

**Company No. 05311191**

**JARLWAY HOLDINGS PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 2005**



## Jarlway Holdings Plc

### DIRECTORS

WU Zhi Jia (Chairman)  
XU Yi Chuang  
NG Chi Chor  
XU Jia Jin  
WONG Ka Ming  
David STEEDS (Non Executive)  
David THOMAS (Non Executive)

### COMPANY SECRETARY AND REGISTERED OFFICE

Springfield Secretaries Limited  
Springfield House,  
99-101 Crossbrook Street,  
Waltham Cross,  
Herts. EN8 8JR

### COMPANY OFFICE IN CHINA

7F, 5th building,  
Guangzhou Sciencetech Park,  
No.9 Lan Yu 4th Rd., GET,  
Guangzhou 510730,  
China  
Telephone: +86 20 82215482  
Facsimile +86 20 82214789  
[www.jarlway.com](http://www.jarlway.com)

### BANKERS

HSBC  
31 Holborn  
London EC1N 2HR

### AUDITORS

MRI Moores Rowland LLP  
3 Sheldon Square  
London W2 6PS

### REGISTRARS

Computershare Investor Services plc  
PO Box 82  
Bristol BS99 7NH

### AUDITORS IN HONG KONG

Moores Rowland Mazars  
34/F Lee Gardens,  
33 Hysan Avenue,  
Hong Kong

### NOMINATED ADVISER

Nabarro Wells & Co. Ltd.  
Saddlers House  
Gutter Lane  
London EC2M 1LB

### STOCKBROKERS

Hichens Harrison & Co. plc  
Bell Court House  
11 Blomfield Street  
London EC2M 1LB

## Jarlway Holdings Plc

### Chairman's statement

Year ended 31 December 2005

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I am pleased to report on the results of Jarlway Holdings Plc (the "Company" or "Jarlway") for the year ended 31 December 2005. While the trading results were not to the Board's satisfaction, Jarlway remains profitable and cash positive. I believe that progress has been made towards ensuring a better financial performance in the future and I am pleased to be able to report a solid start to 2006.

### BUSINESS REVIEW

2005 was a challenging year for the Company. The senior management time involved in taking the Company onto the Alternative Investment Market ("AIM") of the London Stock Exchange in July had a detrimental effect on the business, and this was compounded by the late stage change of broker prior to the flotation, and ultimately the disappointing amount raised on flotation. In the meantime, China's restrictive macro-economic policies have impacted on our sales and our profits.

China introduced restrictive macro-economic policies aimed at slowing the growth in the economy to a more sustainable level. This has resulted in a tightening of the credit extended by the banks to our customers. In accordance with government directives, the local banks have cut back on the mortgage finance available to purchasers of construction machinery by raising more stringent requirements for credit approvals. This has led to a decline in the business of all participants in the construction machinery manufacturing industry.

The reduced amount we raised on flotation has meant we had to change our plans to move all operations onto one new and larger site. We also had to delay our plans to expand the production of line pumps and boom pumps. Our inability to build these machines, with their enhanced profitability, had a significant adverse impact on our performance in 2005.

Responding to these difficulties, we have taken a number of measures to minimise the negative effect on Jarlway. We have developed a new generation of trailer pumps which are both more powerful and efficient, and which have been well received in the market. We expect to sell these machines for premium prices and achieve improved gross margins and better payment terms on these sales. These machines should allow us to penetrate the higher end of the market. We have also made applications for various patents for our technology innovations, the approval of which is expected in the second half of 2006. We have implemented new recruitment and training plans for our marketing staff as part of our strategy to target new customers among large enterprises and State-Owned Enterprises.

I would like to assure you that the directors and staff are working hard to restore the confidence of our investors in Jarlway. We realise that 2005 has not been to our satisfaction and we are determined to improve the financial performance of the Company in 2006.

### FINANCIAL RESULTS

The consolidated net profit after taxation of the Company and its subsidiaries in respect of the period ended 31 December 2005 was £294,000 (2004 - £2,946,000) and the turnover of the Company was £4,853,000 (2004 - £564,000). The comparative period is only for the five weeks from 26 November 2004, which is the date the main operating company in China joined the Group, and the profit is mainly due to the release of negative goodwill to income.

The results for the year are impacted by additional provisions of £360,000 against receivables. Like many Chinese companies a high proportion of the Group's receivables are significantly overdue although the management expects to recover most of these receivables. At the year end an exercise has been undertaken to examine each receivable and make appropriate provision.

Net cash of £239,000 was raised net of expenses when the Company listed on AIM in July 2005.

## Jarlway Holdings Plc

### Chairman's statement - continued

Year ended 31 December 2005

#### PROSPECTS

Looking forward, the management is very positive about Jarlway's prospects and current trading for 2006. We have a new generation of concrete pumps and a clearly identified target customer group.

Sales in 2006 have started well and the Company has won contracts from various parts of China Railway Corporation and its first export order to Dubai.

As the Company indicated in its last trading statement, we have secured an important role as a supplier of equipment for the construction of China's planned high-speed rail network, and are also positioning ourselves as suppliers to wider infrastructure projects and major property developments. We have implemented new recruitment and training plans for our marketing staff, which involve a new "agency development" division whose objective is to secure reliable agents in cities and regions where Jarlway currently has no representation. We are also exploring opportunities for expansion into overseas markets, where we believe our machines will offer significant cost advantages over those sold by our competitors, and we have been recruiting sales and marketing staff to help with this.

We believe our development of innovative equipment tailored to customer needs means we are well placed to take advantage of current market opportunities. We have developed a placing boom which combines the attributes of a tower and a boom so that it can rise with the height of the building and distribute concrete within a finite area, such as each floor of a skyscraper. In addition we have developed a new generation of trailer pumps.

As we indicated in our last trading statement, we are already seeing some signs of success with our moves to tighten financial controls, with greater emphasis on customer selection, tighter credit terms and stricter rules on the repossession of equipment from overdue creditors.

In summary, we believe our competitive advantages are:

- superior product quality
- strong technical development capability
- accurate market positioning
- relatively low operating costs
- reasonable pricing
- strong customer loyalty

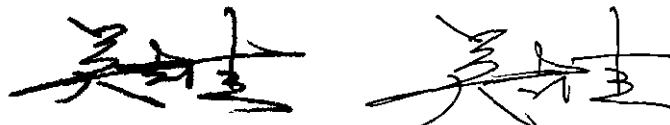
Overall, despite the difficulties encountered during 2005, we are now confident that these three key moves – tighter financial controls, customer differentiation, and product innovation and tailoring – will help us achieve our objective of establishing Jarlway as a recognised and trusted brand name within the industry.

#### APPRECIATION

I wish to thank my fellow directors and all our staff who have worked so hard for the Company during this difficult period. I would also like to thank our shareholders for their continuing support and understanding, and I look forward to a significantly improved performance in 2006.

I would like to pay a special tribute to KM Wong, who is not standing for re-election. KM has worked extremely hard to bring the Company to AIM and we all wish him well in his new activities.

