25,000
Tax fees(3)	6,400	3,800	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, 2007, 2008 and 2009, 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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Item 16E. Purchases of Equity Securities By Issuer and Affiliated Purchasers.

During the following months in 2008 and 2009, T.C. Leung , our Chief Executive Officer and principal shareholder, either directly or through an entity beneficially owned by him (Regent), purchased shares in the open market from time to time.

As of May 31, 2010, the Company shares have been purchased by him at prices ranging from US$0.52 to US$1.04 with an average price per share of US$0.78 as more particularly set forth below:

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Per Share**	
November 1, 2008 to November 30, 2008	1,300	US$	0.95
December 1, 2008 to December 31, 2008	1,100	US$	0.91
January 1, 2009 to January 31, 2009	2,900	US$	1.00
February 1, 2009 to February 28, 2009	2,000	US$	0.52
March 1, 2009 to March 31, 2009	500	US$	0.57

In November 2008, the Company adopted a program to repurchase up to 300,000 of its issued and outstanding Ordinary Shares by December 31, 2009. This gave Euro Tech the ability to purchase the shares in the open market or through negotiated or block transactions from time to time based on market and business conditions. Under this program, the Company had the ability to purchase its Ordinary Shares in the open market or through negotiated or block transactions from time to time based on market and business conditions until the end of 2009. As of July 31, 2009, 300,034 of the Company s Ordinary Shares have been purchased by the Company under this program at prices ranging from US$0.45 to US$1.19 with an average price per share of US$0.88 as more particularly described below:

November 2008 Buy Back Program

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Paid per Share**		**(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
November 1, 2008 to November 30, 2008	12,691	US$	1.06	12,691	287,309

December 1, 2008 to December 31, 2008	28,350	US$	1.08	28,350	258,959
January 1, 2009 to January 31, 2009	36,900	US$	0.99	36,900	222,059
February 1, 2009 to February 28, 2009	41,090	US$	0.62	41,090	180,969
March 1, 2009 to March 31, 2009	77,320	US$	0.63	77,320	103,649
April 1, 2009 to April 30, 2009	36,183	US$	0.98	36,183	67,466
May 1, 2009 to May 31, 2009	20,149	US$	1.02	20,149	47,317

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June 1, 2009 to June 30, 2009	5,400	US$	1.21	5,400	41,917
July 1, 2009 to July 31, 2009	41,951	US$	1.09	41,951	

In July 2009, the Company adopted another program to repurchase up to an additional 300,000 of its issued and outstanding ordinary shares by July 31, 2010. As of May 31, 2010, 34,135 of the Company s Ordinary Shares have been purchased by the Company under this additional program at prices ranging from US$0.86 to US$1.73 with an average price per share of US$1.39 as more particularly described below:

July 2009 Buy Back Program

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Paid per Share**		**(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
July 1, 2009 to July 31, 2009	100	US$	1.43	100	299,900
August 1, 2009 to August 31, 2009	13,500	US$	1.27	13,500	286,400
September 1, 2009 to September 30, 2009	12,535	US$	1.30	12,535	273,865
October 1, 2009 to October 31, 2009	500	US$	1.57	500	273,365
May 1, 2010 to May 31, 2010	8,500	US$	1.69	8,500	264,865

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PART III

ITEM 18. FINANCIAL STATEMENTS

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

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 *
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)

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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 *
12.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
13.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
13.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

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* Filed Herewith

(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) Incorporated by reference, previously filed as an Exhibit to Registrant s Report on Form 20-F, filed on June 28, 2008.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F 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 28, 2010

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EURO TECH HOLDINGS COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008 AND

CONSOLIDATED STATEMENTS OF INCOME,

CONSOLIDATED CASH FLOWS AND CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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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, 2009 and 2008 and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2009. 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 audits 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. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Limited

BDO Limited

Hong Kong, June 28, 2010

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EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008

	Note	2009 US$ 000	2008 US$ 000
Assets			
Current assets:			
Cash and cash equivalents		7,025	7,146
Restricted cash		461	388
Accounts receivable, net	6	6,063	6,707
Prepayments and other current assets		618	1,041
Inventories, net	7	1,347	2,600
Taxation recoverable		1	
Total current assets		15,515	17,882
Property, plant and equipment, net	8 & 21(iii)	1,412	1,513
Investments in affiliates	9	8,067	7,679
Goodwill	12	1,060	1,060
Deferred tax assets	4	190	144
Total assets		26,244	28,278
Liabilities and shareholders equity			
Current liabilities:			
Accounts payable		3,884	5,838
Other payables and accrued expenses	10	2,835	2,844
Taxation payable		593	617
Total current liabilities		7,312	9,299
Commitments and contingencies	19		
Shareholders equity:			
Ordinary share, par value US$0.01 each, 20,000,000 (2008: 20,000,000) shares authorized; 12,212,031 (2008: 12,202,031) shares issued and outstanding	11	122	122
Additional paid-in capital		9,501	9,495
Treasury stock, 667,320 (2008: 381,692) shares at cost	13	(534)	(281)
PRC statutory reserve	14	222	200
Accumulated other comprehensive income		487	478
Retained earnings		6,989	6,979

Total Euro Tech shareholders equity	16,787	16,993
Non-controlling interest	2,145	1,986
Total shareholders equity	18,932	18,979
Total liabilities and shareholders equity	26,244	28,278

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

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EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Note		2009 US$ 000		2008 US$ 000		2007 US$ 000
Revenues							
Trading and manufacturing			18,326		21,439		20,010
Engineering			9,010		10,299		7,220
Total revenues	21(i) & (ii)		27,336		31,738		27,230
Cost of revenues							
Trading and manufacturing			(14,266)		(16,618)		(15,406)
Engineering			(6,610)		(7,536)		(4,992)
Total cost of revenues			(20,876)		(24,154)		(20,398)
Gross profit			6,460		7,584		6,832
Selling and administrative expenses			(6,608)		(7,214)		(6,566)
Operating (loss)/ income			(148)		370		266
Interest income			37		45		256
Other income, net	3		71		145		142
(Loss)/Income before income taxes and equity in profit of affiliates			(40)		560		664
Income taxes	4		(218)		(321)		(144)
Equity in profit of affiliates			595		273		247
Net income for the year			337		512		767
Less: net income attributable to non-controlling interest			(305)		(363)		(345)
Net income attributable to the Company			32		149		422
Net income per ordinary share							
- Basic		US$	0.003	US$	0.01	US$	0.04
- Diluted		US$	0.003	US$	0.01	US$	0.03
Weighted average number of ordinary shares outstanding							
- Basic	5		11,632,460		11,824,153		11,105,556
- Diluted	5		11,896,537		12,212,058		12,095,335

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

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EURO TECH HOLDINGS COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Cash flows from operating activities:			
Net income	32	149	422
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation of property, plant and equipment	202	218	232
Stock based compensation expense		217	148
Loss (Gain) on disposal of property, plant and equipment	10	1	(19)
Minority interest in profits of subsidiaries	305	363	345
Equity in profit of affiliates	(595)	(273)	(247)
Deferred tax assets	(46)	(10)	(96)
(Increase) decrease in current assets:			
Accounts receivable, net	644	(1,739)	(54)
Prepayments and other current assets	423	(129)	(189)
Inventories, net	1,253	(588)	16
Taxation recoverable	(1)	12	
Increase (decrease) in current liabilities:			
Accounts payable	(1,954)	2,726	(1,080)
Other payables and accrued expenses	(9)	(400)	896
Taxation payable	(24)	97	75
Net cash provided by operating activities	240	644	449
Cash flows from investing activities:			
Purchase of property, plant and equipment	(118)	(99)	(250)
Proceeds on disposal of property, plant and equipment	7		43
Dividend received from affiliates	207	294	
Investments in affiliates		(3,302)	(4,151)
Restricted cash for issuance of bank guarantees	(73)	(56)	83
Dividend paid to non-controlling interest	(147)		(140)
Net cash used in investing activities	(124)	(3,163)	(4,415)
Cash flows from financing activities:			
Issuance of ordinary shares on exercise of options	6	51	3,720
Purchase of treasury stock	(253)	(44)	
Cash from issuance of registered capital in subsidiary to non-controlling interest			200
Net cash provided by financing activities	(247)	7	3,920
Effect of exchange rate changes on cash and cash equivalents	10	271	273
Net (decrease)/increase in cash and cash equivalents	(121)	(2,241)	227

Cash and cash equivalents, beginning of year	7,146	9,387	9,160
Cash and cash equivalents, end of year	7,025	7,146	9,387

