Co No. 05311191

Directors' Report

Audited Financial Statements

Jarlway Holdings Plc

31 December 2007

Jarlway Holdings Plc

Year ended 31 December 2007

CONTENTS

DIRECTORS
WU Zhi Jia (Chairman)
XU Yi Chuang
NG Chi Chor
David THOMAS (Non-executive)
Stephen Chun Hong WONG (Non-executive)

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INDEPENDENT AUDITORS IN HONG KONG AND THE PEOPLE'S REPUBLIC OF CHINA
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Chairman's Statement

Year ended 31 December 2007

Highlights

- Sales down 4 6% to £6,831,000 *(2006 £ 7,164,000)*
- Pre-tax loss of £1,075,000 (2006 pre-tax profit of 743,000)
- Broader product range by successful launch of tower cranes
- Overseas orders with encouraging sales generated
- Strong forward order book

I am pleased to report on the results of Jarlway Holdings Plc (the "Company", the "Group" or "Jarlway") for the year ended 31 December 2007 2007 was a challenging year for the Group We have successfully developed and launched our new tower crane product Through our tower cranes, we have also expanded our market coverage overseas I believe our efforts in broadening the product range and expanding our market overseas have started to pay off and will bring encouraging achievements in sales and profit while improving our cash flow position. Sales of tower cranes for 2007 amounted to £1,816,000 *(2006 Nil)*

BUSINESS REVIEW

As mentioned in the 2007 interim results, the unexpected supply shortage of a major component used in the Group's trailer pumps undermined our ability to develop this opportunity in the first half of 2007 We were not satisfied with the quality of available alternative products or alternative suppliers for this component Although the supply level resumed in second half of 2007, the shortage contributed to a decrease of 30% in trailer pump sales to £5,015,000 for 2007, compared to £7,164,000 the previous year However, there is still strong growth in the demand for construction machinery in China and overseas markets, despite the world economic situation I believe the Company is now getting back on the right track to capture the growth in this industry

During 2007, we have made progress in the following areas

New sales initiatives

The Group successfully launched tower cranes and expanded the product range into 10 models As mentioned previously, total sales of tower cranes amounted to £1,816,000 in 2007 or 26 6% of the total sales for the year

During the year, we further broadened our product range, while maintaining our focus on the same business sector and customer base We established a new subsidiary, Jarlway-Lishitong Machinery Inc ("Lishitong") in March 2007 to commence the new product design and trial production of placing booms The placing booms were successfully developed and launched to the market in October 2007 Lishitong also acts as a subcontractor for the Group for the production of machine parts

Development of overseas market

Although China remains the Group's strategic focus in the foreseeable future, I believe expanding our international sales is a key priority of the Company, so as to mitigate the risk of depending solely on a single market In 2007, the Company started export sales of tower cranes and other products to overseas markets

BUSINESS REVIEW (CONTINUED)

Development of overseas market (Continued)

The Company attended the international trade fairs for construction machinery held by Bauma in Shanghai and Germany in November 2006 and April 2007. The response from these trade fairs was very positive and a number of orders were received from the overseas markets of Middle Eastern countries (e g Qatar and UAE), South America (e g Chile), Central Asia and South East Asia regions (e g India and Thailand) Overseas sales amounted to £1,091,000, accounting for 16 0% of the total sales for the Group in 2007. We believe the successful development of these overseas markets will be a stepping stone to expand our brand internationally

FINANCIAL RESULTS

The consolidated net loss after taxation attributable to equity shareholders for the year ended 31 December 2007 was £1,135,000 *(2006 net profit after taxation attributable to equity shareholders of £632,000)* and turnover was £6,831,000 *(2006 £7,164,000)* The loss was mainly caused by a provision for doubtful receivables of £1,410,000 *(2006 £230,000)* as the Company was unable to recover certain trade debts arising in and before 2005 when the Group's credit control over customers was considered to be less stringent as we focused our efforts on expansion and the promotion of our brand

Though sales of new products have contributed to overall Group revenue in 2007, sales of concrete pumps, our principal product, declined by £1,502,000 The decrease in sales of concrete pumps was due to the shortage of supply of a major component in the first half of 2007 and sales discount given to trade agencies of the Company, resulting in the decrease in turnover by 4 9% when compared to 2006

The Company's gross margin reduced from 39.3% in 2006 to 26 1% in 2007 The decrease in margin was due to

- Inflation in costs of raw materials and a drop in orders from high margin customers (railway contractors)
- Greater costs being incurred during the initial production of tower cranes but sales only commenced in late 2007
- Price discounts offered to trade agencies as well as customers with early payment

Administrative costs increased by £961,000, an increase of 92 0% from £1,044,000 in 2006 to £2,005,000 in 2007 The increase was mainly due to a significant provision for doubtful receivables of £1,410,000 *(2006 £230,000)* for the reasons outlined above Other reasons for the increase include the increase in costs in supporting the sales of tower cranes, for example staff costs in 2007 amounted to £869,000 *(2006 £733,000)*, as a result of recruiting sales staff. Although a large provision for doubtful receivables was made, we also successfully recovered debts which were previously provided for Doubtful debts of £334,000 *(2006 Nil)* provided for in prior years were recovered and therefore written back in 2007

FINANCIAL RESULTS (CONTINUED)

On the other hand, selling and distribution costs decreased by £219,000, or 22 2% compared with 2006 The decrease was mainly caused by the closure of 11 sales branches , as the distribution channel has been replaced by the trade agencies which the Company believes will lead to increased penetration of the domestic customer base and is expected to be more cost-effective in the long run.

During the year, the Company obtained additional bank loans of £3,324,000 due within one to two years These bank loans were mainly used to finance the research and development, and manufacture of tower cranes and our new placing booms

PROSPECTS

Looking ahead, I am optimistic for the prospects of the construction machinery industry in both China and in international markets The Chinese government has provided various incentives such as export custom duties, banking facilities and grants of land for plant which signifies their support in this sector With this support, the Company can put a significant effort into the development of new products and exploring new customers from overseas markets We have defined the following strategies for expansion and maximising our income base and profitability

Expansion in both domestic and international markets

With the launch of tower cranes and placing booms, we expect to receive more orders from overseas markets We strongly believe export sales will enhance the cash flow position of the Group and lower the dependence on the local market, which will in turn contribute to the Group's profit and scale of operations

We will also continue to visit other regions and attend trade fairs held in overseas markets to promote and explore new business opportunities in order to capture the increasing demand for construction machinery in the global market

Improvement of product quality

Having been conferred the honorary title of "Zero Defect Client", quality is the life of the Group We will continue to leverage on our research and development capability to maintain the product quality, to diversify and increase our product range, in order to better serve the different segments of the market

At the same time, we will also continue to modify our existing product lines to strengthen our leading position in the market