Wu Zhi Jia  
Chairman  
20 June 2006



## Jarlway Holdings Plc

### Directors' report

Year ended 31 December 2005

The directors present their annual report together with the audited financial statements for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The principal activities of the Company and its subsidiaries (the "Group") are the design, manufacture and sale of concrete pumps to construction industry customers in China.

A review of the year and future developments is given in the Chairman's statement on pages 2 and 3.

### DIVIDENDS

The directors do not recommend the payment of a dividend (2004: Nil).

### DIRECTORS

The following directors have held office during the year:

WU Zhi Jia	(Chairman)
XU Yi Chuang	
NG Chi Chor	
XU Jia Jin	
WONG Ka Ming	(appointed 18 July 2005)
David STEEDS	(Non-executive) (appointed 18 July 2005)
David THOMAS	(Non-executive) (appointed 18 July 2005)
CAI Wei Ming	(resigned 18 May 2005)

All the directors are offering themselves for re-election at the next Annual General Meeting with the exception of KM Wong, who is standing down to devote his time to his corporate finance practice.

### DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

The directors who served the Company during the period together with their beneficial interests, including family holdings, in the shares of the Company were as follows:

	£1 Ordinary shares	
	At 31 December 2005	At 1 January 2005
WU Zhi Jia	13,000,000	-
XU Yi Chuang	3,000,000	-
NG Chi Chor	2,000,000	-
XU Jia Jin	-	-
WONG Ka Ming	-	-
David STEEDS	50,000	-
David THOMAS	-	-

# Jarlway Holdings Plc

## Directors' report - continued

Year ended 31 December 2005

### SUBSTANTIAL INTERESTS

At the date of this report the Company had been notified of the following substantial shareholdings in addition to the directors' shareholdings disclosed above.

	Number of Shares	% of total
Pershing Keen Nominees Limited	2,677,598	11.0
CAI Wei Ming	2,000,000	8.2

### CREDITOR PAYMENT POLICY

The company's policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts;
- pay in accordance with the company's contractual and other legal obligations.

On average, trade creditors at the year end represented 190 (2004: 136) days' purchases.

### FINANCIAL RISK MANAGEMENT

The company's operations involve purchasing components both within China and from overseas, assembling them and selling finished machines. This exposes it to the usual range of financial risks facing all similar businesses, including the effects of changes in market prices of commodities, credit risk, liquidity risk and interest rate risk. Its exposure to financial risk and the procedures for managing this risk are set out in note 26 to the Financial Statements.

### GOING CONCERN

The directors are required to report that the business is a going concern, with supporting assumptions or qualifications as necessary.

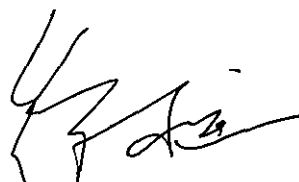
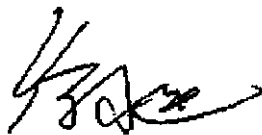
After making enquiries, the directors consider that the Group has adequate resources and committed borrowing facilities to continue in operational existence for the foreseeable future. Consequently, they have continued to adopt the going concern basis in preparing the financial statements.

### AUDITORS

The Board appointed MRI Moores Rowland LLP as auditors on 16 September 2005. A resolution to re-appoint MRI Moores Rowland LLP as auditors will be put to the members at the annual general meeting.

By order of the Board

XU Jia Jin  
Director  
20 June 2006



## Jarlway Holdings Plc

### Corporate Governance Report

Year ended 31 December 2005

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Corporate Governance is concerned with how companies are directed and controlled and in particular, with the role of the Board of Directors and the need to ensure a framework of effective accountability. The Group is committed to high standards of Corporate Governance.

Jarlway Holdings Plc listed on AIM in July 2005 and is therefore not required to comply with the provisions of the Combined Code. However, the Directors believe that good corporate governance is essential and, having considered the provisions of the code, set out below those principles which the group has adopted since incorporation and how the group has applied these principles.

#### DIRECTORS AND THE BOARD

##### 1. The Board

The Company is headed by a Board, consisting of both five executive two and non-executive directors. Brief biographical details of the directors are set out below.

##### WU Zhi Jia, *Chairman – 44*

Mr. Wu is responsible for the strategic planning and overall operation of Jarlway. Prior to co-founding Jarlway PRC, he had been the Managing Director of Guangzhou Xin Yi Tong Machinery Co. Ltd. (a machinery trading company) and then the General Manager of Zhongluan Nanfang Ltd (a subsidiary of publicly-listed Changsha Zoomlion Heavy Industry & Science Co., Ltd.)

##### XU Yi Chuang, *Technical Director – 50*

Mr. Xu graduated from the Shanghai Fu Dan University and was the General Manager of the Shanghai Mining Equipment Factory Ltd. (a large government owned machinery manufacturing company). Mr. Xu successfully co-developed several patented machinery designs and introduced the first S-tube from overseas adapting it for use in concrete pumps in China in 1988. Mr. Xu is responsible for the technical development and production aspects of Jarlway PRC.

##### NG Chi Chor, *Executive Director – 53*

Mr. Ng has over 20 years commercial experience and had been Deputy General Manager of Guangdong Agribusiness International Group in Hong Kong before co-founding Jarlway PRC. He was a Visiting Scholar at the University of Arizona in the United States of America. He is the brother of the Chairman, Mr. Wu Zhi Jia.

##### XU Jia Jin, *Executive Director – 59*

Mr. Xu has held senior management positions with Granford Enterprise Co. Ltd., where he was the General Manager, in Hong Kong. Mr. Xu has been an Assistant Professor with the Guangzhou University and a Visiting Scholar at the University of Arizona in the United State of America.

##### WONG Ka Ming, *Executive Director – age 54*

KM Wong is a resident of Hong Kong and has over 25 years of experience in the investment banking field. He has held senior positions with various financial institutions in Hong Kong and has served as a director of a company listed on the Stock Exchange of Hong Kong prior to joining the board of Jarlway.

##### David STEEDS, *Non-executive Director – age 57*

David Steeds is a Chartered Accountant and is a director of the PFI Infrastructure Co. plc and a number of private companies. He was previously corporate development director of QinetiQ plc and Serco Group plc and Chief Executive of the Private Finance Panel.

## Jarlway Holdings Plc

### Corporate Governance Report - continued

Year ended 31 December 2005

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David THOMAS, *Non-executive Director - age 51*

David Thomas is an English qualified solicitor resident in the UK. He is a non-executive director of three other companies listed on the Alternative Investment Market in London, all of which have businesses in China. He was in private practice for more than 20 years, specialising in corporate finance, before a period with Beeson Gregory, a London investment bank and stockbroker, where he was an executive director and general counsel.

The Board meets at regular intervals and is responsible for setting strategy and policy. All Directors may take independent professional advice at the Company's expense in the furtherance of their duties.

The Board has two principal Board Committees, both of which operate within written terms of reference and whose members are non executive directors. Details of the present composition and the main responsibilities of these Committees are as follows:

#### **Audit Committee**

David Steeds (Chairman)

David Thomas

Other members of the Board are invited to attend meetings when it is thought appropriate by the Committee for them to attend.