	US$ 000	**US$ 000**	**US$ 000**
Supplementary information			
Interest received	37	45	256
Interest paid			
Income taxes paid	289	233	166
Shares surrendered for exercise of stock options		73	155

As at December 31, 2007 there was a final consideration of US$648,000 payable in relation to the acquisition of Zhejiang Tianlan Environmental Technology 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, 2009, 2008 AND 2007

	Number of Ordinary share	Ordinary share US$ 000	Additional paid-in capital US$ 000	Treasury stock US$ 000	Accumulated other comprehensive income US$ 000	PRC statutory reserve US$ 000	Retained earnings US$ 000	Non-controlling interest US$ 000	Total US$ 000
Balance as of January 1, 2007	9,375,192	94	5,387	(237)	69	88	6,522	1,067	12,990
Net income							422	345	767
Other comprehensive income:									
Foreign exchange translation adjustment					202			273	475
Total comprehensive income									1,242
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
Dividend paid to non-controlling interest								(140)	(140)
Balance as of December 31, 2007	12,024,901	120	9,229	(237)	271	165	6,865	1,545	17,958
Net income							149	363	512
Other comprehensive income:									
Foreign exchange translation adjustment					207			78	285
Total comprehensive income									797
Purchase of treasury stock				(44)					(44)
Shares surrendered for exercise of stock options	(31,240)		(73)						(73)
Exercise of stock options	208,370	2	122						124
Transfer of reserve						35	(35)		
Stock-based compensation expense			217						217
Dividend paid to non-controlling interest									
Balance as of December 31, 2008	12,202,031	122	9,495	(281)	478	200	6,979	1,986	18,979

Net income							32	305	337
Other comprehensive income:									
Foreign exchange translation adjustment					9			1	10
Total comprehensive income									347
Purchase of treasury stock				(253)					(253)
Shares surrendered for exercise of stock options									
Exercise of stock options	10,000		6						6
Transfer of reserve						22	(22)		
Stock-based compensation expense									
Dividend paid to non-controlling interest								(147)	(147)
Balance as of December 31, 2009	12,212,031	122	9,501	(534)	487	222	6,989	2,145	18,932

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

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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

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organization and principal activities (Continued)

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Guangzhou Euro Tech Environmental Equipment Co., Ltd	100%	The PRC	Marketing and trading of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems
Yixing Pact Environmental Technology Co., Ltd	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 Environmental Protection Technology Co. Ltd. (Formerly known as Zhejiang Tianlan Desulfurization and Dust Removal Co. Ltd.)	20%*	The PRC	Design, general contract, equipment manufacturing, installation, testing and operation management of the treatment of waste gases emitted
Zhejaing Jia Huan Electronic Co. Ltd.	20%**	The PRC	Design and manufacturing automatic control systems and electric voltage control equipment for electrostatic precipitators (air purification equipment)

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

** In the year 2008, the Company acquired 20% equity interest of this company.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Euro Tech Holdings Company Limited and its subsidiaries (the Group). The financial statements of variable interest entities (VIEs), as defined by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 810-10, Consolidation(previously FASB Interpretation No. 46 (R), Consolidation of Variable Interest Entities) , are included in the consolidated financial statements, if applicable.

The Group identified that certain retail shops established in the PRC qualified as variable interest entities as defined in ASC 810-10. The retail shops are principally engaged in the retailing business of water and waste water related process control, analytical and testing instruments, disinfection equipment, supplies and related automation systems. The Company is the primary beneficiary of these retail shops and, accordingly, consolidated their financial statements 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$90,805 and US$33,952, as of December 31, 2009 and US$107,386 and US$66,412, as of December 31, 2008, respectively. The cumulative losses on consolidating these VIEs in the Group s consolidated statement of income in 2009 were US$43,534 (2008: losses of US$41,443 and 2007: profits of US$17,638), including taxes of US$2,432 (2008: US$3,126 and 2007: US$11,118). 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. The Group will provide all of the needed financing for the VIEs.

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.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(c) Revenue Recognition (Continued)

Revenues and profits in long term fixed price contracts or the engineering income are recorded under the percentage of completion method in accordance with FASB ASC Subtopic 605-35, Revenue Recognition Construction-Type and Production-Type Contracts, (previously Statement of Position (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.

(d) Research and Development Costs

Research and development costs (R&D costs) are expensed as incurred. The R&D costs amounted to approximately US$99,000, US$89,000 and US$47,000 for the years ended December 31, 2009, 2008 and 2007 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$64,000, US$40,000 and US$78,000 for the years December 31, 2009, 2008 and 2007 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 FASB ASC Subtopic 740-10, Income Taxes, (previously 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. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realized within a reasonable period of time.

In accordance with ASC 740-10, 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. The Company did not have such uncertain tax positions in 2009, 2008 and 2007.

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.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(g) Cash and Cash Equivalents

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

(h) Receivables and Other Assets

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

(i) Inventories

Inventories are stated at the lower of cost, 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 FASB ASC Subtopic 360-10, Property, Plant, and Equipment, (previously 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. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There were no impairment losses recorded during each of the three years ended December 31, 2009.

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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 FASB ASC Subtopic 350-10, Intangibles Goodwill and Other (previously 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 asaccumulated comprehensive income or loss.

(o) Derivative Instruments and Hedging Activities

FASB ASC Subtopic 815-10, Derivates and Hedging, (previously 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). ASC 815-10 contains accounting and reporting standards for hedging accounting and for derivative financial instruments, including certain derivative financial instruments embedded in other contracts.

ASC 815-10 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.

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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 FASB ASC Subtopic 220-10, Comprehensive Income, (previously 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 FASB ASC Subtopic 260-10, Earnings Per Share, (previously 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

The Group adopted the provisions of FASB ASC Subtopic 718-10, Compensation Stock Compensation), (previously SFAS No. 123 (revised 2004) (SFAS No. 123(R)), Share-Based Payment) which requires the Group to recognize expense related to the fair value of our stock-based compensation awards, including employee stock options.

(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.

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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 FASB ASC Subtopic 280-10, Segment Reporting, (previously SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information). The management approach required by ASC 280-10 designates that the internal reporting structure that is used by management for making operating decisions and assessing performance should be used as the source for presenting the Company s reportable segments. The Company categorizes its operations into two business segments: Trading and manufacturing, and Engineering.

(w) Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (now codified within ASC 855-10, *Subsequent Events* (ASC 855-10)). ASC 855-10 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 is applicable for interim or annual periods after June 15, 2009. In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, Subsequent Events , which is codified as ASC 855, Amendments to Certain Recognition and Disclosure Requirements . This update amends the ASC855-10, to replace the term public entity with the term an SEC filer , in order to avoid potential conflict with some of the Securities and Exchange Commission s (SEC) guidance. All of the amendments in this update are effective immediately. The application of ASC 855 did not have a material effect on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles , (now codified within ASC 105, Generally Accepted Accounting Principles). ASC 105 establishes the Codification as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Following this statement, FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve only to: (1) update the Codification; (2) provide background information about the guidance; and (3) provide the bases for conclusions on the change(s) in the Codification. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. The adoption of ASC 105 did not have an impact on the Company s consolidated results of operations or financial position.

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies (Continued)

(w) Recent Accounting Pronouncements (Continued)

In August 2009, FASB issued ASU 2009-5 Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-5). ASU 2009-5 provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of liabilities. ASU 2009-5 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value. ASU 2009-5 was effective for the Company for interim and annual periods ending after September 30, 2009. The adoption of ASU 2009-5 did not have a material impact on the Company s consolidated results of operations or financial position.

In December 2009, FASB issued ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) . The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise s involvement in variable interest entities. ASU 2009-17 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009. The Company does not expect the adoption of ASU 2009-17 to have a material impact on its consolidated results of operations or financial position.

In January 2010, FASB issued ASU 2010-01, Entity, which is codified as ASC505, Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force) . The amendments in this Update clarify that the stock portion of a distribution to shareholders that allow them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The application of ASC 505 did not have a material effect on the Company s consolidated financial statements.

In January 2010, FASB issued ASU 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification (ASU 2010-2). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification , originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 1, 2010. The Company does not expect the adoption of ASU 2010-2 to have a material impact on the Company s consolidated results of operations or financial position.

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In January 2010, FASB issued ASU 2010-6 Improving Disclosures about Fair Measurements (ASU 2010-6). ASU 2010-6 provides amendments to subtopic 820-10 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to subtopic 820-10 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for financial statements issued for interim and annual periods ending after December 15, 2010. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its consolidated results of operations or financial position.

