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

FORM 20-F

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

For the fiscal year ended December 31, 2016

Commission file number 000-22113

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

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

British Virgin Islands
(Jurisdiction of incorporation or organization)

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

T.C. Leung
FAX: 852-28734887
Unit D, 18/F Gee Change Hong Centre
65 Wong Chuk Hong Road
Hong Kong
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

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

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

Not Applicable
(Title of Class)

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

Not Applicable
(Title of Class)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TABLE OF CONTENTS

INTRODUCTION

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

Forward Looking Statements

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

GLOSSARY

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

ITEM 3A. SELECTED FINANCIAL DATA

SELECTED FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

March 2017	7.7609	7.7705	7.7652

ITEM 3D. RISK FACTORS

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

8

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

PRC Sovereignty over Hong Kong is Still Developing.

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

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

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

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

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

Economic Stability in the Far East is Uncertain.

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

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

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

The PRC economy appears to be moving from a planned economy to a more market-oriented economy. Although the PRC government has implemented measures since the late 1970s emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC are still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Recently, the Chinese economy experienced a steep slowdown in growth from a 9.5% GDP in 2011 to 6.7% GDP in 2016 as the Chinese government focuses on raising the incomes of the average citizen and seek a national economy less driven by investment and more by consumer demand. Although past predictions have not always proven reliable, if these predictions prove accurate, they, as well as future actions and policies of the PRC government, could suffer a material adverse effect.

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

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

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

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

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

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

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

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

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

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

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

We May be Impacted by Inflation in PRC .

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

There is an Uncertain Legal System and Application of Laws.

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

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

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

The PRC Government Imposes Currency Controls.

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

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

There is a Foreign Currency Risk.

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

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

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

Certain Risks Relating to the Company's Business.

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

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

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

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

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

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

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

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

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

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

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

Dependence upon Management.

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

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

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

Competition with Vendors.

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

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

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

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

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

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

12

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

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

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

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

Anti-Takeover Provisions.

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

Uncertainty of Enforcing United States Judgments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Market Price Of Our Securities Has Been Fluctuating Widely.

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

There Are Risks In Purchasing Low-Priced Securities.

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

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

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

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

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

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

U.S. listed companies that have substantial operations in China have been the subject of intense scrutiny by investors, financial commentators and regulatory agencies. Much of the scrutiny has centered on financial and accounting irregularities and mistakes, a lack of effective internal controls over financial reporting and, in many cases, allegations of fraud. As a result of the scrutiny, the publicly traded stock of many U.S. listed China-based companies that have been the subject of such scrutiny has sharply decreased in value. Many of these companies are now subject to shareholder lawsuits and/or SEC enforcement actions that are conducting internal and/or external investigations into the allegations. If we become the subject of any unwarranted scrutiny, even allegations that are not true, we may have to expend significant resources to investigate such allegations and/or defend the Company. Such investigations or allegations will be costly and time-consuming and distract our management from our business plan and could result in our reputation being harmed and our stock price could decline as a result of such allegations, regardless of the truthfulness of the allegations.

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

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

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

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

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

In Fiscal 2016, Blue Sky and Jia Huan made income contribution of approximately US$689,000 and US$313,000, respectively, to the Company. In Fiscal 2015, Blue Sky and Jia Huan made income contribution of approximately US$663,000 and US$187,000, respectively, to the Company. In Fiscal 2014, Blue Sky and Jia Huan made income contribution of approximately US$453,000 and US$152,000, respectively, to the Company. China's 13th Five Year Plan promotes a cleaner and greener economy, with strong commitments to environmental management and protection, clean energy and emissions controls, ecological protection and security, and the development of green industries. This demonstrates a clear focus on charting a sustainable course for the economy in the long-term and the desire to play a global role in curbing greenhouse gas emissions. Management believes such development in the Chinese government policy will benefit our business as well as those of these two affiliates.

ITEM 4B. BUSINESS OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

During Fiscal 2015, there were slight increases in revenues from trading activities. Revenue from Pact-Yixing decreased in 2015, while Shanghai Environmental incurred an operating loss of $558,000. In addition, we incurred research and development costs of approximately US$851,000 in 2015 relating to BWTS and Pact-Yixing incurred an operating loss of approximately US$1,084,000. This resulted in operating loss from engineering activities of approximately US$1,624,000.

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

Our Growth Strategy

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

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

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

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

Future Planning and Expansion

We continuously search for products and equipment with substantial market potential for design and development. For example, international shipping ballast water cargo stowaway species and microorganisms that create unpredictable ecosystem contaminations as ballast water tanks are emptied or refilled at ports of call. The International Maritime Organization (“IMO”) requires that the Ballast Water Management (“BWM”) Convention will enter into force 12 months after ratification by 30 States, representing 35% of world merchant shipping tonnage. If and when it goes into force, all ocean going vessels will be fitted with dedicated water treatment systems treating ballast water before port-of-call discharge. Pact has been attempting to develop a non-chemical BWTS since late 2010. In 2012, Pact successfully completed and passed the land based test requirement, and, in 2014, PACT passed ship board testing and obtained CCS certification in the PRC and compliance with the IMO convention. In September 2016, the International Maritime Organization had received acceptance from 52 States, representing 35.1441% of world merchant shipping tonnage. The Ballast Water Management Convention will enter into force 12 months after this ratification, i.e. September 8, 2017. The Company has since received a number of enquiries for its BWTS from China, Hong Kong, Russia, India and other Southeast Asian countries, despite worldwide recession in shipping industries. We anticipate that the costs of any such acquisition or product development would be drawn from our general working capital and, possibly, by seeking strategic partners such as companies in the BWM Convention shipping industries or funding raising from substantial investors, and by private sales of our securities. We have no commitments or received no indications of interest for the private sales of our securities.

Product Distribution and Other Services

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

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

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

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

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

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

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

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

Manufacturing and Product Assembly Operations

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

Sources of Supply

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

Regulatory Environment

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

Competition

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

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

Website

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

20

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

Sales and Marketing

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

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

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

Litigation

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

ITEM 4C. ORGANIZATIONAL STRUCTURE

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

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

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

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

Yixing Pact Environmental Technology Co., Ltd	58%	PRC	Design, manufacture and operation of water and waste water treatment machinery and equipment
Pact Asia Pacific Limited	58%	British Virgin Islands	Selling of environment protection equipment, undertaking environment protection projects and providing relevant technology advice, training and services