The main responsibilities of the Audit Committee are:

- to review and advise the Board on the interim and annual financial statements
- to review with the external auditors the nature and scope of their audit, the results of that audit, any control issues raised by them and management's response
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal
- to monitor compliance with systems of internal controls, policies and procedures

The Committee meets at least twice each year.

#### **Remuneration Committee**

David Thomas (Chairman)

David Steeds

Other members of the Board are invited to attend meetings when it is thought appropriate by the Committee for them to attend.

The Committee is responsible for reviewing the scale and structure of the executive directors' and senior employees' remuneration and the terms of their service or employment contracts, including share option schemes and bonus arrangements. The remuneration and terms and conditions of the non-executive directors will be set by the entire Board.

The Committee meets at least once a year.



## Jarlway Holdings Plc

### Corporate Governance Report - continued

Year ended 31 December 2005

#### 2. Board Balance

The Board has five executive directors and two non-executive directors. Both the non-executive directors are considered independent.

The Combined Corporate Governance Code ("the Combined Code") requires that a senior non-executive director other than the Chairman should be identified as a person to whom concerns can be conveyed. The Board did not consider this aspect of the Combined Code was helpful at the present time given the size and composition of the Board, which is considered adequate for a company of this size.

#### 3. Appointments to the Board

The Company does not have a nomination committee due to the small size of the Group. Any appointments to the Board would be considered by the entire Board.

#### 4. Re-election

Although the Company's Articles of Association require that one-third of the directors shall retire from office by rotation, all the directors intend to retire each year and submit themselves for re-election.

### DIRECTORS' REMUNERATION

#### 1. The level and composition of remuneration

The Board believes that levels of remuneration should be sufficient to attract and retain the directors needed to run the Company successfully.

#### 2. Procedure

The Remuneration Committee is responsible for determining the remuneration, terms and conditions and bonus schemes of the executive directors.

The remuneration of the non-executive directors is determined by the Board as a whole. No director is involved in discussions about his own remuneration.

#### 3. Disclosure

Details of the remuneration of the directors set out below:

	2005				Proforma 2004			
	Salary	Pensions Contrib- utions	Benefits in Kind	Total	Salary	Pensions Contrib- utions	Benefits in Kind	Total
	£	£	£	£	£	£	£	£
WU Zhi Jia	16,615	-	-	16,615	1,020	41	-	1,061
XU Yi Chuang	14,098	-	-	14,098	850	13	-	863
NG Chi Chor	7,379	112	-	7,491	238	-	-	238
XU Jia Jin	6,194	-	-	6,194	227	-	-	227
WONG Ka Ming	4,517	-	-	4,517	-	-	-	-
David STEEDS	4,517	-	6,776	11,293	-	-	-	-
David THOMAS	4,517	-	-	4,517	-	-	-	-
CAI Wei Ming	2,823	-	-	2,823	238	13	-	251

Details of share options awarded to XU Jia Jin are given in note 22 to the Financial Statements.

**Corporate Governance Report - continued**

Year ended 31 December 2005

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**ACCOUNTABILITY AND AUDIT**

**1. Financial reporting**

The Board believes that its Annual Report and financial statements represent a balanced and understandable assessment of the Group's position and prospects and comply with the legal and regulatory requirements for financial reporting relevant to the Group.

**2. Internal Control**

The directors are responsible for the Group's system of internal control. The system addresses and monitors key business and financial risks. Any such system can however provide only reasonable and not absolute assurance against any misstatement or loss.

The key procedures established by the Board include:

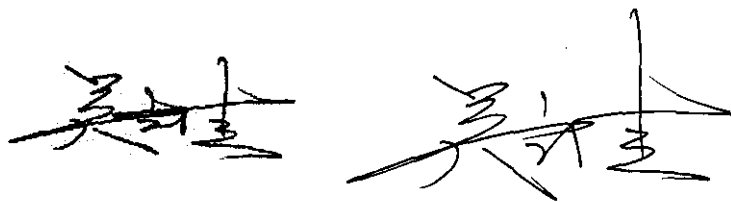
- an ongoing process to identify, evaluate and manage significant risks by way of the close personal supervision of the executive directors and regular approval at board meetings
- preparation of annual budgets, against which actual results are reported on a monthly basis
- consideration by the Audit Committee of the results of the external audit
- the external auditors report independently to the Audit Committee

The directors will undertake a review of the effectiveness of the Group's systems of internal control on a regular basis. Any resulting actions considered appropriate will be communicated throughout the business.

**3. Audit Committee and Auditors**

The Board has a formal and transparent arrangement for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Company has delegated authority for these matters to the Audit Committee, the current members of which are listed above.

WU Zhi Jia  
Chairman  
20 June 2006



## **Jarlway Holdings Plc**

### **Independent Auditors' Report to the Shareholders of Jarlway Holdings Plc**

Year ended 31 December 2005

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We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Jarlway Holdings plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Change in Shareholders' Equity and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work for this report, or for the opinions we have formed.

#### **Respective responsibilities of the directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises the Directors' Report, Chairman's Statement and Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group and Company's circumstances, consistently applied and adequately disclosed.

## Jarlway Holdings Plc

### Independent Auditors' Report to the Shareholders of Jarlway Holdings Plc (continued)

Year ended 31 December 2005

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We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

#### Opinion

In our opinion the Financial Statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use by the European Union, of the state of the Group and Company's affairs as at 31 December 2005 and of the Group's result for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*MRI Moores Rowland LLP*

MRI Moores Rowland LLP  
Chartered Accountants  
Registered Auditors

3 Sheldon Square  
London  
W2 6PS

21 June 2006

*The maintenance and integrity of the Jarlway Holdings plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.*

*Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

# Jarlway Holdings Plc

## Consolidated Income Statement

Year ended 31 December 2005

		2005	2004
			(Proforma)
	Note	£'000	£'000
Turnover	2	4,853	564
Cost of sales		<u>(3,091)</u>	<u>(326)</u>
Gross profit		1,762	238
Other revenue		7	-
Selling and distribution costs		(636)	(84)
Administrative expenses		(790)	(45)
Negative goodwill release to income statement	13	<u>-</u>	<u>2,845</u>
Profit before taxation	3	343	2,954
Taxation	4	<u>(49)</u>	<u>(8)</u>
Profit for the year	6	<u>294</u>	<u>2,946</u>
Attributable to:			
Shareholders of the Company		<u>294</u>	<u>2,946</u>
Earnings per share			
Basic and diluted	7	<u>1.33p</u>	<u>15p</u>