3 Other income, net

	2009 US$ 000	**2008 US$ 000**	**2007 US$ 000**
Exchange gain, net	47	120	104
Rental income	24	25	38
	71	145	142

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 16.5% in year 2009 (2008: 16.5%, 2007: 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.

Euro Tech Trading (Shanghai) Limited, a subsidiary of the Company, provides for PRC Enterprise Income Tax at a rate of 20% (2008: 18%, 2007: 15%) (a rate currently levied by the Pudong local Tax Bureau despite the rate National Tax Bureau of 25%), after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

In accordance with the relevant income tax laws and regulations applicable to foreign investment enterprises in the PRC, Shanghai Euro Tech Limited (SET), a subsidiary of the Company, is exempt from the PRC Enterprise Income Tax for two years starting from 2008, after offsetting losses brought forward, if any, followed by a 50% reduction for the next three years thereafter. As of December 31, 2009, SET had an assessable loss carried forward of US$313,386 as agreed by the local tax authority to offset its profit for the coming year (2008: US$242,253). Such loss will expire in 5 years.

According to the relevant PRC tax rules and regulations, Shanghai Euro Tech Environmental Engineering Limited is exempt from the PRC Enterprise Income Tax of 20% (2008: 18%, 2007: 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, Rizhi Euro Tech Instrument (Shaanxi) Co., Ltd and Guangzhou Euro Tech Environmental Equipment Co., Ltd provide for PRC Enterprise Income Tax at a rate of 25%, after offsetting losses brought forward, if any, on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC Enterprise Income Tax purposes.

According to the relevant PRC tax rules and regulations, Yixing Pact Environmental Technology Co., Ltd is registered in Shanghai as Foreign Owned Enterprise that are entitled to Enterprise Income Tax rate of 25% (2008: 25%, 2007: 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 16.5% (2008: 16.5%, 2007: 17.5%) as the profit is earned in Hong Kong.

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4 Income taxes (Continued)

VIEs of the Group provide for PRC Enterprise Income Tax at a rate of 25% (2008: 25%, 2007: 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, 2009, certain VIEs had aggregated assessable losses carried forward of US$151,706 as agreed by the local tax authority (2008: US$99,830).

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.

(Loss)/Income before income taxes/(benefit):

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Domestic (BVI)			
Foreign	(40)	560	664
	(40)	560	664

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes (Continued)

The provision for income taxes consists of:

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Current tax expenses:			
Domestic (BVI)			
Foreign	264	331	240
Total current provision	264	331	240
Deferred tax benefit:			
Domestic (BVI)			
Foreign	(46)	(10)	(96)
Total deferred provision	(46)	(10)	(96)

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

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Computed tax at respective company s statutory tax rate	46	223	75
Change in valuation allowances	121	99	114
Under-provision for income tax in prior years	7		
Others	44	(1)	(45)
Total provision for income tax at effective tax rate	218	321	144

The components of deferred tax assets are as follows:

	2009 US$ 000	2008 US$ 000
Deferred tax assets arising from tax losses	528	360
Deferred tax liabilities arising from temporary differences	(4)	(3)
Less: Valuation allowances	(334)	(213)
Net deferred tax assets	190	144

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5 Net income per ordinary share

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

	2009	2008 Number of shares	2007
Weighted average number of ordinary shares for the purposes of basic net income per share	11,632,460	11,824,153	11,105,556
Effect of dilutive potential ordinary shares: Stock options	264,077	387,905	989,779
Weighted average number of ordinary shares for the purposes of diluted net income per share	11,896,537	12,212,058	12,095,335

6 Accounts receivable

	2009 US$ 000	2008 US$ 000
Trade receivables	6,081	6,792
Less: Allowance for doubtful debts	(18)	(85)
	6,063	6,707

	2009 US$ 000	2008 US$ 000
Allowance for doubtful debts		
Balance at beginning	85	95
Released/(charged) to costs and expenses	(9)	8
Write off	(58)	(18)
Balance at end	18	85

As of December 31, 2009, accounts receivables in the form of bills receivable under letter of credit through banks amounted to approximately US$104,000 (2008: US$50,000).

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7 Inventories, net

	2009 US$ 000	2008 US$ 000
Raw materials	167	162
Work in progress	213	365
Finished goods	967	2,073
	1,347	2,600

Management continuously reviews obsolete and slow moving inventories and assesses the inventory valuation to determine if the provision is deemed appropriate. For the year ended December 31, 2009, and 2008, provision for obsolete and slow moving inventories amounted to US$73,563 and US$68,758, respectively, which were charged to cost of revenue in Consolidated Statements of Income.

8 Property, plant and equipment

	2009 US$ 000	2008 US$ 000
Office premises	2,257	2,257
Leasehold improvements	150	150
Furniture, fixtures and office equipment	939	857
Motor vehicles	162	162
Testing equipment	77	77
	3,585	3,503
Less: Accumulated depreciation	(2,173)	(1,990)
	1,412	1,513

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Depreciation charge	202	218	232

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9 Investments in affiliates

During the year ended December 31, 2007, the Group acquired 20% equity interests in Zhejiang Tianlan Environmental Protection Technology 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 Environmental Protection Technology Co. Ltd, is set forth below:

Balance Sheet:	**2009** **US$ 000**	**2008** **US$ 000**
Current assets	15,947	16,952
Non-current assets	6,751	5,504
Total assets	22,698	22,456
Total liabilities	(8,803)	(9,831)
Total shareholders equity	13,895	12,625

Operating results:	**2009** **US$ 000**	**2008** **US$ 000**
Net sales	17,786	14,688
Operating profits	536	1,396
Net profits	272	1,215

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 Investments in affiliates (Continued)

During the year ended December 31, 2008, the Group acquired 20% equity interests in Zhejiang Jia Huan Electronic Co. Ltd., (Jia Huan), a company incorporated in the PRC, for approximately US$2,610,000. 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. Investments in this affiliate are accounted for using the equity method of accounting.

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

Balance Sheet:	**2009** **US$ 000**	**2008** **US$ 000**
Current assets	16,705	17,423
Non-current assets	4,820	5,197
Total assets	21,525	22,620
Total liabilities	(8,630)	(11,559)
Total shareholders equity	12,895	11,061

Operating results:	**2009** **US$ 000**	**2008** **US$ 000**
Net sales	11,521	13,571
Operating profits	433	639
Net profits	2,718	152

10 Other payables and accrued expenses

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

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11 Ordinary share

During the year ended December 31, 2008, the Company issued 208,370 ordinary shares for stock options exercised and cancelled 31,240 shares surrendered for exercise of stock options.

During the year ended December 31, 2009, the Company issued 10,000 ordinary shares for stock options exercised.

12 Goodwill

The Company accounted for the acquisition in accordance with FASB ASC Subtopic 805-10, Business Combinations, (previously 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, in relation to the acquisition of Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited..

As of December 31, 2009, 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, 2009) Based on the result of the first step of the test, the Company determined that there was no impairment of goodwill as of December 31, 2009.

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.

The Company authorized a stock buyback program in November 2008 pursuant to which up to 300,000 shares, but not to exceed US$420,000 in value, of the Company s ordinary share could be purchased in the open market from time to time as market and business conditions warrant. The Company repurchased a total of 41,041 shares and 258,993 shares of ordinary share during 2008 and 2009 for considerations of approximately US$44,000 and US$219,000, respectively.

The Company authorized a stock buyback program in July 2009 pursuant to which up to 300,000 shares, but not to exceed US$420,000 in value, of the Company s ordinary share could be purchased in the open market from time to time as market and business conditions warrant. The Company repurchased a total of 26,635 shares of ordinary share during 2009 for considerations of approximately US$34,000.

There was no reissuance of treasury stock during each of the three years ended December 31, 2009.

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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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NOTES TO THE CONSOLIDATED ACCOUNTS

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.

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, 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**.**

During the year ended December 31, 2008, 32,000 options with an exercise price of US$2.56 per share were granted to its employees. These options were subsequently surrendered and cancelled during the vesting period. During the same year, 24,570 options with exercise price of US$ 0.5787 per share were exercised**.**

During the year ended December 31, 2009, 10,920 options, 22,680 options and 5,000 options with exercise price of US$0.5787, US$0.8191 and US$2.02, respectively, were cancelled.

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EURO TECH HOLDINGS COMPANY LIMITED

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, 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.