Expansion of network by strategic alliance

Apart from organic growth, we will also explore co-operation or alliance opportunities with other players in the market, with a view to improving our technical development and our share of the domestic as well as the international market. We will update our shareholders as appropriate of any such developments

PROSPECTS (CONTINUED)

Cost management
The Company has invested heavily in the research and development of new products during 2007 which required high capital financing In the light of tight cash flow in the Company, we will continue our efforts to reduce the cost of production, selling and administrative costs in order to maintain our competitiveness in the industry

Overall, I believe that exploration of new markets and product range, as well as improvement in financial and capital management will have a positive effect on our financial performance With the relentless pursuit of excellence, I believe we will maintain and increase our competitive advantage in the marketplace

APPRECIATION

On behalf of the board of directors, I would like to take this opportunity to express my gratitude to all shareholders and business partners for their support and to all employees for their continued loyalty and support. With their hard work and devotion in tackling the challenges faced by the Group, I am looking forward to a return to improving performance in the coming year

Wu Zhi Jia
Chairman
25 June 2008

The directors present their annual report together with the audited financial statements for the year ended 31 December 2007

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 page 2 to 5.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Group's strategy are subject to a number of risks as set out below:

General economic climate

The general economic climate is volatile and is affected by numerous factors which are beyond the Group's control and which may affect its operations, business and profitability These factors include the supply and demand of capital, growth in gross domestic product, employment trends and industrial disruption, international economic trends, currency exchange rate fluctuations, the level of interest rates and the rate of inflation, global or regional political events and international events, as well as a range of other market forces, all of which have an impact on demand and business costs The board constantly monitors and assesses and ensures these risks are mitigated to the extent possible

Fluctuations in the price of raw materials

A significant percentage of the raw materials used in the production of the Group's products are commodity-based The prices of raw materials used in the production of concrete pumps and tower cranes may fluctuate due to changes in supply and demand conditions Any shortage in the supply or upsurge in demand may lead to an increase in prices, which may adversely affect the Group's profitability

China is currently facing its highest inflation levels in 11 years Prices of raw materials for our business increased significantly in the second half of 2007 and again in first half of 2008. To date we have been able to exercise effective cost control to maintain our margins but in the event that inflation escalates, we may be increasingly hard-pressed not to pass on such increase to our customers

KEY PERFORMANCE INDICATORS

The major key performance indicators are discussed in the Chairman's Statement on pages 2 to 5

DIVIDENDS

The directors do not recommend the payment of a dividend *(2006 Nil)*

DIRECTORS

The following directors have held office during the year

Executive directors

WU Zhi Jia	(Chairman)
XU Yi Chuang	
NG Chi Chor	
XU Jia Jin	(resigned on 16 August 2007)

Non-executive directors

David THOMAS	
David STEEDS	(resigned on 19 February 2007)
Stephen Chun Hong WONG	(appointed on 14 June 2007)

All existing directors are offering themselves for re-election at the next Annual General Meeting

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

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

	£1 Ordinary shares	
	At 31 December 2007	At 1 January 2007
WU Zhi Jia	13,000,000	13,000,000
XU Yi Chuang	3,000,000	3,000,000
NG Chi Chor	2,000,000	2,000,000
David THOMAS	-	-
Stephen Chun Hong WONG	-	-

David Steeds resigned on 19 February 2007 and XU Jia Jin resigned on 16 August 2007

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	2,801,599	11.5
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 106 *(2006 121)* 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 risks and the procedures for managing these risks are set out in note 25 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

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

DIRECTORS' INDEMNITY INSURANCE

The directors have not taken out an insurance policy to cover directors' and officers' liabilities. The Articles of Association of the Company permit the Company to indemnify directors to the extent permitted by the Companies Act

EMPLOYEES

The Board recognises that the Group's employees are its most important asset Employees are encouraged to train and develop their careers

The Board maintains good working relations with employees through clear channels of communication The responsibility for communication with the workforce rests with the managers through formal and informal meetings

The Group is committed to achieving equal opportunities and to complying with anti-discrimination legislation

ENVIRONMENTAL POLICY

The Group is committed to operating in an environmentally responsible manner and endeavours to adopt the best practicable means to reduce or eliminate polluting releases to the environment or in the disposal of waste products The Group is committed to complying with environmental legislative requirements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Baker Tilly UK Audit LLP as auditors

By order of the Board

Xu Yi Chuang
Director
25 June 2008

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 the AIM Market in July 2005 and is therefore not required to comply with the provisions of the Combined Code on Corporate Governance (the "Combined Code") However, the Directors believe that good corporate governance is essential and, having considered the provisions of the Combined 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 three executive and two non-executive directors (Mr David Steeds resigned in February 2007, Mr Xu Jia Jin resigned on 16 August 2007 and on 14 June 2007, the Company appointed Stephen Wong as a non-executive director) Brief biographical details of the existing directors are set out below.

WU Zhi Jia, Chairman – age 47
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 – age 53
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

NG Chi Chor, Executive Director – age 56
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

David THOMAS, Non-executive Director - age 54
David Thomas is an English qualified solicitor resident in the UK He is a non-executive director of several other companies listed on the AIM Market in London, all of which have businesses in China He was in private practice for more than 22 years, specialising in corporate finance, before a period with Beeson Gregory (now Evolution Group plc), a London investment bank and stockbroker, where he was an executive director and general counsel

Stephen Chun Hong WONG, Non-executive Director – age 40
Stephen Chun Hong Wong graduated from Simon Fraser University in Canada with an honours degree in accounting and finance He is a certified public accountant in Hong Kong and a member of Hong Kong Institute of Certified Public Accountants, American Institute of Certified Public Accountants and Certified General Accountants Association of Canada He had over 14 years' experience in audit of listed companies in Hong Kong and China and other companies of various sizes Currently, he has his own public accounting practice in Hong Kong

DIRECTORS AND THE BOARD (CONTINUED)

1. The Board (Continued)
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 Thomas (Chairman from 19 February 2007, resigned on 14 June 2007)
Stephen Chun Hong Wong (Chairman since 14 June 2007)

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
- to consider the independence and objectivity of the independent auditors

The Committee meets at least twice each year.