# Jarway Holdings Plc

## Consolidated Balance Sheet

At 31 December 2005

	Note	2005 £'000	2004 (Proforma) £'000
<b>Non-current assets</b>			
Property, plant and equipment	10	261	91
Trade receivables	16	165	651
Restricted bank balance	11	257	772
Deferred tax assets	20	81	36
		<u>764</u>	<u>1,550</u>
<b>Current assets</b>			
Assets held for sale	9	332	-
Inventories	15	812	321
Trade and other receivables	16	5,484	5,157
Financial assets at fair value through profit or loss	14	5	5
Cash and cash equivalents		298	121
Restricted bank balance	11	104	178
		<u>7,035</u>	<u>5,782</u>
<b>Total assets</b>		<u>7,799</u>	<u>7,332</u>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	21	61	-
Other reserves	24	3,762	2,845
<b>Total equity</b>		<u>3,823</u>	<u>2,845</u>
<b>Non-current liabilities</b>			
Non-current portion of bank borrowings	18	89	545
<b>Current liabilities</b>			
Trade and other payables	19	3,133	2,614
Current portion of bank borrowings	18	642	1,217
Income tax payable		112	111
		<u>3,887</u>	<u>3,942</u>
<b>Total liabilities</b>		<u>3,976</u>	<u>4,487</u>
<b>Total equity and liabilities</b>		<u>7,799</u>	<u>7,332</u>

WU Zhi Jia Chairman  
NG Chi Chor Director

20 June 2006

# Jarlway Holdings Plc

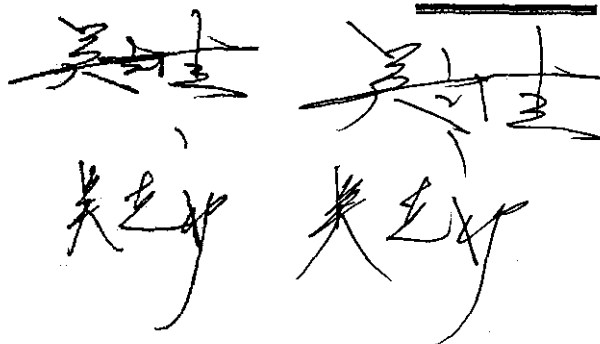
## Company Balance Sheet

At 31 December 2005

	Note	2005 £'000	2004 £'000
<b>Non-current assets</b>			
Interest in subsidiary	12	<u>50</u>	<u>-</u>
<b>Current assets</b>			
Amount due from a subsidiary	17	<u>222</u>	<u>-</u>
<b>Total assets</b>		<u>272</u>	<u>-</u>
<b>Capital and reserves</b>			
Share capital	21	61	-
Other reserves		<u>181</u>	<u>-</u>
<b>Total equity</b>		<u>242</u>	<u>-</u>
<b>Current liabilities</b>			
Other payables	19	<u>30</u>	<u>-</u>
<b>Total equity and liabilities</b>		<u>272</u>	<u>-</u>

WU Zhi Jia      Chairman  
NG Chi Chor    Director

20 June 2006



# Jarlway Holdings Plc

## Consolidated Statement of Changes in Equity

Year ended 31 December 2005

	Share Capital	Share Option Reserve	Share Premium	Exchange Reserve	Merger Reserve	Retained Earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 Dec 2004</b>	-	-	-	(101)	-	2,946	2,845
<b>Changes in equity for 2005</b>							
Exchange differences on translating foreign operations	-	-	-	438	-	-	438
Merger reserve arising on consolidation	-	-	-	-	(49)	-	(49)
Employee share option benefit	-	6	-	-	-	-	6
Profit for the year	-	-	-	-	-	294	294
Ordinary shares issued	61	-	228	-	-	-	289
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2005 carried forward</b>	<b>61</b>	<b>6</b>	<b>228</b>	<b>337</b>	<b>(49)</b>	<b>3,240</b>	<b>3,823</b>



# Jarlway Holdings Plc

## Consolidated Cash Flow Statement

Year ended 31 December 2005

	Note	2005 £'000	2004 (Proforma) £'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		343	2,954
Adjustment for:			
Interest income		(7)	-
Depreciation		29	1
Provision for doubtful debts		360	11
Employee share-based compensation payment		6	-
Negative goodwill		-	(2,845)
		<u>731</u>	<u>121</u>
Operating profit before changes in working capital			
Increase in assets held for sale		(332)	-
(Increase)/Decrease in inventories		(445)	234
Decrease/(Increase) in trade and other receivables		685	(1,563)
Increase in financial assets at fair value through profit or loss		-	(5)
Increase in trade and other payables		<u>132</u>	<u>344</u>
Cash generated from/(used in) operations		771	(869)
Interest received		7	-
Taxation		<u>(107)</u>	<u>-</u>
<b>Net cash inflow from/(used in) operating activities</b>		<u>671</u>	<u>(869)</u>
<b>Investing activities</b>			
Acquisition of subsidiaries	25	-	(97)
Change in Restricted bank balances		726	(130)
Purchase of property, plant and equipment		<u>(187)</u>	<u>-</u>
<b>Net cash from/(used in) investing activities</b>		<u>539</u>	<u>(227)</u>
<b>Financing activities</b>			
(Repayment)/proceeds of bank borrowings		(1,285)	1,217
Issue of share capital		<u>239</u>	<u>-</u>
<b>Net cash (used in)/from financing activities</b>		<u>(1,046)</u>	<u>1,217</u>
<b>Net increase in cash and cash equivalents</b>		164	121
Cash and cash equivalents at 1 January		121	-
Effect of foreign exchange rate changes		<u>13</u>	<u>-</u>
<b>Cash and cash equivalents at 31 December</b>		<u>298</u>	<u>121</u>

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES

#### **General information**

The Company is a public listed company incorporated in England and its shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The principal place of business of the Company is in the People's Republic of China. The principal activities of the Company and its subsidiaries (the Group) are described in note 12.

#### **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

#### **Transition to International Financial Reporting Standards**

The Company's last financial statements to 31 December 2004 were reported under UK Generally Accepted Accounting Practice. These financial statements are presented by the Company under International Financial Reporting Standards. The date of transition is therefore 11 December 2004, the date of the company's incorporation.

As the company had not traded in the period to 31 December 2004 there were no differences between the results reported under UK GAAP and International Financial Reporting Standards as of that date. There have been no changes to the previously reported equity of the Company at the beginning of the reporting period as a result of the adoption of International Financial Reporting Standards.

Other than the reclassification of taxation items, there have been no significant changes to the cash flow statement from that reported under UK GAAP.

#### **Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost, except for financial assets at fair value through profit or loss, which have been measured at fair value.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from or up to their effective dates of acquisition or disposal respectively.

All inter-company transactions and balances within the Group are eliminated on consolidation.

A share for share exchange agreement between Jarlway Holdings Plc and Jarlway International Limited took place on 19 April 2005. As no acquirer and acquiree were identified, the results of Jarlway Holdings Plc and Jarlway International Limited have been consolidated on a merger basis, whereby the results and cashflows of the relevant entities are combined from the beginning of the year in which the merger occurred, and their assets and liabilities combined at the amounts at which they were previously recorded.

On 26 November 2004 Jarlway International Limited acquired 100% of the share capital of Jarlway Machinery Inc. The results have been consolidated from this date.