During the year ended December 31, 2008, 16,800 options and 167,000 options with exercise price of US$ 0.7618 and US$0.5857 per share, respectively, were exercised.

During the year ended December 31, 2009, 12,600 options with exercise price of US$0.7618 were cancelled. During the same year, 10,000 options with exercise price of US$0.5857 per share 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.

During the year ended December 31, 2008, all the 499,000 options granted in 2007 were cancelled. On January 24, 2008, 173,000 options with an exercise price of US$2.56 per share were granted. These options were subsequently surrendered and cancelled on July 4, 2008.

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

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NOTES TO THE CONSOLIDATED ACCOUNTS

15 Stock options (Continued)

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

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

	2009		2008		2007	
	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	583,470	0.84	1,290,840	1.74	3,938,296	1.32
Granted			205,000	2.56	499,000	3.27
Cancelled/Expired	(51,200)	(0.87)	(704,000)	(3.07)	(451,210)	(1.58)
Exercised	(10,000)	(0.59)	(208,370)	(0.60)	(2,695,246)	(1.44)
Outstanding, end of year	522,270	0.85	583,470	0.84	1,290,840	1.74
Exercisable, end of year	522,270	0.85	583,470	0.84	791,840	0.78

As of December 31, 2009, the options outstanding and exercisable had exercise prices in the range of US$0.5787 to US$3.33 and a weighted average unexpired life of approximately 1.7 years.

As of December 31, 2009	Shares	Intrinsic Value US$ 000
Total outstanding in-the-money options	482,270	719
Total vested in-the-money options	482,270	719

The total intrinsic value of share options exercised for the twelve months ended December 31, 2009 and 2008 were approximately $8,000 and $374,000, respectively. As of December 31, 2009 there was no unrecognized stock-based compensation expense related to unvested stock options.

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EURO TECH HOLDINGS COMPANY LIMITED

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15 Stock options (Continued)

The Group adopted the provisions of ASC 718-10, which 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 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, 2008 and 2007:

Assumptions	2008	2007
Expected volatility	75.9-86.7%	75.9-86.7%
Expected dividends		
Expected term (years)	1.25	1.25
Risk-free rate	3.2-4.3%	3.2-4.3%

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.

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16 Pension plan (Continued)

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, 2009, 2008 and 2007, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately US$327,000, US$291,000 and US$245,000 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.

(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. There were no such derivatives during the years ended December 31, 2009 and 2008.

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NOTES TO THE CONSOLIDATED ACCOUNTS

18 Related party transactions

Other than the compensation paid and stock options available to the directors, there were no other transactions with related parties in the years 2009, 2008 and 2007.

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, 2009, 2008 and 2007 were approximately US$394,000, US$411,000, and US$448,000, respectively. Future minimum rental payments as of December 31, 2009, under agreements classified as operating leases with non-cancellable terms amounted to US$224,000 of which US$175,000 are payable in the year 2010 and US$49,000 are payable within years 2011 to 2013. As of December 31, 2008, the future minimum rental payments under agreements classified as operating leases with non-cancellable terms amounted to US$177,000 of which US$154,000 are payable in the year 2009 and US$23,000 are payable within years 2010 to 2012.

(ii) Banking facilities

As at December 31, 2009, 2008 and 2007, the Group had various banking facilities available for overdraft, import and export credits and foreign exchange contracts from which the Group can access up to approximately US$2,564,000, US$2,564,000 and US$4,167,000 respectively, of which approximately US$260,000, US$234,000 and US$138,000 was utilized for issuance of bank guarantees.

(iii) Non-controlling interest put option

The Group granted the non-controlling interest of Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited a put option, which is effective from 2009, requiring the Group to acquire part or all remaining securities of these two companies at 5.2 times of their average net income for the three prior fiscal years.

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.

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NOTES TO THE CONSOLIDATED ACCOUNTS

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.

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Revenue			
Trading and manufacturing	18,326	21,439	20,010
Engineering	9,010	10,299	7,220
	27,336	31,738	27,230
Operating income			
Trading and manufacturing	(462)	(185)	(57)
Engineering	314	555	323
	(148)	370	266

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Depreciation:			
Trading and manufacturing	172	179	197
Engineering	30	39	35
	202	218	232
Capital Expenditures, Gross			
Trading and manufacturing	81	56	147
Engineering	37	43	103
	118	99	250

	2009 US$ 000	2008 US$ 000
Assets		
Trading and manufacturing	10,938	12,754
Engineering	7,239	7,845
Unallocated	8,067	7,679
	26,244	28,278
Liabilities		

Trading and manufacturing	4,383	6,108
Engineering	2,929	3,191
Unallocated		
	7,312	9,299

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EURO TECH HOLDINGS COMPANY LIMITED

NOTES TO THE CONSOLIDATED ACCOUNTS

21 Segment information (Continued)

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

	2009 US$ 000	2008 US$ 000	2007 US$ 000
Revenue -			
The PRC	19,333	25,430	21,595
Hong Kong	7,621	5,745	5,401
Others	382	563	234
	27,336	31,738	27,230

(iii) Long-lived assets (1)

Geographical analysis of long-lived assets is as follows:

	2009 US$ 000	2008 US$ 000
Hong Kong	755	810
The PRC	657	703
	1,412	1,513

(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:

	2009	2008	2007
Thermo Fisher Scientific	21%	10%	5%
Siemens Water Technologies Group	13%	7%	10%
Calipers Life Sciences Inc.	10%	10%	6%
Hach Company - Lachat Instruments	10%	8%	5%
Hioki E.E. Corp.	6%	15%	32%
Stanford Research Systems Inc.	5%	4%	4%

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.

(iv) Major customers

No revenue from a single customer exceeds 10% of the Group revenue during the years ended December 31, 2009, 2008 and 2007.

22 Post balance sheet events

In January 2010, the Group acquired additional 2% equity interests in Yixing Pact Environmental Technology Co., Ltd and Pact Asia Pacific Limited for a total consideration of approximately US$73,000.

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ZHEJIANG JIAHUAN ELECTRONIC COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2009 AND

CONSOLIDATED STATEMENT OF INCOME,

CASH FLOWS AND CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and shareholders of

Zhejiang Jiahuan Electronic Co., Ltd.

We have audited the accompanying consolidated balance sheet of Zhejiang Jiahuan Electronic Co., Ltd. as of December 31, 2009 and the related consolidated statement of income, shareholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 Zhejiang Jiahuan Electronic Co., Ltd. as of December 31, 2009 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

This was our first audit of the consolidated financial statements of Zhejiang Jiahuan Electronic Co., Ltd. and, as instructed, the scope of our engagement did not include sufficient procedures with respect to the consolidated financial statements for the preceding year to enable us to express an opinion on the consistency of application of accounting principles.

/s/ BDO Limited

BDO Limited

Hong Kong, June 28, 2010

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008

	Note	2009 RMB 000	(Unaudited) 2008 RMB 000
ASSETS			
Current assets			
Cash and cash equivalents		7,183	14,132
Accounts receivable, net	5	67,080	64,349
Notes receivable		1,500	11,142
Other receivables	6	12,281	5,138
Amounts due from shareholders	14	826	181
Short term investments	7	8,200	200
Inventories	8	17,051	23,040
Total current assets		114,121	118,182
Property, plant and equipment, net	9	25,429	27,146
Land use right, net	10	7,430	7,603
Long term investment	7	69	518
Total assets		147,049	153,449
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Accounts payable		18,280	21,094
Other payables and accrued expenses	11	12,804	18,574
Short term loans	12	20,000	31,000
Amount due to a related company	14	838	896
Income tax payable		427	405
Total current liabilities		52,349	71,969
Other long term liabilities	15	6,609	6,862
Commitments and contingencies			
Shareholders equity			
11,250,000 shares authorised; 11,250,000 shares issued and fully paid; par value RMB1 per share		11,250	11,250
PRC statutory reserves	16	29,461	27,600
Retained earnings		46,236	35,160
Total shareholders equity of Zhejiang Jiahuan Electroic Co., Ltd.		86,947	74,010
Non-controlling interest		1,144	608

Total equity	88,091	74,618
Total liabilities and shareholders equity	147,049	153,449

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

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009 AND 2008

	Note	2009 RMB 000	(Unaudited) 2008 RMB 000
Revenue		78,670	95,994
Cost of revenue		(52,055)	(70,828)
Gross profit		26,615	25,166
Selling and administrative expenses		(22,885)	(24,468)
Operating income		3,730	698
Interest income		99	118
Other income, net	3	15,949	310
Income before income taxes		19,778	1,126
Income taxes	4	(1,080)	(1,065)
Net Income		18,698	61
Net income attributable to non-controlling interest		(136)	(9)
Net income attributable to Zhejiang Jiahuan Electronic Co., Ltd. s shareholders		18,562	52