Remuneration Committee
David Thomas (Chairman)
Stephen Chun Hong Wong (member since 14 June 2007)

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

DIRECTORS AND THE BOARD (CONTINUED)

2. Board Balance

During the year ended 31 December 2007, the Board had three/ four executive directors and one/ two non-executive directors The non-executive directors are considered independent Mr David Steeds, one of the non-executive directors resigned on 19 February 2007 and on 14 June 2007, the Company appointed Stephen Wong as a non-executive director

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 does not consider this aspect of the Combined Code to be beneficial to the Company 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 existing 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 are set out below

	2007			2006		
	Salary	Pensions Contributions	Total	Salary	Pensions Contributions	Total
	£	£	£	£	£	£
WU Zhi Jia	34,964	694	35,658	23,407	1,372	24,779
XU Yi Chuang	29,438	553	29,991	19,619	670	20,289
NG Chi Chor	6,536	-	6,536	6,000	-	6,000
XU Jia Jin	1,874	-	1,874	7,950	-	7,950
David THOMAS	10,000	-	10,000	10,000	-	10,000
David STEEDS	1,370	-	1,370	10,000	-	10,000
Stephen Chun Hong WONG	-	-	-	-	-	-

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

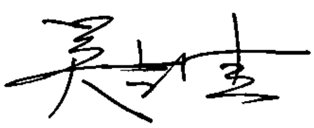
The key procedures established by the Board include

- 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
25 June 2008

Statement of Directors' Responsibilities
Year ended 31 December 2007

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

UK company law requires the directors to prepare Group and Company financial statements for each financial year Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company

In preparing each of the Group and Company financial statements, the directors are required to

a select suitable accounting policies and then apply them consistently;

b make judgments and estimates that are reasonable and prudent,

c state whether they have been prepared in accordance with IFRSs adopted by the EU,

d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Jarlway Holdings plc website

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

Independent Auditors' Report

To the members of
Jarlway Holdings Plc

We have audited the Group and parent Company financial statements of Jarlway Holdings Plc on pages 17 to 61

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 auditors' 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 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 (IFRSs) as adopted by the European Union ("EU") 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross-referenced from the Principal Activities and Review of Business Developments section of the Directors' Report.

In addition we report to you 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 other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Directors' Report, the Chairman's Statement and the 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

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

Independent Auditors' Report

To the members of
Jarlway Holdings Plc

Opinion
In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended,
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST
25 June 2008

Jarlway Holdings Plc

Consolidated Income Statement
For the year ended 31 December 2007

	Note	**2007** **£'000**	2006 £'000
Continuing operations:			
Revenue	2	**6,831**	7,164
Cost of sales		**(5,046)**	(4,352)
Gross profit		**1,785**	2,812
Other income	2	**70**	13
Selling and distribution costs		**(767)**	(986)
Administrative expenses –doubtful receivables		**(1,076)**	(278)
Administrative expenses –others		**(929)**	(766)
Finance costs	3	**(158)**	(52)
(Loss) Profit before taxation	3	**(1,075)**	743
Taxation	4	**(69)**	(111)
(Loss) Profit for the year		**(1,144)**	632
Attributable to:			
Equity holders of the Company		**(1,135)**	632
Minority interest		**(9)**	-
		(1,144)	632
(Loss) Earnings per share			
Basic and diluted	7	**(4.65p)**	2 59p

Jarlway Holdings Plc

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

	Share capital £'000	Share option reserve £'000	Share premium £'000	Merger reserve £'000	Exchange reserve £'000	Retained profits £'000	Total £'000	Minority interests £'000	Total £'000
Balance at 1 January 2006	61	6	228	(49)	337	3,240	3,823	-	3,823
Profit for the year	-	-	-	-	-	632	632	-	632
Exchange differences on translating foreign operations	-	-	-	-	(345)	-	(345)	-	(345)
Total recognised income and expenses	-	-	-	-	(345)	632	287	-	287
Employee share option benefit	-	14	-	-	-		14	-	14
Balance at 31 December 2006	61	20	228	(49)	(8)	3,872	4,124	-	4,124
Loss for the year	-	-	-	-	-	(1,135)	(1,135)	(9)	(1,144)
Exchange differences on translating foreign operations	-	-	-	-	159	-	159	-	159
Total recognised income and expense	-	-	-	-	159	(1,135)	(976)	(9)	(985)
Minority interest	-	-	-	-	-	-	-	30	30
Employee share option benefit	-	14	-	-	-	-	14	-	14
Balance at 31 December 2007	**61**	**34**	**228**	**(49)**	**151**	**2,737**	**3,162**	**21**	**3,183**

Company Statement of Changes in Equity
For the year ended 31 December 2007

	Share capital £'000	Share option reserve £'000	Share premium £'000	Accumulated losses £'000	Total £'000
Balance at 1 January 2006	61	6	228	(53)	242
Employee share option benefit	-	14	-	-	14
Loss and total recognised income and expenses for the year	-	-	-	(132)	(132)
Balance at 31 December 2006	61	20	228	(185)	124
Employee share option benefit	-	14	-	-	14
Loss and total recognised income and expenses for the year	-	-	-	(115)	(115)
Balance at 31 December 2007	**61**	**34**	**228**	**(300)**	**23**

Jarlway Holdings Plc

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Property, plant and equipment	*10*	**585**	330
Intangible assets	*11*	**27**	46
Trade receivables	*16*	**-**	11
Restricted bank balances	*12*	**-**	78
Deferred tax assets	*20*	**-**	63
		612	528
Current assets			
Assets held for sale	*9*	**763**	312
Inventories	*15*	**2,537**	1,478
Trade and other receivables	*16*	**4,571**	4,670
Financial assets at fair value through profit or loss	*14*	**5**	5
Cash and cash equivalents		**115**	374
Restricted bank balances, current	*12*	**154**	265
		8,145	7,104
Total assets		**8,757**	7,632

Jarlway Holdings Plc

Consolidated Balance Sheet
At 31 December 2007

	Note	**2007 £'000**	2006 £'000
Equity and liabilities			
Capital and reserves			
Share capital	*21*	**61**	61
Share premium	*24*	**228**	228
Share option reserve	*24*	**34**	20
Merger reserve	*24*	**(49)**	(49)
Exchange reserve	*24*	**151**	(8)
Retained profits	*24*	**2,737**	3,872
Equity attributable to equity holders of the Company		**3,162**	4,124
Minority interest		**21**	-
Total equity		**3,183**	4,124
Non-current liabilities			
Non-current portion of long-term bank borrowings	*18*	**183**	11
Current liabilities			
Trade and other payables	*19*	**3,109**	2,697
Provisions	*23*	**66**	66
Short-term bank borrowings	*28(e)*	**1,765**	519
Current portion of long-term bank borrowings	*18*	**366**	100
Income tax payable		**85**	115
		5,391	3,497
Total liabilities		**5,574**	3,508
Total equity and liabilities		**8,757**	7,632

Approved and authorised for issue by the board of directors and signed on its behalf by

Wu Zhi Jia Chairman

Ng Chi Chor Director
25 June 2008

Company Balance Sheet
At 31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Interests in subsidiaries	13	50	50
Current assets			
Bank balances		5	3
Due from subsidiaries	17	-	77
		5	80
Total assets		55	130
Capital and reserves			
Share capital	21	61	61
Share premium	24	228	228
Share option reserve	24	34	20
Accumulated losses		(300)	(185)
Total equity		23	124
Current liabilities			
Other payables	19	20	6
Due to subsidiaries	17	12	-
Total equity and liabilities		55	130