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### **Comparative information**

Jarlway Holdings Plc was incorporated on 11 December 2004 and did not trade in the period to 31 December 2004. In order to present comparative financial information that is more meaningful to the users of the financial statements, proforma financial information is disclosed which reports the results of Jarlway International Limited and its subsidiary for the period from 26 November 2004 (the date which Jarlway International Limited acquired Jarlway Machinery Inc.) to 31 December 2004.

#### **Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or exercisable on conversion are taken into account.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Improvements are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures incurred in restoring assets to their normal working condition and other repairs and maintenance costs are charged to the income statement.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each component of an item of property, plant and equipment.

The estimated useful lives are as follows:

Machinery	5-10 years
Motor vehicles	10 years
Furniture, fittings and equipment	5-10 years

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net sale proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

#### **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on the trade date basis. Financial asset and financial liabilities are measured as follows:

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### *Financial assets at fair value through profit or loss*

Financial instruments classified as financial assets at fair value through profit or loss include financial assets held for trading, and those designated at fair value through profit or loss at inception. These items are measured at fair value, with gains or losses recognised in the income statement.

At the balance sheet date, the financial assets are measured at fair value by reference to the price quotation for equivalent instruments in an active market provided by financial institutions. Any changes in fair value are recognised in the income statements.

#### *Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less provision for impairment. Loans and receivables without fixed or determinable repayment terms are stated at cost less any accumulated impairment loss. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statements.

#### *Trade and other payables*

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost.

The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises a financial liability when, and only when, the liability is extinguished.

#### *Cash equivalents*

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term, highly liquid investments which are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value, net of bank overdrafts.

#### *Revenue recognition*

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Sales of goods are recognised on the transfer of the risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title has passed.

Interest income is recognised by applying the effective interest method to the net carrying amount of the financial assets.

#### *Foreign currencies*

Net assets of overseas subsidiaries are translated into sterling at the rate of exchange ruling at the year end. Differences arising from the retranslation of net assets at the beginning of the year are dealt with through reserves. The results of overseas subsidiaries are translated into sterling using the average rates of exchange during the year; the difference between the results translated at average rates and closing rates is taken to reserves.

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Other assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the year end except where they are covered by foreign exchange contracts in which case the rate appropriate to the forward contract is used.

All other translation differences are taken to income statement, with the exception of differences on foreign currency borrowings, which are taken to reserves to the extent that they are used to finance foreign equity investments.

#### **Negative goodwill**

The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") arising on an acquisition is recognised directly through the income statement.

#### **Impairment of assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment, investment in subsidiaries, have suffered an impairment loss or an impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, any impairment loss is determined and recognised as follows:

The recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses in respect of other assets is recognised as income immediately.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### **Provisions**

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### **Borrowing costs**

Borrowing costs are charged as expenses in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### **Operating leases**

*Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.*

#### **Employee benefits**

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution plans and the costs of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement plans are recognised as an expense in the income statement in the period to which they relate.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### Share-based payment transactions

The Company operates a share option scheme for granting share options, for the purpose of providing incentives and rewards to eligible employees of the Group.

The cost of share options granted to employees is measured by reference to the fair value at the date at which they are granted. It is recognised, together with a corresponding increase in equity, over the vesting period. The cumulative expense recognised at each reporting date until the end of the vesting period reflects the extent to which the vesting period has expired and the number of shares that in the opinion of the directors of the Group at that date will ultimately vest.

#### Taxation

The charge for taxation is based on the results for the year, adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

#### Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

#### Future changes in IFRS

At the date of authorisation of these financial statements, the IASB has issued certain new/revised IFRSs that are not yet effective. The directors anticipate that the adoption of these new IFRSs in the future periods will have no material impact on the result of the Group.

# Jarlway Holdings Plc

## Notes to the financial statements

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### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

#### **Critical accounting estimates and judgements**

Estimates and judgments are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Apart from information disclosed elsewhere in these financial statements, the following summarise: (1) estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and (2) significant judgments made in the process of applying the Group's accounting policies.

(i) **Income taxes**

The Group is subject to income taxes in the People's Republic of China (the "PRC"). Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) **Provision for warranty**

As explained in note 23, the Group makes provision under the warranties it gives on sale of its large scale construction machinery taking into account the Group's recent claims experience. As the Group is continually upgrading its product designs, it is possible that the recent claims experience is not indicative of future claims that it will receive in respect of past sales. Any increase and decrease in the provision would affect income statements in future years.

(iii) ***Provision for doubtful debts of trade receivables***

The Group makes provision for doubtful debt against trade receivables based on an assessment of the collectability of trade receivables. Provisions for doubtful debts are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

### 2. TURNOVER

The principal activities of the Group are developing, manufacturing and selling large-scale construction machineries.

Turnover for the year is wholly attributable to activities undertaken in the People's Republic of China ("PRC").



# Jarlway Holdings Plc

## Notes to the financial statements

### 3. PROFIT BEFORE TAXATION

	The Group	
	2005	2004
		(Proforma)
	£'000	£'000
This is arrived at after charging / (crediting):		
<b>Other items</b>		
Auditors' remuneration	24	1
Staff costs including directors' emoluments (note 5)	548	35
Contribution to defined contribution retirement plans	35	1
Cost of inventories	2,898	316
Cost of employee share options	6	-
Research	4	-
Depreciation	29	1
Operating leases in respect of		
- land and building	70	3
- equipment	10	1
Provision for warranty (note 23)	47	14
Provision for doubtful debt	360	11
Net foreign exchange (gain)/loss	(6)	1

### 4. TAXATION

Taxation on profits arising in the People's Republic of China (the "PRC") have been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC.

	The Group	
	2005	2004
		(Proforma)
	£'000	£'000
The charge comprises:		
Current tax		
PRC enterprise income tax	86	15
Deferred taxation:		
Origination and reversal of temporary difference	(37)	(7)
	49	8

No provision for Hong Kong Profits tax has been made in the Group accounts as the Group's Hong Kong subsidiary has no estimated profits for the year.

The subsidiaries operating in the PRC are subject to state and local income taxes in the PRC at their respective tax rates based on the taxable income reported in their statutory financial statements in accordance with applicable state and local income tax laws.

Following approval by the charge tax bureau, pursuant to the relevant PRC income tax rules and regulations, being a foreign investment enterprise, Jarlway Machinery Inc. "Jarlway Machinery" was entitled to exemption from PRC foreign enterprise income tax for the two years ended 31 December 2003 and is entitled to a 50% reduction from PRC foreign enterprise income tax for the three years ending 31 December 2006 ("tax holiday").

# Jarlway Holdings Plc

## Notes to the financial statements

### 4. TAXATION (CONTINUED)

Jarlway Machinery is subject to state and local income taxes in the PRC at standard rates of 12% and 3% respectively in accordance with the PRC foreign enterprise income tax law, applicable to wholly owned foreign enterprise. Jarlway Machinery is exempted from local income tax during the tax holiday. As a result, the effective foreign enterprise income tax rate for Jarlway Machinery was 12% for the year ended 31 December 2005 (2004: 12%).