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

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009 AND 2008

	2009 RMB 000	(Unaudited) 2008 RMB 000
Cash flows from operating activities:		
Net income	18,698	61
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation of land use right	173	180
Depreciation of property, plant and equipment	2,099	2,074
Gain on disposal of land	(14,892)	
Gain on disposal of investments	(883)	
Increase in allowance for doubtful debts on trade receivables	2,458	3,528
Impairment loss on long term investment		485
Loss on disposal of property, plant and equipment	9	
Recovery of previously written off trade receivables	(707)	
(Increase)/decrease in current assets:		
Accounts receivable, net	(4,482)	(6,918)
Notes receivable	9,642	755
Other receivables	749	(1,528)
Inventories	9,143	2,838
Increase/(decrease) in current liabilities:		
Accounts payable	(5,967)	(8,863)
Other payables and accrued expenses	(5,770)	1,147
Amount due to a related company	(58)	896
Income tax payable	22	(3,011)
Other long term payables	(253)	819
Net cash provided by/(used in) operating activities	9,981	(7,238)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(391)	(1,227)
Purchase of short term investments	(8,000)	
Proceeds from sale of land	7,000	
Proceeds from sale of long term investments	1,332	128
Net cash used in investing activities	(59)	(1,099)
Cash flows from financing activities:		
Repayment of bank borrowings	(11,000)	
Advance of bank borrowings		5,000
Proceeds from issuance of share		8,947
Dividend paid to shareholders	(5,625)	(1,280)
Increase in amounts due from shareholders	(246)	398
Net cash (used in)/provided by financing activities	(16,871)	13,065

Net (decrease)/increase in cash and cash equivalents	(6,949)	4,728
Cash and cash equivalents, beginning of year	14,132	9,404
Cash and cash equivalents, end of year	7,183	14,132

	RMB 000	**RMB 000**
Supplementary information		
Interest received	99	118
Interest paid	(1,860)	(2,124)
Income taxes paid	(1,058)	(4,076)

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

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009 AND 2008

	Share Number of shares	Share Amount RMB 000	PRC statutory reserves RMB 000	Retained earnings RMB 000	Non-controlling interest RMB 000	Total RMB 000
Balance as of January 1, 2009	11,250,000	11,250	27,600	35,160	608	74,618
Net income				18,562	136	18,698
Total comprehensive income						18,698
Retained earnings attributed to non-controlling interest in an acquisition of a subsidiary					400	400
Dividends				(5,625)		(5,625)
Transfer to reserve			1,861	(1,861)		
Balance as of December 31, 2009	11,250,000	11,250	29,461	46,236	1,144	88,091

	Share Number of shares (Unaudited)	Share Amount RMB 000 (Unaudited)	PRC statutory reserves RMB 000 (Unaudited)	Retained earnings RMB 000 (Unaudited)	Non-controlling interest RMB 000 (Unaudited)	Total RMB 000 (Unaudited)
Balance as of January 1, 2008	10,000,000	10,000	19,900	36,391	599	66,890
Net income				52	9	61
Total comprehensive income						61
Capital injection	1,250,000	1,250	7,697			8,947
Dividends				(1,280)		(1,280)
Transfer to reserve			3	(3)		
Balance as of December 31, 2008	11,250,000	11,250	27,600	35,160	608	74,618

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

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organisation and principal activities

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

Particulars of the Company s subsidiaries are summarised as follows:

Name	Percentage of equity ownership	Place of incorporation	Principal activities
Jinhua Jiahuan Puzhau New Energy Technology Co., Ltd.	80%	PRC	Design, manufacture and sales of solar and wind power equipment
Zhejiang Jiahuan Xinyu Environmental Protection Co., Ltd.	70%	PRC	Design, manufacture and servicing of environmental equipment

2 Summary of significant accounting policies

(a) Basis of Consolidation

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

(b) Subsidiaries

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

(c) **Revenue Recognition**

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

(d) **Research and Development Costs**

Research and development costs (R&D costs) are expensed as incurred. The R&D costs amounted to approximately RMB4,368,000 and RMB4,054,000 for the year ended December 31, 2009 and 2008 respectively and were included in Selling and Administrative expenses in the Group s consolidated statement of income.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

(e) **Taxation**

The Group accounts for income and deferred tax under the provision of FASB ASC Subtopic 740-10, Income Taxes, (previously Statement of Financial Accounting Standards (SFAS) No. 109: Accounting for Income Taxes). Deferred tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realised within a reasonable period of time.

Note 4 shows the applicable tax rates for the Company and its subsidiaries, as well as the major temporary differences so recorded.

(f) **Cash and Cash Equivalents**

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

(g) **Investments**

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

(h) **Receivables and Other Assets**

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

(i) **Inventories**

Inventories are stated at the lower of cost, 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.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

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

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

Land in the PRC is owned by the PRC government. The government in the PRC, according to PRC law, may sell the right to use the land for a specified period of time. Thus, all of the Group s land purchases in the PRC are considered to be leasehold land and classified as land use right. They are amortised on a straight-line basis over the respective term of the right to use the land. The period for right to use was 50 years.

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

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

Land use right	50 years
Buildings	5 to 20 years
Furniture, fixtures and machineries	3 to 10 years
Motor vehicles	5 to 10 years

(k) **Impairment**

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, (previously 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.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

(k) **Impairment - Continued**

The Group determines the existence of such impairment by measuring the expected cash flows (undiscounted and without interest charges) and comparing such amount to the carrying amount of the assets. An impairment loss, if one exists, is then measured as the amount by which the carrying amount of the asset exceeds the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value of such assets less costs to sell. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Changes for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets.

The Group determined that there were no impairment losses recorded during each of the two years ended December 31, 2009 and 2008.

(l) **Foreign Currency Translation**

The Group maintains its books and records in Chinese Renminbi (RMB), which is the Group functional currency. Foreign currency transactions during the year are translated into the functional currency at the applicable rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the balance sheet date. Gains or losses from foreign currency transactions are recognised in the consolidated statement of income during the year in which they occur.

(m) **Comprehensive Income**

The Group has adopted FASB ASC Subtopic 220-10, Comprehensive Income, (previously 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, in the consolidated statement of changes in shareholders equity.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

(n) **Use of Estimates**

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

(o) **Related Parties**

Entities are considered to be related to the Company 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.

(p) **Recent Accounting Pronouncements**

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (now codified within ASC 855-10, Subsequent Events (ASC 855-10)). ASC 855-10 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 is applicable for interim or annual periods after June 15, 2009. In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, Subsequent Events , which is codified as ASC 855, Amendments to Certain Recognition and Disclosure Requirements . This update amends the ASC855-10, to replace the term public entity with the term an SEC filer , in order to avoid potential conflict with some of the Securities and Exchange Commission s (SEC) guidance. All of the amendments in this update are effective immediately. The application of ASC 855 did not have a material effect on the Company s consolidated financial statements.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

(p) **Recent Accounting Pronouncements - Continued**

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles , (now codified within ASC 105, Generally Accepted Accounting Principles (ASC 105)). ASC 105 establishes the Codification as the single source of authoritative GAAP recognised by the FASB to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Following this statement, FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve only to: (1) update the Codification; (2) provide background information about the guidance; and (3) provide the bases for conclusions on the change(s) in the Codification. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. The adoption of ASC 105 did not have an impact on the Company s consolidated results of operations or financial position.

In August 2009, FASB issued ASU 2009-5 Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-5). ASU 2009-5 provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of liabilities. ASU 2009-5 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value. ASU 2009-5 was effective for the Company for interim and annual periods ending after September 30, 2009. The adoption of ASU 2009-5 did not have a material impact on the Company s consolidated results of operations or financial position.

In December 2009, FASB issued ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R). The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise s involvement in variable interest entities. ASU 2009-17 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009. The Company does not expect the adoption of ASU 2009-17 to have a material impact on its consolidated results of operations or financial position.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

(p) **Recent Accounting Pronouncements - Continued**

In January 2010, FASB issued ASU 2010-01, Entity, which is codified as ASC505, Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force) . The amendments in this Update clarify that the stock portion of a distribution to shareholders that allow them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The application of ASC 505 did not have a material effect on the Company s consolidated financial statements.