Approved and authorised for issue by the board of directors and signed on its behalf by

Wu Zhi Jia Chairman

Ng Chi Chor Director
25 June 2008

Jarlway Holdings Plc

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
OPERATING ACTIVITIES			
(Loss) Profit before taxation		**(1,075)**	743
Adjustment for			
Interest income		**(1)**	(5)
Interest expense	*3*	**158**	52
Depreciation	*3*	**54**	44
Amortisation of intangible assets	*3*	**20**	14
(Write-back) write-off of bad debts	*3*	**(334)**	48
Provision for doubtful debts	*3*	**1,410**	230
Employee share option benefit	*3*	**14**	14
Operating cash flows before changes in working capital		**246**	1,140
Increase in assets held for sale		**(451)**	(10)
Increase in inventories		**(1,059)**	(706)
(Increase) decrease in trade and other receivables		**(966)**	134
Decrease in provisions		**-**	(14)
Increase (decrease) in trade and other payables		**412**	(99)
Cash (used in) generated from operations		**(1,818)**	445
Interest received		**1**	5
Taxation		**(3)**	(85)
Net cash (used in) generated from operating activities		**(1,820)**	365
Investing activities			
Change in restricted bank balances		**189**	(13)
Purchase of property, plant and equipment		**(289)**	(138)
Net cash used in investing activities		**(100)**	(151)
Financing activities			
Interest paid		**(158)**	(22)
Proceeds from (repayment of) bank borrowings		**1,684**	(35)
Net cash generated from (used in) financing activities		**1,526**	(57)
Net (decrease) increase in cash and cash equivalents		**(394)**	157
Cash and cash equivalents at 1 January		**374**	298
Effect of foreign exchange rate changes		**135**	(81)
Cash and cash equivalents at 31 December		**115**	374

Jarlway Holdings Plc

Company Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
OPERATING ACTIVITIES			
Loss before taxation		**(115)**	(132)
Adjustment for:			
Employee share option benefit	*3*	**14**	14
Operating cash flows before changes in working capital		**(101)**	(118)
Decrease in amount due from / to subsidiaries		**89**	145
Increase (decrease) in other payables		**14**	(24)
Net cash from operating activities		**2**	3
Net increase in cash and cash equivalents		**2**	3
Cash and cash equivalents at 1 January		**3**	-
Cash and cash equivalents at 31 December		**5**	3

1. PRINCIPAL ACCOUNTING POLICIES

General information
The Company is a public listed company incorporated in England and its shares are listed on the AIM Market, a market operated by the London Stock Exchange ("LSE") The registered office and principal place of business of the Company are disclosed in the introduction to the annual report The principal activities of the Company and its subsidiaries (collectively referred hereinafter the "Group") are described in note 13

Statement of compliance
The consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union

These financial statements have been prepared on a basis consistent with the accounting polices adopted in 2006 financial statements except for the adoption for the first time of the following IFRS and revised International Accounting Standard (revised "IAS")

In the current year, the Group has adopted IFRS 7 Financial Instruments Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 Presentation of Financial Statements

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period These are IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, IFRIC 8 Scope of IFRS 2, IFRIC 9 Reassessment of Embedded Derivatives, and IFRIC 10 Interim Financial Reporting and Impairment The adoption of these Interpretations has not led to any changes in the Group's accounting policies

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.

Going concern
As disclosed in note 16 to the financial statements, the group incurred a net impairment loss during the year in respect of trade receivables of £1,086,000 The going concern basis of preparation of the financial statements is dependent upon a shortened overall receivable collection period, compared with historical experience As set out in note 25, since 1 January 2008 the Group has implemented a tighter credit policy and management are confident that the Group will generate sufficient net cash inflows for the foreseeable future.

On this basis, the directors have prepared the financial statements on the going concern basis The accounts do not include any adjustments that would arise if this basis were inappropriate

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 intra-group transactions, balances, income, expenses within the Group are eliminated on consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries made up to 31 December each year

The results of subsidiaries acquired or disposed of are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate

All intercompany transactions and balances and any unrealised gains or losses arising from intercompany transactions are eliminated on consolidation

Minority interests at the balance sheet date represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separate from equity attributable to equity holders of the Company

Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and equity holders of the Company

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses

Subsidiaries
Subsidiaries are those entities controlled by the Group Control exists when the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account

In the Company's balance sheet, an investment in a subsidiary is stated at cost less accumulated impairment losses The carrying amount of the investment is reduced to its recoverable amount on an individual basis Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment
Property, plant and equipment other than construction in progress 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

Leasehold improvements	The shorter of the unexpired period of the lease and estimated useful life
Plant and Machinery	5-10 years
Motor vehicles	10 years
Furniture, fittings and equipment	5-10 years

No depreciation is provided in respect of construction in progress until it is completed and is put into commercial operation.

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

Intangible assets
The initial cost of acquiring technology know-how intangible assets is capitalised Technology know-how with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses Amortisation is provided on the straight-line basis over their estimated useful lives

Intangible assets that are not yet in use or having an indefinite useful live are reviewed for impairment annually or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (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

Loans and receivables
Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less provision for impairment of doubtful debts, except where receivables are without fixed or determinable repayment terms or the effect of discounting would be immaterial In that case, receivables are stated at cost less any provision for impairment loss of doubtful debts A provision for impairment of doubtful debts 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 less the effect of discounting if immaterial The amount of provision is recognised in the income statements

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.

Impairment of financial assets
Financial assets, other than financial assets at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, including loans and receivables, objective evidence of impairment could include

- significant financial difficulty of the issuer or counterparty, or
- default or delinquency in interest or principal payments, or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)
For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account When a trade receivable is considered uncollectible, it is written off against the allowance account Subsequent recoveries of amounts previously written off are credited against the allowance account Changes in the carrying amount of the allowance account are recognised in profit or loss

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised

Other financial liabilities
Other financial liabilities including trade payables, other payables and borrowings are initially recognised at fair value and thereafter stated at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost

The Group derecognises a financial liability when, and only when the liability is extinguished

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument A financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available Otherwise, it is recognised at consideration received and receivable Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)
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

Translation of foreign currencies
(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The consolidated financial statements are presented in UK Pounds Sterling which is the Company's presentation currency

(b) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date Exchange gains and losses are recognised in profit or loss

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined

(c) Group companies

The results of the subsidiary company in the PRC are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date The resulting exchange differences are recognised directly in a separate component of equity

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impairment of non-current 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 and intangible assets, have suffered an impairment loss or if 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 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

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Borrowing costs
The 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 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 expense in the income statement as incurred

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

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

Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions")

The cost of equity-settled transactions with 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 in which the performance and/or service conditions are fulfilled The cumulative expense recognised for equity-settled transactions 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 equity instruments that in the opinion of the directors will ultimately vest