Pursuant to the Income Tax Law and the Detailed Rules for the Implementation of the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, Jarlway Xinxin Machinery Inc. ("Jarlway Xinxin") is entitled to a two-year exemption from the PRC foreign enterprise income tax starting from its first profit-making year and followed by a 50% reduction from the PRC foreign enterprise income tax for the subsequent three years. Jarlway Xinxin made a loss in 2005.

	2005	2004
	£'000	(Proforma) £'000
<b>Deferred tax recognised in the income statement</b>		
Types of temporary differences:		
Depreciation allowances	2	1
Others	(39)	(8)
	<u>(37)</u>	<u>(7)</u>

A reconciliation between tax expense and accounting profit using the weighted average taxation rate of the companies within the Group is as follows:

	2005	2004
	£'000	(Proforma) £'000
Profit before taxation	<u>343</u>	<u>2,954</u>
Calculation at the effective foreign enterprise income tax rate of Jarlway Machinery of 12% (2004: 12%)	41	354
Non-deductible expenses	35	-
Tax exempt revenue	-	(341)
Effect of overseas tax rates differences	(17)	-
Others	<u>(10)</u>	<u>(5)</u>
Tax expense for the year	<u>49</u>	<u>8</u>

# Jarlway Holdings Plc

## Notes to the financial statements

### 5. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

The emoluments of the directors were as follows:

#### (a) Directors' emoluments

	The Group	
	2005	2004
		(Proforma)
	£'000	£'000
Fees:		
Executive directors	5	-
Non-executive directors	9	-
Other emoluments:		
Salaries and other emoluments	54	3
	<u>68</u>	<u>3</u>

Details of the directors' remuneration are disclosed on page 8.

#### (b) Information regarding directors and employees

	2005	2004
	No.	No.
The average number of persons employed by the Group (including directors) during the year was:	<u>233</u>	<u>216</u>
	£'000	£'000
Aggregate staff costs (including directors) during the year were:		
Wages and salaries	485	33
Social security costs	35	1
Other benefits	28	1
	<u>548</u>	<u>35</u>

### 6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company includes a loss of approximately £53,000 which has been dealt with in the financial statements of the Company for the year ended 31 December 2005.

### 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of the Company of £294,000 (2004: £2,946,000) and the weighted average number of 22,007,160 shares (2004: 20,000,000 shares) in issue during the year per note 21. These values have been calculated to reflect the 20,000,000 shares issued and subdivided in 2005 being in existence from 11 December 2004, the Company's incorporation date.

Diluted earnings per share for the year ended 31 December 2005 are equal to the basic earnings per shares as the exercise price of the share options granted by the Company was higher than the average market price for shares during the year. In year ended 31 December 2004 there were no dilutive potential ordinary shares in issue.

# Jarlway Holdings Plc

## Notes to the financial statements

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### 8. RETIREMENT SCHEMES

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2001, the Group participates in a Mandatory Provident Fund scheme (the "MPF scheme") operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute a specified percentage of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions. During the year ended 31 December 2005, the aggregate amount of employer's contribution made by the Group was £35,000 (2004: £1,000).

### 9. ASSETS HELD FOR SALE

Assets held for sale represent properties received from trade debtors in lieu of settlement which are carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing and selling.

# Jarlway Holdings Plc

## Notes to the financial statements

### 10. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery £'000	Motor vehicles £'000	Furniture, fittings and equipment £'000	Total £'000
<b>The Group</b>				
<b>Cost</b>				
At 1 January 2004	-	-	-	-
Acquisition of subsidiary	76	21	16	113
At 1 January 2005	76	21	16	113
Addition during the year	1	179	7	187
Exchange rate movement	9	3	2	14
<b>At 31 December 2005</b>	<b>86</b>	<b>203</b>	<b>25</b>	<b>314</b>
<b>Accumulated depreciation</b>				
At 1 January 2004	-	-	-	-
Acquisition of subsidiary	15	2	4	21
Charge for the year	1	-	-	1
At 1 January 2005	16	2	4	22
Charge for the year	9	16	4	29
Exchange rate movement	2	-	-	2
<b>At 31 December 2005</b>	<b>27</b>	<b>18</b>	<b>8</b>	<b>53</b>
<b>Net book value</b>				
<b>At 31 December 2005</b>	<b>59</b>	<b>185</b>	<b>17</b>	<b>261</b>
At 31 December 2004	60	19	12	91

### 11. RESTRICTED BANK BALANCES

	2005 £'000	2004 (Proforma) £'000
Current	104	178
Non-current	257	772
	<b>361</b>	<b>950</b>

The restricted bank balances were pledged to secure bank borrowings granted to Jarlway Machinery Inc to finance certain trade receivables. Amounts that will be released back to Jarlway Machinery Inc. within one year have been classified as current.

# Jarlway Holdings Plc

## Notes to the financial statements

### 12. INTEREST IN SUBSIDIARIES

	The Company	
	2005	2004 (Proforma)
	£'000	£'000
Unlisted shares, at cost	50	-

Details of the Company's subsidiaries, which are all wholly-owned, are as follows:

Name of company	Place of incorporation and operation	Issued and fully paid share capital/paid-up registered capital	Principal activities
Jarlway International Limited	Hong Kong	HK\$10,000 ordinary share	Investment holding
Jarlway Machinery Inc.	The People's Republic of China	US\$300,000 registered capital	Developing, manufacturing and sale of large scale construction machinery
Jarlway Xinxin Machinery Inc.	The People's Republic of China	RMB10,000,000 registered capital	Inactive

Other than Jarlway International Limited, which is held directly by the Company, all subsidiaries are held indirectly.

Jarlway Machinery Inc. and Jarlway Xinxin Machinery Inc. are wholly owned foreign enterprises established in the People's Republic of China.

### 13. NEGATIVE GOODWILL

	£'000
<b>Gross amount</b>	
Arising on acquisition and balance at 31 December 2004	2,845
<b>Released to income</b>	
Released during 2004	(2,845)
<b>Carrying value</b>	
At 31 December 2005 and at 31 December 2004	-

# Jarlway Holdings Plc

## Notes to the financial statements

### 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	<b>The Group</b>	
	<b>2005</b>	<b>2004</b>
		<i>(Proforma)</i>
	<b>£'000</b>	<b>£'000</b>
Investment in unit trust, at fair value	<u>5</u>	<u>5</u>

The fair value of these securities is based on quoted market prices at 31 December 2005.

### 15. INVENTORIES

	<b>The Group</b>	
	<b>2005</b>	<b>2004</b>
		<i>(Proforma)</i>
	<b>£'000</b>	<b>£'000</b>
Raw materials	423	249
Finished goods	<u>389</u>	<u>72</u>
	<u><b>812</b></u>	<u><b>321</b></u>

### 16. TRADE AND OTHER RECEIVABLES

	<b>The Group</b>	
	<b>2005</b>	<b>2004</b>
		<i>(Proforma)</i>
	<b>£'000</b>	<b>£'000</b>
<b>Trade receivables</b>		
From third parties	5,139	5,409
Less: Non-current portion	<u>(165)</u>	<u>(651)</u>
Current portion	4,974	4,758
<b>Other receivables</b>		
Deposits, prepayments and other debtors	<u>510</u>	<u>399</u>
	<u><b>5,484</b></u>	<u><b>5,157</b></u>

Trade receivables are shown net of accumulated provision for doubtful debt amounting to £543,000 (2004: £156,000).