In January 2010, FASB issued ASU 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification (ASU 2010-2). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification , originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognises a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 1, 2010. The Company does not expect the adoption of ASU 2010-2 to have a material impact on the Company s consolidated results of operations or financial position.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of important accounting policies - Continued

(p) Recent Accounting Pronouncements - Continued

In January 2010, FASB issued ASU 2010-6 Improving Disclosures about Fair Measurements (ASU 2010-6). ASU 2010-6 provides amendments to subtopic 820-10 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to subtopic 820-10 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for financial statements issued for interim and annual periods ending after December 15, 2010. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its consolidated results of operations or financial position.

The Group 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.

3 Other income, net

	Note	2009 RMB 000	(Unaudited) 2008 RMB 000
Exchange gain, net		1	
Gain on disposal of land	(i)	14,892	
Gain on disposal of investments		883	
Rental income	(ii)	73	
Subsidy from government	(iii)	100	310
		15,949	310

(i) The amount represents compensation from PRC government in respect of the recall of the Company s land, of which, cash of RMB7,000,000 was received from the PRC government during the year. The remaining balance of approximately RMB7,892,000, as included in other receivable (note 6), is received subsequent to the year end.

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

(iii) The Group recognises subsidy income when granted by local government authority and are not subject to future return or reimbursement.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Income taxes

The Group provides for PRC Enterprise Income Tax (EIT) at a rate of 25% on the basis of its income for financial reporting purposes, adjusting for income and expense items which are not assessable or deductible for PRC EIT purposes. The Company was recognised as one of the 2008 Hangzhou New and High Technical Enterprise, and is entitled to tax concession to pay a lower tax rate of 15% over 3 years, beginning in 2008.

The provision for income tax consists of:

	2009 RMB 000	(Unaudited) 2008 RMB 000
Current PRC EIT	1,080	1,065
Income taxes	1,080	1,065

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

	2009 RMB 000	(Unaudited) 2008 RMB 000
Income before income taxes	19,778	1,126
Computed tax at respective company s statutory rate	3,030	179
Tax effect on revenue not subject to tax	(2,400)	
Tax effect on expenses not deductible for tax purposes	447	89
Tax effect on tax loss not recognised	18	
Utilisation of temporary differences previously not recognised		797
Others	(15)	
Total provision for income at effective rate	1,080	1,065

Deferred tax assets/(liabilities) as of December 31, 2009 are as follows:

	2009 RMB 000	(Unaudited) 2008 RMB 000
Deferred tax arising from tax losses	18	
Deferred tax arising from deductible temporary differences	1,548	1,260
Less: Valuation allowances	(1,566)	(1,260)

The Group has recorded a valuation allowance against certain deferred tax assets due to uncertainty surrounding the realisation of these assets. The valuation allowance is related to certain tax losses and the deductible temporary differences due to the unpredictability of future profit streams. Due to the uncertainty surrounding future capital gains, management believes it is more likely than not that these assets will not be realised. The tax losses can be carried forward for a period of five years, which will be expiring on January 1, 2015. The deductible temporary differences can be carried forward indefinitely.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Accounts receivable, net

	2009 RMB 000	(Unaudited) 2008 RMB 000
Trade receivables	77,421	72,939
Less: Allowance for doubtful debts	(10,341)	(8,590)
	67,080	64,349

	2009 RMB 000	(Unaudited) 2008 RMB 000
Allowance for doubtful debts:		
Balance at beginning	8,590	5,062
Charged to statement of income	2,458	3,528
Recovered	(707)	
	10,341	8,590

6 Other receivables

	2009 RMB 000	(Unaudited) 2008 RMB 000
Prepayments and other receivables	2,426	2,124
Compensation receivable from PRC government for disposal of land (note 3)	7,892	
Deposits	1,963	3,014
	12,281	5,138

7 Investments

	2009	
Amortised	Gross unrealised	Fair

	cost RMB 000	Gains RMB 000	Losses RMB 000	Value RMB 000
Short term listed investments:				
Equity securities	8,200			8,200
Long term investment:				
Unlisted investment	69			69

	(Unaudited) 2008			
	Amortised cost RMB 000	Gross unrealised Gains RMB 000	Losses RMB 000	Fair Value RMB 000
Short term listed investments:				
Equity securities	200			200
Long term investment:				
Unlisted investment	518			518

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

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 Inventories

	2009 RMB 000	(Unaudited) 2008 RMB 000
Raw materials	5,374	3,682
Work in progress	6,543	13,032
Finished goods	5,134	6,326
	17,051	23,040

9 Property, plant and equipment, net

	2009 RMB 000	(Unaudited) 2008 RMB 000
Buildings	25,065	24,937
Construction in progress	177	95
Furniture, fixtures and machineries	8,749	9,896
Motor vehicles	1,720	1,720
	35,711	36,648
Less: Accumulated depreciation	(10,282)	(9,502)
	25,429	27,146
Depreciation charge	2,099	2,074

Construction in progress is in relation to the Group s new factory which is currently under construction, and will be depreciated once the property is complete and available for use. The estimated cost to completion which the Group is contractually committed, is approximately RMB3,223,000.

Buildings with a total cost of approximately RMB18,803,000 as of December 31, 2009 were pledged, along with the land use right as discussed below, to secure the short-term loans. In 2008, only the buildings, with the same total cost, were pledged to secure the short-term loans.

10 Land use right, net

	2009 RMB 000	(Unaudited) 2008 RMB 000
Land use right	8,018	8,018
Less: Accumulated amortisation	(588)	(415)
	7,430	7,603
Amortisation charge	173	180

Land use right with a carrying amount of approximately RMB5,487,000 as of December 31, 2009 was pledged, along with the buildings discussed above, to secure the short-term loans. In 2008, the land use right was not pledged as security for any debt.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Other payables and accrued expenses

Other payables and accrued expenses mainly represent deposits received from customers, other taxes payable and accruals for operating expenses.

12 Short term loans

The short term loans as of December 31, 2009 bear interest at fixed rates ranging from 4.86% to 5.841% per annum with maturity dates ranging from April 5, 2010 to November 11, 2010 and are secured by the Company s buildings and land use right. Interest paid during the year ended December 31, 2009 and 2008 were approximately RMB1,860,000 and RMB2,124,000 respectively.

13 Dividends to shareholders

In the fiscal year ended December 31, 2009 and 2008, the Company declared dividends of RMB5,625,000 and RMB1,280,000 respectively to the shareholders.

14 Related party

Amounts due from shareholders and amount due to a related company

The amounts due from shareholders and amount due to a related company do not bear any interest, unsecured and do not have clearly defined terms of repayment.

15 Other long term liabilities

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

16 PRC statutory reserves

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

(i) Statutory reserve funds

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

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 PRC reserves - Continued

(ii) Statutory welfare funds

Pursuant to applicable PRC laws and regulations, the Group is 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 Group.

17 Establishment of subsidiary

In 2009, the Company has established and invested 80% of equity interests in Jinhua Jiahuan Puzhau New Energy Technology Co., Ltd., a company newly incorporated in the PRC in 2009, for a total consideration of RMB1,600,000. The details of the subsidiary is disclosed in note 1.

18 Pension plan

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

During the year ended December 31, 2009 and 2008, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB1,243,000 and RMB1,639,000 respectively.

19 Risk Factor and Derivative Instruments

Financial risk factors

The Group s activities expose itself mainly to credit risk.

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.

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ZHEJIANG JIAHUAN ELECTRONIC CO., LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Fair value of financial instruments

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

21 Subsequent events

The Group evaluated all events or transactions that occurred after December 31, 2009 up through June 28, 2010, the date the Group issued these consolidated financial statements. During this period, the Group did not have any material recognisable subsequent events.