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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 purpose of these financial statements, a party is considered to be related to the Group if

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group, or has an interest in the Group that gives it significant influence over the Group, or has joint control over the Group,

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer,

(iv) the party is a member of the key management personnel of the Group;

(v) the party is a close member of the family of any individual referred to in (i) or (iv),

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v), or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Future changes in accounting standards
At the date of authorisation of these financial statements, the International Accounting Standards Board (IASB) has issued the following new/revised IFRSs and IASs that are not yet effective

		Effective for accounting periods beginning on or after
IFRS 2 Amendents	IFRS 2 Share-based Payment-Vesting Conditions and Cancellations	1 January 2009
IFRS 3 (Revised)	Business Combinations	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1 (Revised)	Presentation of Financial Statements	1 January 2009
IAS 23 (Revised)	Borrowing Costs	1 January 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC – Int 14	IAS 19 – The Limited on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 July 2008

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

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements
Estimates and judgements 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 judgements 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 machineries taking into account the Group's recent claim 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 part sales Any increase and decrease in the provision would affect income statements in future years

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

(iv) Assets held for sale
The Group has seized building properties from customers in lieu of settlement when these customers fail to repay Management assesses the net realisable value of these properties (which is the estimated selling price less all estimated costs of completion, if necessary, and costs to be incurred in marketing and selling these properties) Any deficiency of the net realisable value of these properties seized below the carrying value of the trade receivable is charged to income statement as write-off of bad debts The management assesses constantly any change in the net realisable value Any decline in valuation is charged to income statement. The assessment of the net realisable value requires the use of judgement and estimates of the property market Where the expectation is different from the original estimates, such differences will impact on the carrying value of these properties

2. REVENUE AND OTHER INCOME

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

	The Group	
	2007	2006
	£'000	*£'000*
Revenue		
Sales of goods	**6,831**	7,164
Other income		
Interest income	**1**	5
Sundry income	**69**	8
	70	13
	6,901	7,177

Since the launch of tower cranes in 2007, for management purposes, the Group is organised into two major operating divisions; the manufacture and sale of concrete pumps and manufacture and sale of tower cranes These divisions are the basis on which the Group reports its primary segment information

Segment revenue and results

	Segment revenue		Segment result	
	2007	2006	**2007**	2006
	£'000	*£'000*	***£'000***	*£'000*
Manufacture and sale of concrete pumps and others	**5,662**	7,164	**(872)**	928
Manufacture and sale of tower cranes	**1,169**	-	**(95)**	-
	6,831	7,164	**(967)**	928
Unallocated costs net of unallocated income			**(108)**	(185)
(Loss) Profit before taxation			**(1,075)**	743
Taxation			**(69)**	(111)
(Loss) Profit for the year			**(1,144)**	632

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the year *(2006 Nil)*

2. REVENUE AND OTHER INCOME (CONTINUED)

Segment assets and liabilities

	Assets		Liabilities	
	2007	2006	**2007**	2006
	£'000	*£'000*	***£'000***	*£'000*
Manufacture and sale of concrete pumps and others	**6,667**	7,604	**4,821**	3,466
Manufacture and sale of tower cranes	**2,079**	-	**245**	-
Total of all segments	**8,746**	7,604	**5,066**	3,466
Unallocated	**11**	28	**508**	42
Consolidated	**8,757**	7,632	**5,574**	3,508

	Depreciation and amortisation		Additions to capital assets	
	20(	20(	**200**	200
	£'0(	*£'0(*	***£'0(***	*£'00*
Manufacture and sale of concrete pumps and others	**62**	58	**83**	138
Manufacture and sale of tower cranes	**12**	-	**206**	-
Consolidated	**74**	58	**289**	138

As the Group's activities are all conducted in the People's Republic of China ("PRC"), no geographical segment information is presented

Revenue by destination

	The Group	
	2007	2006
	£'000	*£'000*
Destination		
PRC	**5,740**	7,164
Non-PRC areas	**1,091**	-
	6,831	**7,164**

3. (LOSS) PROFIT BEFORE TAXATION

This is arrived at after charging (crediting):	The Group 2007 *£'000*	The Group 2006 *£'000*
Finance costs		
Interest on bank borrowings	**123**	22
Interest on advances from a director	**35**	30
	158	52
Other items		
Auditors' remuneration		
MRI Moores Rowland LLP		
- For audit of the Company's annual financial statements	**-**	-
- Other services – limited review on the Company's interim financial report	**-**	16
Baker Tilly UK Audit LLP and its associates		
- Audit services	**50**	33
Staff costs including directors' emoluments		
- Contributions to defined contribution retirement plans *(Note 8)*	**69**	39
- Salaries, bonus and other benefits *(Note 5)*	**800**	694
Cost of inventories	**3,151**	4,257
Cost of employee share options *(Note 22)*	**14**	14
Research	**-**	14
Depreciation of property, plant and equipment *(Note 10)*	**54**	44
Amortisation of intangible assets *(Note 11)*	**20**	14
Rentals under operating leases in respect of land and buildings	**128**	42
Provision for warranty *(Note 23)*	**45**	73
(Write-back) write-off of trade receivables *(Note 16)*	**(324)**	48
Provision for doubtful receivables *(Note 16)*	**1,410**	230
Net foreign exchange (gain) loss	**(37)**	18

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	
The charge comprises	**2007**	2006
	£'000	*£'000*
Current tax		
PRC enterprise income tax	**3**	100
Deferred taxation		
Origination and reversal of temporary differences	**66**	11
	69	111

No provision for UK or Hong Kong taxation has been made as the Company and its Hong Kong subsidiaries have no estimated taxable 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 Taxation authorities, 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 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 enterprises Jarlway Machinery is exempt from local income tax during the tax holiday As a result, the effective foreign enterprise income tax rate for Jarlway Machinery was 15% for the year ended 31 December 2007 *(2006 7 5%).*

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 has incurred profits for the year ended 31 December 2007 since its incorporation As a result, Jarlway Xinxin is entitled to exemption from PRC foreign enterprise income tax for the two years ended 31 December 2008 and is entitled to a 50% reduction from PRC foreign enterprise income tax for the three years ended 31 December 2011 ("tax holiday")

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, , the effective foreign enterprise income tax rate for Jarlway Lishitong Machinery Inc ("Jarlway Lishitong") is 30% for the year ended 31 December 2007

4. TAXATION (CONTINUED)

Deferred tax recognised in the income statement	**2007** ***£'000***	2006 *£'000*
Types of temporary differences		
Depreciation allowances	**-**	2
Reverse of deferred tax assets recognised in prior years	**66**	-
Others	**-**	9
	66	11