Included in trade receivables are amounts relating to bank financing arrangements. These are comprised of a current element amounting to £642,000 (2004: £1,217,000) and a non-current element amounting to £89,000 (2004: £545,000).

The fair value of trade and other receivables approximate the carrying value.

# Jarlway Holdings Plc

## Notes to the financial statements

### 16. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in other receivables is an amount due from a director of £1,000. The amount due is unsecured, interest-free and has no fixed repayment terms. Details of the amount due from the director are as follows:

Name of director	Maximum amount outstanding during the year £'000	Balance at 31.12.2005 £'000	Balance at 1.1.2005 £'000
Wu Zhi Jia	<u>7</u>	<u>1</u>	<u>7</u>

### 17. AMOUNT DUE FROM A SUBSIDIARY

The amount due from a subsidiary is unsecured, interest-free and has no fixed repayment terms. The carrying amount is stated at fair value.

### 18. BANK BORROWINGS

	The Group	
	2005	2004
	£'000	(Proforma) £'000
<b>Bank loan:</b>		
Current portion	642	1,217
Non-current portion	<u>89</u>	<u>545</u>
	<u>731</u>	<u>1,762</u>

The bank borrowings are secured by certain trade receivables as well as restricted bank balances (note 11). Interest is calculated at 6% to 7% per annum and is borne by the customers concerned.



# Jarlway Holdings Plc

## Notes to the financial statements

### 19. TRADE AND OTHER PAYABLES

	<u>The Group</u>		<u>The Company</u>	
	2005	2004 (Proforma)	2005	2004
	£'000	£'000	£'000	£'000
<b>Trade payables</b>				
To third parties	<u>1,514</u>	<u>1,232</u>	<u>-</u>	<u>-</u>
<b>Other payables</b>				
Accrued charges and other creditors	<u>1,619</u>	<u>1,382</u>	<u>30</u>	<u>-</u>
	<u><b>3,133</b></u>	<u><b>2,614</b></u>	<u><b>30</b></u>	<u><b>-</b></u>

Included in other payables is an amount due to a director of £547,000. The amount due is unsecured, interest-free and has no fixed terms of repayment.

The fair value of trade and other payables approximate to the carrying value.

### 20. DEFERRED TAXATION

#### *Recognised deferred tax assets*

	<u>The Group</u>	
	2005	2004 (Proforma)
	£'000	£'000
Depreciation allowances	2	4
Others	71	32
Exchange rate movement	<u>8</u>	<u>-</u>
<b>Net recognised deferred tax assets</b>	<u><b>81</b></u>	<u><b>36</b></u>

#### The Company

At the balance sheet date, the Company has no unprovided deferred taxation.

# Jarlway Holdings Plc

## Notes to the financial statements

### 21. ISSUED CAPITAL

	2005		2004	
	Number of shares	Amount £'000	Number of shares	Amount £'000
<b>Authorised:</b>				
At 1 January	50,000	50	-	-
On incorporation	-	-	50,000	50
Increase (Note 1)	75,000	75	-	-
	125,000	125	50,000	50
Share subdivision (Note 1)	49,875,000	-	-	-
<b>At 31 December</b>	<b>50,000,000</b>	<b>125</b>	<b>50,000</b>	<b>50</b>
<b>Issued and fully paid:</b>				
At 1 January	2	-	-	-
Issue 2 ordinary shares of £1 each on incorporation	-	-	2	-
Issue 49,998 ordinary share of £1 each (Note 2)	49,998	50	-	-
	50,000	50	2	-
Share subdivision effective on 7 June 2005 (Note 1)	19,950,000	-	-	-
	20,000,000	50	2	-
Share allotment of 4,413,333 ordinary shares of £0.0025 each (Note 3)	4,413,333	11	-	-
<b>At 31 December</b>	<b>24,413,333</b>	<b>61</b>	<b>2</b>	<b>-</b>

Note :

1. By ordinary resolutions passed on 7 June 2005, the authorised share capital was increased to £125,000 by the creation of 75,000 new ordinary shares of £1 each. Each of the ordinary shares of £1 in the capital of the Company, both issued and unissued, were then subdivided into 400 ordinary shares of 0.25p each.
2. Pursuant to a share exchange agreement entered into on 19 April 2005 the Company acquired the entire issued share capital of Jarlway International Limited for a consideration which was satisfied by the issue and allotment to the Vendors of an aggregate of 50,000 Ordinary Shares including the subscriber shares, each of which was credited as fully paid.
3. On 18 July 2005, trading of the ordinary shares of the Company commenced on AIM, a market operated by the London Stock Exchange. 4,166,667 new Ordinary Shares were issued in the Placing at the Placing Price of 30p per share. A further 246,666 new Ordinary Shares of 0.25p each were issued as part of the settlement of adviser fees and commission.

# Jarlway Holdings Plc

## Notes to the financial statements

### 22. SHARE OPTIONS

On 12 July 2005, the Company granted a number of share options to the directors and senior employees of the Group. Unless otherwise cancelled or amended, the share options will remain in force for 10 years from 12 July 2005. The purpose of granting the share options is to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts in promoting the interests of the Group.

The weighted average value per option granted in 2005 by the Company was £0.16, estimated as at the date of grant based on the Black-Scholes option pricing model using the following assumptions:

Share price at the option grant date	£0.30
Exercise price	£0.30
Risk-free interest rate per annum	4%
Expected stock price volatility	35%
Expected option life	10 years

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Such an option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility. The volatility could not be determined by reference to historical volatility, but instead was derived by reference to publicly available information concerning the volatility of listed manufacturing companies. Because the share options of the Company have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options of the Company.

#### (a) Number, terms and conditions of the options granted by the Company:

Conditions	Number of options granted on 12 July 2005	Value of options at grant date £000
<b>Options granted to Directors:</b>		
Non-performance based options (Note 1)	122,067	20
<b>Options granted to employees other than Directors</b>		
Without vesting schedules (Note 1)	219,720	35
	<b>341,787</b>	<b>55</b>

# Jarlway Holdings Plc

## Notes to the financial statements

### 22. SHARE OPTIONS ISSUED (CONTINUED)

#### (a) Number, terms and conditions of the options granted by the Company: (continued)

Notes:

- (1) The Group has recognised these share options in the income statement with a corresponding increase in share option reserve in equity in 2005.