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

AUDITED CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008 AND

CONSOLIDATED STATEMENTS OF INCOME,

CASH FLOWS AND CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

TOGETHER WITH REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and owners of

Zhejiang Tianlan Environmental Protection Technology Company Limited

We have audited the accompanying consolidated balance sheets of Zhejiang Tianlan Environmental Protection Technology Company Limited as of December 31, 2009 and 2008 and the related consolidated statements of income, shareholders equity and cash flows for the years ended December 31, 2009 and 2008. 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 audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Zhejiang Tianlan Environmental Protection Technology Company Limited as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Limited

BDO Limited

Hong Kong, June 28, 2010

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2009 AND 2008

	Note	2009 RMB 000	2008 RMB 000
Assets			
Current assets:			
Cash and cash equivalents		13,031	9,906
Accounts receivable, net	6	73,412	77,697
Amounts due from owners	15	308	303
Prepayments and other current assets		15,787	19,107
Inventories, net	7	1,720	2,058
Income taxes recoverable		969	96
Total current assets		105,227	109,167
Property, plant and equipment, net	8	45,293	35,882
Deferred tax assets		823	219
Total assets		151,343	145,268
Liabilities and owners equity			
Current liabilities:			
Short term borrowings	9	6,300	7,200
Accounts payable		26,794	19,405
Amounts due to owner	15	720	8,691
Other payables and accrued expenses	10	19,064	16,631
Other taxes payable	5	3,544	1,169
Total current liabilities		56,422	53,096
Commitments and contingencies	16		
Owners equity:			
Paid-in capital		50,000	50,000
Capital reserve	12	11,374	11,274
PRC statutory reserves	11	7,675	6,152
Retained earnings		21,771	23,435
Total owners equity of Zhejiang Tianlan Environmental Protection Technology Company Limited		90,820	90,861
Non-controlling interest		4,101	1,311
Total equity		94,921	92,172

Total liabilities and owners equity	151,343	145,268

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

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Note	2009 RMB 000	2008 RMB 000
Revenue		121,448	106,885
Cost of revenue		(96,891)	(84,056)
Gross profit		24,557	22,829
Selling and administrative expenses		(23,665)	(14,288)
Operating income		892	8,541
Interest income		70	100
Interest expenses		(1,410)	(876)
Other income, net	3	4,106	2,328
Income before income taxes		3,658	10,093
Income taxes	4	(134)	(1,113)
Net income		3,524	8,980
Net income attributable to non-controlling interest		(1,665)	(962)
Net income attributable to Zhejiang Tianlan Environmental Protection Technology Company Limited s owners		1,859	8,018

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

ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009 RMB 000	2008 RMB 000
Cash flows from operating activities:		
Net income	3,524	8,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	1,430	1,152
Loss on disposal of property, plant and equipment	6	19
Deferred tax assets	(604)	(81)
(Increase)/decrease in current assets:		
Accounts receivable, net	4,285	(782)
Amounts due from owners	(5)	(303)
Prepayments and other current assets	3,320	340
Inventories, net	338	(345)
Income taxes recoverable	(873)	(3,294)
Increase/(decrease) in current liabilities:		
Accounts payable	7,389	(1,458)
Amounts due to owners	(7,971)	155
Other payables and accrued expenses	2,433	193
Other taxes payable	2,375	(41)
Net cash provided by operating activities	15,647	4,535
Cash flows from investing activities:		
Purchase of property, plant and equipment	(10,847)	(19,000)
Net cash used in investing activities	(10,847)	(19,000)
Cash flows from financing activities:		
Repayment of bank borrowings	(7,200)	
Advance of bank borrowings	6,300	1,900
Cash from issuance of registered capital in subsidiary to non-controlling interest	1,225	
Capital injection		4,750
Dividend paid to owners	(2,000)	(2,029)
Net cash (used in)/provided by financing activities	(1,675)	4,621
Net increase/(decrease) in cash and cash equivalents	3,125	(9,844)
Cash and cash equivalents, beginning of year	9,906	19,750
Cash and cash equivalents, end of year	13,031	9,906

	RMB 000	RMB 000
Supplementary information		
Interest received	70	100
Interest paid	1,207	664

Income taxes paid	1,614	4,487
Non-cash transactions		
Accrued interest on amounts due to owners	203	212
Capitalization of amounts due to owners		264

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

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Paid-in capital RMB 000	Capital reserve RMB 000	PRC statutory reserves RMB 000	Retained earnings RMB 000	Non-controlling interest RMB 000	Total RMB 000
Balance as of January 1, 2008	25,926	30,334	4,099	27,470	349	88,178
Net income				8,018	962	8,980
Total comprehensive income						8,980
Capital injection	5,014					5,014
Dividend declared				(10,000)		(10,000)
Capitalisation of reserve as paid-in capital	19,060	(19,060)				
Transfer to reserve			2,053	(2,053)		
Balance as of December 31, 2008	50,000	11,274	6,152	23,435	1,311	92,172
Net income				1,859	1,665	3,524
Total comprehensive income						3,524
Acquisition of subsidiary at nil consideration from an owner of the Company (note 15)		100			(100)	
Contribution from non-controlling interest of a subsidiary					1,225	1,225
Dividend declared				(2,000)		(2,000)
Transfer to reserve			1,523	(1,523)		
Balance as of December 31, 2009	50,000	11,374	7,675	21,771	4,101	94,921

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

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Organization and principal activities

Zhejiang Tianlan Environmental Protection Technology Company Limited (the Company), formerly known as Zhejiang Tianlan Desulfurization & Dust-removal Company Limited, was incorporated in Hangzhou City, Zhejiang Province, the People s Republic of China (PRC) on May 18, 2000 as a wholly domestic owned enterprise with an operating period up to May 17, 2030.

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

Details of the Company s subsidiaries are summarized as follows:

Name	Percentage of equity ownership 2009	2008	Place of incorporation	Principal activities
Hangzhou Tianlan Environmental Engineering and Design Company Limited (Formerly known as Hangzhou Tianlan Equipments Installation Engineering Company Limited)	100%*	90%	PRC	Provision of maintenance services of environmental protection equipment
Hangzhou Huan Qing Information Technology Company Limited	88%**	88%	PRC	Provision of consulting and training services for environmental industry
Hangzhou Tianlan Environmental Protection Equipments Company Limited	51%	51%	PRC	Manufacturing and installation services of environmental protection equipment

* In the year 2009, the Company acquired the remaining 10% equity interest of this company.

** As at 31 December 2009, this company was in the process of deregistration.

2 Summary of significant accounting policies

(a) Basis of Consolidation

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

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(b) Subsidiaries

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

(c) Revenue Recognition

The Group s main source of revenue is the construction and installation services of environmental protection equipment for flue gas desulphurization, dust removal and flue gas denitration. Revenues are recorded under the percentage of completion method in accordance with FASB ASC Subtopic 605-35, Revenue Recognition Construction-Type and Production-Type Contracts, (previously Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts). This approach is based on estimates of total efforts expended at completion, which are compared to actual efforts 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.

(d) Research and Development Costs

Research and development costs (R&D costs) are expensed as incurred. The R&D costs amounted to approximately RMB8,238,000 and RMB3,704,000 for the years ended December 31, 2009 and 2008 respectively and were included in Selling and Administrative expenses in the Group s consolidated statements of income.

(e) Advertising and promotional expenses

Advertising and promotional expenses (A&P expenses) are expensed as incurred. The A&P expenses amounted to approximately RMB39,000 and RMB104,000 for the years December 31, 2009 and 2008 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 FASB ASC Subtopic 740-10, Income Taxes, (previously 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. ASC 740-10 also requires the recognition of the future tax benefits of net operating loss carry forwards. A valuation allowance is established when the deferred tax assets are not expected to be realized within a reasonable period of time.

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(f) Taxation - Continued

In accordance with ASC-740-10, the Company 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. The Company did not have such uncertain tax positions in 2008 and 2009.

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 the Company and its subsidiaries, as well as the major temporary differences so recorded.

(g) Cash and Cash Equivalents

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

(h) Receivables and Other Assets

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

(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	47-50 years
Leasehold improvements	over terms of the leases or the useful lives whichever is shorter
Plant and machineries	5 to 10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(k) Impairment

The Group has adopted FASB ASC Subtopic 360-10, Property, Plant, and Equipment, (previously 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. Asset impairment charges are recorded to reduce the carrying amount of the long-lived asset that will be sold or disposed of to their estimated fair values. Charges for the asset impairment reduce the carrying amount of the long-lived assets to their estimated salvage value in connection with the decision to dispose of such assets. There were no impairment losses recorded during each of the two years ended December 31, 2009 and 2008.

(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) Foreign Currency Translation

The Group maintains its books and records in Chinese Renminbi (functional currency). Foreign currency transactions during the year are translated into the functional currency at the applicable rates of exchange at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency using the exchange rates prevailing at the balance sheet dates. Gains or losses from foreign currency transactions are recognized in the consolidated statements of income during the year in which they occur.

(n) Comprehensive Income

The Group has adopted FASB ASC Subtopic 220-10, Comprehensive Income, (previously 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, in the consolidated statement of changes in shareholders equity.