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

	2007 ***£'000***	2006 *£'000*
(Loss) Profit before taxation	**(1,075)**	743
Tax at the small companies rate of Corporation tax in the UK of 20% (2006 19%)	**(215)**	141
Non-taxable income	**(3)**	-
Non-deductible expenses	**4**	67
Tax effect of unrecognised tax losses	**82**	-
Temporary differences	**37**	20
Reversal of deferred tax assets recognised in previous years	**66**	-
Effect of overseas tax rates differences	**102**	(124)
Other	**(4)**	7
Tax expense for the year	**69**	111

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors are as follows

(a) Directors' emoluments

	2007 ***£'000***	2006 *£'000*
Fees		
Executive directors	**26**	27
Non-executive directors	**11**	20
Other emoluments		
Salaries	**48**	32
	85	79

5. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS (CONTINUED)

(b) Information regarding directors and employees

	2007	2006
	No.	*No*
The average number of persons employed by the Group (including directors) during the year was	378	253
	£'000	*£'000*
Aggregate staff costs (including directors) during the year were		
Wages and salaries	728	629
Social security costs	69	39
Share-based payment	14	14
Other benefits	72	65
	883	747

Of the above staff costs, £319,000 *(2006 £114,000)* is included in cost of production/ manufacturing, £338,000 *(2006 £299,000)* is included in administrative expenses and £226,000 *(2006 £334,000)* is included in selling and distribution costs in the Income Statement.

6. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of approximately £115,000 *(2006 £132,000)* which has been dealt with in the financial statements of the Company for the year ended 31 December 2007.

7. (LOSS) EARNINGS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to equity holders of the Company of £1,135,000 *(2006 profit of £632,000)* and the weighted average number of 24,413,333 shares *(2006 24,413,333 shares)* in issue during the year

Diluted (loss) earnings per share for the year ended 31 December 2007 and 31 December 2006 are equal to the basic (loss) earnings per shares as the exercise price of the share options granted by the Company was higher than the average market price for shares for both years.

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 specified percentages 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 2007, the aggregate amount of employer's contribution made by the Group was £69,000 *(2006 £39,000)*

9. ASSETS HELD FOR SALE

Assets held for sale represent properties received from customers 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

For the year ended 31 December 2007

10. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress £'000	Leasehold improvements £'000	Plant and machinery £'000	Motor vehicles £'	Furniture, fittings and equipment £'000	Total £'000
The Group						
Cost						
At 1 January 2006	-	-	86	203	25	314
Reallocation	-	-	(2)	-	2	-
Addition during the year	20	-	34	76	8	138
Exchange rate movement	(1)	-	(8)	(20)	(2)	(31)
At 1 January 2007	19	-	110	259	33	421
Reallocation	(53)	17	36	-	-	-
Addition during the year	48	34	191	-	16	289
Exchange rate movement	1	2	11	12	-	26
At 31 December 2007	**15**	**53**	**348**	**271**	**49**	**736**
Accumulated depreciation						
At 1 January 2006	-	-	27	18	8	53
Reallocation	-	-	(1)	-	1	-
Charge for the year	-	-	9	30	5	44
Exchange rate movement	-	-	(2)	(3)	(1)	(6)
At 1 January 2007	-	-	33	45	13	91
Charge for the year	-	-	15	33	6	54
Exchange rate movement	-	-	2	3	1	6
At 31 December 2007	**-**	**-**	**50**	**81**	**20**	**151**
Net book value						
At 31 December 2007	**15**	**53**	**298**	**190**	**29**	**585**
At 31 December 2006	19	-	77	214	20	330
At 31 December 2005	-	-	59	185	17	261

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation of £39,000 (*2006 £31,000*) is included in administrative expenses and £15,000 (*2006 £13,000*) is included in selling and distribution costs in the Income Statement

11. INTANGIBLE ASSETS

	The Group	
	2007	2006
	£'000	*£'000*
At 1 January	**46**	-
Transfer from deposits	**-**	62
Amortisation	**(20)**	(14)
Exchange rate movement	**1**	(2)
At 31 December	**27**	46

In 2005, the Company acquired technology know-how for the manufacture of placing booms and improving the manufacture of concrete pumps at cost of £21,000 and £41,000, respectively The cost of the technology know-how for placing booms and concrete pumps are amortised on straight-line basis over the expected useful life of 3 years

12. RESTRICTED BANK BALANCES

	The Group	
	2007	2006
	£'000	*£'000*
Current	**154**	265
Non-current	**-**	78
	154	343

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

13. INTERESTS IN SUBSIDIARIES

	The Company	
	2007	2006
	£'000	£'000
Unlisted shares, at cost	**50**	50

Details of the Company's subsidiaries are as follows

Name of company	Place of incorporation and operation	Issued and fully paid share capital/paid-up registered capital	Proportion of ownership interest/ voting power	Principal activities
Jarlway International Limited	Hong Kong	HK$10,000 ordinary shares	100%	Investment holding
Jarlway Machinery Inc	The People's Republic of China	US$2,000,000 registered capital	100%	Developing, manufacturing and selling of large scale construction machineries
Jarlway Xinxin Machinery Inc.	The People's Republic of China	RMB20,000,000 registered capital	100%	Developing, manufacturing and selling large scale construction machineries
Jarlway Lishitong Machinery Inc	The People's Republic of China	RMB5,000,000 registered capital, RMB1,535,400 issued and fully paid	70%	Developing, manufacturing and selling large scale construction machineries

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 Jarlway Lishitong Machinery Inc is a Sino Joint Venture established in the People's Republic of China in March 2007

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	The Group	
	2007	2006
	£'000	*£'000*
Investment in unit trusts, at fair value	**5**	5

The fair value of these securities is based on quoted market prices at 31 December 2007.

15. INVENTORIES

	The Group	
	2007	2006
	£'000	*£'000*
Raw materials	**1,304**	629
Work in progress	**301**	-
Finished goods	**932**	849
	2,537	1,478

16. TRADE AND OTHER RECEIVABLES

	The Group	
	2007	2006
	£'000	*£'000*
Trade receivables		
From third parties	**3,141**	3,746
Less Non-current portion	**-**	(11)
Current portion	**3,141**	3,735
Deposits	**8**	-
Prepayment	**316**	262
Other taxes recoverable	**293**	134
Other receivables	**813**	539
	4,571	4,670

Trade receivables (net of provision for impairment loss of doubtful receivables) at 31 December 2007 amounted to £3,141,000 *(2006 £3,735,000)*

The Group's credit policy is as detailed in note 25 Due to the unhealthy domestic construction market in the People's Republic of China, there were considerable balances of outstanding trade receivables carried forward at 31 December 2005 After a review of the recoverability of individual trade receivables, an impairment loss of £1,410,000 *(2006 £230,000)* was recognised in the year The movement in provision for doubtful trade receivables during the year, including both specific and collective loss components, is as follows