	2005 £'000
Cost of share options recognised under IFRS 2 in 2005	
In respect of non-performance based options granted to a director	2
In respect of options without vesting schedule granted to employees other than directors	4
	<u>6</u>

#### (b) The following share options were outstanding under the share option scheme:

Name of participant	Date of grant	Share options granted during the year and outstanding as at 31 December 2005			Exercise period of share options	Exercise price of share options £
		At 1 January 2005	Granted during the year	At 31 December 2005		
<i>Directors</i>						
Xu Jia Jin	12 July 2005	-	122,067	122,067	12 July 2008 to 11 July 2015	0.30
<i>Other employees</i>						
In aggregate	12 July 2005	-	219,720	219,720	12 July 2008 to 11 July 2015	0.30
		-	341,787	341,787		

The weighted average remaining contractual life for the share options outstanding at the balance sheet date was 10 years.

# Jarlway Holdings Plc

## Notes to the financial statements

### 23. PROVISIONS

<u>The Group</u>	Warranty £'000
At 1 January 2005	73
Provision made for the year	47
Provision used during the year	(40)
	<u>80</u>

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within one year of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within one year prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable. The amount is included in other payables.

### 24. RESERVES

	Share Option reserve £'000	Share premium £'000	Exchange reserve £'000	Merger reserve (Note 1) £'000	Retained profits (Note 2) £'000	Total £'000
<u>The Group</u>						
At 1 January 2004	-	-	-	-	-	-
Exchange reserve arising on translation of financial statements of overseas subsidiaries	-	-	(101)	-	-	(101)
Profit for the year	-	-	-	-	2,946	2,946
At 31 December 2004 (proforma)	-	-	(101)	-	2,946	2,845
Exchange reserve arising on translation of financial statements of overseas subsidiaries	-	-	438	-	-	438
Merger reserve arising on consolidation	-	-	-	(49)	-	(49)
Share allotment	-	1,239	-	-	-	1,239
Share admission expense	-	(1,011)	-	-	-	(1,011)
Employee share option benefit	6	-	-	-	-	6
Profit for the year	-	-	-	-	294	294
At 31 December 2005	<u>6</u>	<u>228</u>	<u>337</u>	<u>(49)</u>	<u>3,240</u>	<u>3,762</u>

# Jarlway Holdings Plc

## Notes to the financial statements

### 24. RESERVES (CONTINUED)

Note:

1. The merger reserve represents the difference between the nominal value of shares of the subsidiary company acquired, and the nominal value of the Company's shares issued in 2005.
2. The Group's accumulated profits included an amount of approximately £172,000 reserved by the subsidiary in the People's Republic of China (the "PRC") in accordance with the relevant PRC regulations. This reserve is only distributable in the event of liquidation of this PRC subsidiary.

### 25. ACQUISITION OF A SUBSIDIARY

In November 2004, Jarlway International Limited acquired 100% of the voting equity instruments of Jarlway Machinery Inc., which is now the principal trading entity within the Group.

	2005	2004 (Proforma)
	£'000	£'000
Loss of the Group if subsidiary had not been acquired	(107)	(2)
Profit of the Group relating to the subsidiary	<u>200</u>	<u>103</u>

The fair value of the assets acquired and net cash outflow in respect of the acquisition was as follows:

	2005	2004 (Proforma)
	£'000	£'000
The fair value of the net assets acquired:		
Property, plant and equipment, net	-	92
Deferred tax assets	-	36
Restricted bank balances	-	820
Inventories	-	555
Trade and other receivables	-	3,779
Bank balances and cash	-	60
Trade and other payables	-	(2,237)
Income tax payable	-	(103)
Goodwill deducted from asset	-	(2,845)
Consideration paid	<u>-</u>	<u>157</u>

The net cash outflow in respect of the acquisition was as follows:

Cash consideration	-	157
Bank balances and cash acquired	-	(60)
Net cash outflow in respect of the acquisition	<u>-</u>	<u>97</u>

# Jarlway Holdings Plc

## Notes to the financial statements

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### 26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management is integral to the business of the Company. The Company has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Company's risk management process to ensure that an appropriate balance between risk and control is achieved. This section provides details of the Company's exposure to financial risks and describes the methods used by management to control such risk.

#### **Credit risk**

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty in setting their financial and contractual obligations to the Company, as and when they fall due.

The Company's primary exposure to credit risk arises through its trade receivables. The management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Other financial assets of the Company with exposure to credit risk include cash and deposits that are placed with financial institutions which are regulated.

At the balance sheet date, there was no significant concentration of credit risk.

#### **Liquidity risk**

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and to mitigate the effects of fluctuations in its cash flows.

#### **Foreign exchange risk**

The Group's businesses are principally conducted in Renminbi ("RMB"). The Group is exposed to foreign currency risk with respect to sterling and the HK dollar. Foreign exchange risk mainly arises from recognised assets and liabilities and net investments in foreign operations.

The Group did not use any forward contract or currency borrowing to hedge its exposure to foreign currency risk.

#### **Fair value estimation**

The fair value of the Group's financial assets at fair value through the income statement is determined by reference to the quoted market price when the related investment is traded in an active market.

The fair value of the Group's trade receivables is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The carrying amounts of the Group's financial assets, including cash and cash equivalents, other receivables and financial liabilities, including trade and other payables and bank borrowings approximate their fair values.

# Jarlway Holdings Plc

## Notes to the financial statements

### 27. COMMITMENTS

#### Capital expenditure commitments

	2005 £'000	2004 £'000
Contracted but not provided net of deposit paid in the financial statements	<u>15</u>	<u>-</u>

#### Commitments under operating leases

The company lease a number of properties under operating leases, which typically run for an initial period of 2 – 5 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At the balance sheet date, the Company had total annual minimum lease payments under non-cancellable operating leases, which were payable as follows:

	2005 £'000	2004 (Proforma) £'000
Within one year	55	34
In 2-5 years	<u>35</u>	<u>50</u>
	<u>90</u>	<u>84</u>

### 28. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group has the following related party transactions:

- (a) Key management personnel compensation to the directors of the Company and certain employees of the Group for the year are as follows:

	2005 £'000	2004 (Proforma) £'000
Directors' fees	14	-
Salaries and other benefits	54	3
Employee share-based payments	<u>6</u>	<u>-</u>
	<u>74</u>	<u>3</u>



# Jarlway Holdings Plc

## Notes to the financial statements

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### 28. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) During the year, the Group had paid £67,000 to Yi Tong Company, of which Xu Jia Jin and Ng Chi Chor are directors of the Company. These amounts were to facilitate payment in foreign exchange to the ultimate recipient, an unrelated party that is performing research and development work for the Group.
- (c) During the year, an amount of £6,700 in respect of salaries was paid to the close family member of a director, Ng Chi Chor.
- (c) During the year, the Group paid a retainer fee of £11,800 to FT International Advisory Limited, of which David Thomas was a director
- (d) On admission to the AIM market, the Group paid a consulting fee of US\$250,000 and commission of US\$32,966 to KASH Strategic Ltd, of which KM Wong is a shareholder and director.
- (e) During the year, the Group paid David Steeds a fee of £5,000 in connection with financial advice in preparation for its listing on the AIM market.
- (f) During the year, the Group paid £2,258 to Asset Intelligence Limited for the provision of the services of KM Wong.