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(o) Paid in capital

Paid in capital refers to the registered capital paid-up by the owners of the Company. The paid-in capital at both years ended December 31, 2009 and 2008 is RMB50,000,000.

(p) Use of Estimates

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

(q) 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.

(r) Recent Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (now codified within ASC 855-10, Subsequent Events (ASC 855-10)). ASC 855-10 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 is applicable for interim or annual periods after June 15, 2009. In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-09, Subsequent Events , which is codified as ASC 855, Amendments to Certain Recognition and Disclosure Requirements . This update amends the ASC855-10, to replace the term public entity with the term an SEC filer , in order to avoid potential conflict with some of the Securities and Exchange Commission s (SEC) guidance. All of the amendments in this update are effective immediately. The application of ASC 855 did not have a material effect on the Company s consolidated financial statements.

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ZHEJIANG TIANLAN ENVIRONMENTAL PROTECTION TECHNOLOGY COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(r) Recent Accounting Pronouncements - Continued

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles , (now codified within ASC 105, Generally Accepted Accounting Principles). ASC 105 establishes the Codification as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. All guidance contained in the Codification carries an equal level of authority. Following this statement, FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve only to: (1) update the Codification; (2) provide background information about the guidance; and (3) provide the bases for conclusions on the change(s) in the Codification. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification supersedes all existing non-SEC accounting and reporting standards. The adoption of ASC 105 did not have an impact on the Company s consolidated results of operations or financial position.

In August 2009, FASB issued ASU 2009-5 Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (ASU 2009-5). ASU 2009-5 provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of liabilities. ASU 2009-5 clarifies that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value. ASU 2009-5 was effective for the Company for interim and annual periods ending after September 30, 2009. The adoption of ASU 2009-5 did not have a material impact on the Company s consolidated results of operations or financial position.

In December 2009, FASB issued ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). ASU 2009-17 amends the FASB ASC for the issuance of FASB Statement No. 167, Amendments to FASB Interpretation No. 46(R) . The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise s involvement in variable interest entities. ASU 2009-17 is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009. The Company does not expect the adoption of ASU 2009-17 to have a material impact on its consolidated results of operations or financial position.

In January 2010, FASB issued ASU 2010-01, Entity, which is codified as ASC505, Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force) . The amendments in this Update clarify that the stock portion of a distribution to shareholders that allow them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice. The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The application of ASC 505 did not have a material effect on the Company s consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 Summary of significant accounting policies - Continued

(r) Recent Accounting Pronouncements - Continued

In January 2010, FASB issued ASU 2010-02 Accounting and Reporting for Decreases in Ownership of a Subsidiary- a Scope Clarification (ASU 2010-2). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation Overall Subtopic (Subtopic 810-10) of the FASB Accounting Standards Codification , originally issued as FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 is effective for the Company starting January 1, 2010. The Company does not expect the adoption of ASU 2010-2 to have a material impact on the Company s consolidated results of operations or financial position.

In January 2010, FASB issued ASU 2010-6 Improving Disclosures about Fair Measurements (ASU 2010-6). ASU 2010-6 provides amendments to subtopic 820-10 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to subtopic 820-10 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. ASU 2010-6 is effective for financial statements issued for interim and annual periods ending after December 15, 2010. The Company does not expect the adoption of ASU 2010-06 to have a material impact on its consolidated results of operations or financial position.

3 Other income, net

	2009 RMB 000	**2008 RMB 000**
Subsidy income (note i)	3,087	1,753
Sales of scrapped materials	352	530
Others	667	45
	4,106	2,328

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

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4 Income taxes

According to relevant PRC tax laws and regulations, entities incorporated in the PRC are subject to Enterprise Income Tax (EIT) at a statutory rate of 25% or reduced national EIT rates for certain High and New Technology Enterprises (HNTE) on PRC taxable income. Zhejiang Tianlan Environmental Protection Technology Company Limited and Hangzhou Tianlan Environmental Protection Equipments Company Limited are qualified for a reduced statutory rate of 10% on national EIT as a HNTE and accordingly, the applicable tax rate was 15%. Hangzhou Tianlan Environmental Engineering and Design Company Limited and Huangzhou Huan Qing Information Technology Company Limited are entitled to Enterprise Income Tax rate of 25%.

The provision for income taxes consists of:

	2009 **RMB 000**	**2008** **RMB 000**
Current PRC EIT	739	1,194
Income Taxes	739	1,194
Deferred tax benefit	(605)	(81)
Total deferred provision	(605)	(81)

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

	2009 **RMB 000**	**2008** **RMB 000**
Income before income taxes	3,658	10,093
Computed tax at respective company s statutory tax rate	541	1,410
Change in valuation allowances	19	96
(Over)/under-provision for income tax in prior years	(162)	16
Tax effect on revenue not subject to tax	(676)	(415)
Tax effect on expenses not deductible for tax purposes	412	6
Total provision for income tax at effective tax rate	134	1,113

Explanation of Responses:

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4 Income taxes - Continued

The components of deferred tax assets are as follows:

	2009 RMB 000	2008 RMB 000
Deferred tax assets arising from tax losses	115	96
Deferred tax assets arising from temporary differences allowance for doubtful debts	823	219
Less: Valuation allowances	(115)	(96)
Net deferred tax assets	823	219

5 Other taxes payable

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

6 Accounts receivable

	2009 RMB 000	2008 RMB 000
Trade receivables	78,902	78,716
Less: Allowance for doubtful debts	(5,490)	(1,019)
	73,412	77,697

	2009 RMB 000	2008 RMB 000
Allowance for doubtful debts		
Balance at beginning	1,019	

Charged to statement of income	4,471	1,019
Balance at year end	5,490	1,019

As of December 31, 2009, accounts receivable in the form of retention receivables and bills receivable under letter of credit through banks amounted to approximately RMB10,453,000 (2008: RMB6,213,000) and RMB7,395,000 (2008: RMB6,195,000) respectively.

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7 Inventories, net

	2009 RMB 000	2008 RMB 000
Raw material	1,720	2,058

8 Property, plant and equipment

	2009 RMB 000	2008 RMB 000
Office premises and leasehold improvements	43,260	10,791
Construction in progress		22,713
Furniture, fixtures and office equipment	2,868	1,786
Motor vehicles	2,417	2,417
Plant and machineries	899	899
	49,444	38,606
Less: Accumulated depreciation	(4,151)	(2,724)
	45,293	35,882

	2009 RMB 000	2008 RMB 000
Depreciation charge	1,430	1,152

9 Short term borrowings

The short term loans as of December 31, 2009 bear interest at fixed rates 5.31% (2008: 7.56%) per annum with maturity date on or before September 22, 2010 (2008: September 24, 2009) and are secured by the Company s office premises and leasehold improvements. Interest paid during the year ended December 31, 2009 was RMB367,000 (2008: RMB314,000)

10 Other payables and accrued expenses

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

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11 PRC statutory reserves

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

(i) Statutory reserve funds

Pursuant to applicable PRC laws and regulations, the Group 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 Group 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 Group.

12 Capital reserve

The amount represents the capital contributions from owners.

13 Pension plan

As stipulated by the rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in Mainland China. The Group contributes approximately ranging from 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, 2009 and 2008, the aggregate contributions of the Group to the aforementioned pension plans and retirement benefit schemes were approximately RMB1,177,000 and RMB910,000 respectively.

14 Risk factors

The Group s activities expose itself mainly to credit risk.

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

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15 Related party

Amounts due from/(to) owners

The owners, from time to time, receive income and pays expenses on behalf of the Group. The amounts due to owners are unsecured, bear interest at 10% per annum and do not have clearly defined terms of repayment. There were no other transactions with related parties in the years 2009 and 2008 other than disclosed in elsewhere in the financial statements.

Acquisition of subsidiary at nil consideration from an owner of the Company

During the year, the Company received 10% equity interest in Hangzhou Tianlan Environmental Engineering and Design Company Limited from an owner of the Company at nil consideration.

16 Commitments and contingencies

Operating leases

Rental expenses for the years ended December 31, 2009 and 2008 were approximately RMB410,000 and RMB573,000 respectively. As of December 31, 2009, the Group has no future minimum lease payments under non-cancellable operating leases are payable in the year 2010. As of December 31, 2008, the future minimum lease payments under non-cancellable operating leases amounted to RMB71,000 are payable in the year 2009.

17 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.

18 Subsequent events

The Group evaluated all events or transactions that occurred after December 31, 2009 up through June 28, 2010, the date the Group issued these consolidated financial statements. During this period, the Group did not have any material recognisable subsequent events.