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

	The Group	
	2007	2006
	£'000	*£'000*
At 1 January	**687**	543
Impairment loss recognised	**1,410**	230
Amount written off as uncollectible	**-**	(48)
Write-back of previously recognised impairment loss	**(324)**	-
Exchange differences	**47**	(38)
	1,820	687

The Group provides in full for trade receivables where no settlement has been received for more than a year because historical experience is such that trade receivables with no settlement after more than a year are generally not recoverable As market conditions deteriorated and an increased value trade receivables became uncollectible, an impairment loss of £1,410,000 was required

Included in the Group's trade receivables are receivables with a carrying value of £555,000 *(2006 £1,051,000)* which are past due at the reporting date for which the Group has not made provision as there has not been a significant change in credit quality and the amounts are still considered recoverable The Group does not hold any collateral over these balances

	The Group	
	2007	2006
	£'000	*£'000*
Over 1 year but less than 2 years	**451**	292
Over 2 years	**104**	759
	555	1,051

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was granted up to the reporting date The concentration of credit risk is limited due to the customer base being large and unrelated Accordingly, the directors believe that there is no further credit provision required in excess of the provision for doubtful debts

Included in the provision for doubtful debts are individually impaired trade receivable with balances of £1,590,000 *(2006 £697,000)* There was no settlement of these receivables over a period of one year and the Group has decided to make a full provision accordingly The aging of these impaired trade receivables is as follows

	The Group	
	2007	2006
	£'000	*£'000*
Over 1 year but less than 2 years	**343**	44
Over 2 years	**1,247**	653
	1,590	697

17. DUE TO / FROM SUBSIDIARIES

The amount due to / from subsidiaries is unsecured, interest-free and has no fixed repayment terms The carrying amount is stated at fair value

18. LONG-TERM BANK BORROWINGS

	The Group	
	2007	2006
	£'000	*£'000*
The long-term bank borrowings are repayable		
- within one year and classified under current liabilities	**366**	100
- over one year and classified under non-current liabilities	**183**	11
	549	111

The long-term bank borrowings are secured by a third party corporate guarantee and personal guarantee by a director of the Company *(Note 28(e))* Interest on the long-term bank loan is calculated at 7 - 8% per annum

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	£'000	*£'000*	***£'000***	*£'000*
Trade payables				
To third parties	**1,476**	1,505	**-**	-
Other payables				
Accruals	**233**	163	**20**	6
Other taxes payable	**128**	64		
Other payables	**1,272**	965	**-**	-
	3,109	2,697	**20**	6

The average credit period on purchases of goods is 3 - 6 months No interest is charged on the trade payable for settlement after due date

Included in other payables of the Group is an amount due to a director of £442,000 *(2006 £441,000)* The amount due is unsecured, interest bearing at 10% per annum *(2006 6%)* and has no fixed terms of repayment

The fair value of trade and other payables approximates their carrying value

20. DEFERRED TAXATION

Recognised deferred tax assets

	The Group	
	2007	2006
	£'000	*£'000*
Reversal of deferred assets	**(66)**	-
Exchange rate movement	**3**	(7)
Other short-term temporary differences	**63**	70
Net recognised deferred tax assets	**-**	63

The Company

At the balance sheet date, the Company had no unprovided deferred taxation

21. ISSUED CAPITAL

	2007		2006	
	Number of shares	**Amount**	Number of shares	Amount
		£'000		*£'000*
Authorised:				
At 1 January and **31 December**	**50,000,000**	**125**	50,000,000	125
Issued and fully paid:				
At 1 January and **31 December**	**24,413,333**	**61**	24,413,333	61

Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk and by securing access to financing at a reasonable cost

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages securely afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

21. ISSUED CAPITAL (CONTINUED)

The Group's strategy is to maintain capital at a higher proportion of at least double to its financing by reference to its debt-to-equity ratio In order to maintain or adjust the ratio, the Group found it difficult to raise equity financing for the new business operation in the year of 2007 Without any better alternatives, the Group thus raised its funding by increasing the short-term bank loans as transitional measures The Group will make every effort to reduce the debt-to-equity ratio to the optimum level

The debt-to-equity ratio of the Group at 31 December 2007 was as follows

	2007	2006
	£'000	*£'000*
Short-term bank borrowings	**1,765**	519
Long-term bank borrowings	**549**	111
Due to a director	**442**	441
Total financing	**2,756**	1,071
Shareholders' equity	**3,183**	4,124
Debt-to-equity ratio	**87%**	26%

22. EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS

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 option scheme 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

No options were granted in 2006 and 2007 and the weighted average value per option granted in 2005 by the Company was £0 16, estimated as at the date of grant based on 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.

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

	Number of options granted on 12 July 2005	Value of options at grant date *£000*
Options granted to Directors	122,067	20
Option granted to employees other than Directors	219,720	35
	341,787	55

Notes
The Group has recognised these share options in the income statement with a corresponding increase in employee share-based compensation reserve in equity

22. EMPLOYEE SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Employee share-based payments recognised under IFRS 2	**2007** ***£'000***	2006 *£'000*
In respect of non-performance based options granted to directors	5	5
In respect of options granted to employees other than directors	9	9
	14	14

(b) The following share options were outstanding at 31 December 2007 under the share option scheme:

Name of participant	**Date of grant**	**Share options granted during the year and outstanding as at 31 December 2007** **At 1 January 2007**	**Granted during the year**	**Lapsed during the year**	**At 31 December 2007**	**Exercise period of share options**	**Exercise price of share options** **£**
Directors							
Xu Jia Jin	12 July 2005	122,067	-	(122,067)	-	12 July 2008 to 11 July 2015	0 30
Other employees							
In aggregate	12 July 2005	219,720	-	-	219,720	12 July 2008 to 11 July 2015	0 30
		341,787	-	(122,067)	219,720		

The weighted average remaining contractual life for the share options outstanding at the balance sheet date was 8 years

23. PROVISIONS

	The Group 2007 £'000	The Group 2006 £'000
Provision for warranties		
At 1 January	**66**	80
Provision made in the year	**45**	73
Provision used during the year	**(47)**	(87)
Exchange differences	**2**	-
At 31 December	**66**	66

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

The Group	Share option reserve £'000	Share premium £'000	Merger reserve (Note 1) £'000	Exchange reserve £'000	Retained profits (Note 2) £'000	Total £'000
At 1 January 2006	6	228	(49)	337	3,240	3,762
Exchange reserve arising on translation of financial statements of overseas subsidiaries	-	-	-	(345)	-	(345)
Profit for the year	-	-	-	-	632	632
Employee share option benefit	14	-	-	-		14
At 31 December 2006	20	228	(49)	(8)	3,872	4,063
Exchange reserve arising on translation of financial statements of overseas subsidiaries	-	-	-	159	-	159
Loss for the year	-	-	-	-	(1,135)	(1,135)
Employee share option benefit	14	-	-	-	-	14
At 31 December 2007	**34**	**228**	**(49)**	**151**	**2,737**	**3,101**

24. RESERVES (CONTINUED)

	Share option reserve £'000	Share premium £'000	Accumulated losses (Note 2) £'000	Total £'000
The Company				
At 1 January 2006	6	228	(53)	181
Loss for the year	-	-	(132)	(132)
Employee share option benefit	14	-	-	14
At 31 December 2006	20	228	(185)	63
Loss for the year	-	-	(115)	(115)
Employee share option benefit	14	-	-	14
At 31 December 2007	**34**	**228**	**(300)**	**(38)**

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 include
   a an amount of approximately £138,000 *(2006 £138,000)* reserved by the subsidiary in the PRC in accordance with the relevant PRC regulations This reserve is only distributable in the event of liquidation of this PRC subsidiary
   b an amount of approximately £1,751,400 *(2006 £2,108,000)* was capitalised as additional paid-up registered capital of the subsidiaries of the Company in the PRC as approved by the PRC government This amount is only distributable in the event of liquidation of these PRC subsidiaries

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management is integral to the whole business of the Group The Group 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 Group management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. This section provides details of the Group'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 Other financial assets of the Company with exposure to credit risk include cash and deposits that are placed with financial institutions which are regulated.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)
In order to minimise credit risk, the Group has implemented a tighter credit policy since 1 January 2008. Credit history and background of new customers are checked and deposits of 10 percent of sales value are required before goods are delivered for domestic sales Credit limits with credit terms of 30 days to 90 days are set for customers and designated staff monitors accounts receivable and follow-up collection with customers. For overseas sales, all settlements are through letter of credit

The Group reviews regularly the recoverable amount of each individual receivable and adequate provision is made for balance determined to be unrecoverable

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis

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

Liquidity risk
The management monitors the Group's liquidity risk and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and to mitigate the effects of fluctuations in its cash flows The Group has started obtaining banking financing to maintain its liquidity The management monitors the utilisation of borrowings and ensures compliance with loan covenants

As at 31 December 2007 and 31 December 2006, the remaining contractual maturities of the Group's and the Company's financial liabilities, based on undiscounted cash flows, are summarised below

The Group	Carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000
As at 31 December 2007					
Trade payables	1,476	1,476	-	-	-
Other liabilities	1,191	1,191	-	-	-
Amount due to a director	442	442	-	-	-
Short-term bank borrowings	1,765	1,765	-	-	-
Long-term bank borrowings	549	366	183	-	-
	5,423	5,240	183	-	-

	Carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000
As at 31 December 2006					
Trade payables	1,505	1,505	-	-	-
Other liabilities	751	751			
Amount due to a director	441	441	-	-	-
Short-term bank borrowings	519	519	-	-	-
Long-term bank borrowings	111	11	100	-	-
	3,327	3,227	100	-	-

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

The Company	Carrying amount £'000	Within 1 year or on demand £'000	More than 1 year but less than 2 years £'000	More than 2 years but less than 5 years £'000	More than 5 years £'000
As at 31 December 2007					
Other liabilities	20	20	-	-	-
Due to subsidiaries	12	12	-	-	-
	32	32	-	-	-

	Carrying amount £'000	Within 1 year or on demand £'000	More than 1 year but less than 2 years £'000	More than 2 years but less than 5 years £'000	More than 5 years £'000
As at 31 December 2006					
Other liabilities	6	6	-	-	-

Foreign Currency risk

The Group's business is principally conducted in Chinese Renminbi ("RMB") with overseas sales denominated in US Dollars and some overseas expenses in UK Pounds Sterling and Hong Kong Dollar Accordingly, the Group is exposed to foreign currency risk with respect to primarily US Dollar, UK Pounds Sterling and the Hong Kong Dollar Foreign exchange risk mainly arises from recognised assets and liabilities and net investment denominated in those currencies The appreciating RMB is favourable to the Group in managing foreign currency risk On the other hand, as the Group had started its overseas sales which are expected to increase in the future, the strengthening RMB will have a negative impact on the Group in the future The management is considering all possible measures to minimise foreign currency risk in relation to overseas sales in the future

The Group did not use any forward contracts or currency borrowings to hedge its exposure to foreign currency risk

As at 31 December 2007, had the RMB weakened/strengthened by 5 percent against all foreign currencies with all other variables held constant, post-tax loss of the year would have been £117,000 *(2006 £40,000)* lower/higher, mainly as a result of foreign exchange loss/gain on translation of its assets and liabilities mainly denominated in RMB into Pounds Sterling

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank borrowing and borrowing from a director

Funds not required by the Group in the short-term are kept as temporary demand or time deposits in commercial banks and the Group does not hold any market risk-sensitive instruments for speculative purposes

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk (Continued)

Assuming the cash and cash equivalents, restricted bank balances, bank borrowings and amount due to a director as outstanding at 31 December 2007 were outstanding for the whole year, a 50 basis point increase or decrease would increase or decrease the loss after tax of the Group for the year by approximately £1,000 *(2006 would decrease or increase profit by approximately £Nil)* The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date The analysis is performed on the same basis for 2006.

Summary of financial instruments by category

The carrying amounts of the Group's and the Company's financial assets and liabilities are categorised as follows

The Group	**2007**		2006	
	Loans and receivables	**Fair value through profit or loss**	Loans and receivables	Fair value through profit or loss
	£'000	***£'000***	*£'000*	*£'000*
Financial assets				
Trade receivables	**3,141**	-	3,735	-
Deposits	**8**	-	-	-
Other receivables	**813**	-	539	-
Financial assets at fair value through profit or loss	-	**5**	-	5
Cash and cash equivalents	**115**	-	374	-
Restricted bank balances	**154**	-	265	-
	4,231	**5**	4,913	5

The Company	**2007**		2006	
	Loans and receivables	**Fair value through profit or loss**	Loans and receivables	Fair value through profit or loss
	£'000	***£'000***	*£'000*	*£'000*
Financial assets				
Cash and cash equivalents	**5**	-	3	-
Due from subsidiaries	-	-	77	-
	5	-	80	-

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Summary of financial instruments by category (Continued)

The Group	**2007**		2006	
	Financial liabilities at amortised cost	**Other financial liabilities**	Financial liabilities at amortised cost	Other financial liabilities
	£'000	***£'000***	*£'000*	*£'000*
Financial liabilities				
Trade payables	**1,476**	**-**	1,505	-
Other payables	**958**	**-**	588	-
Short term bank borrowings	**-**	**1,765**	-	519
Long term bank borrowings	**-**	**549**	-	111
Amount due to a director	**442**	**-**	441	-
	2,876	**2,314**	2,534	630

The Company	**2007**		**2006**	
	Financial liabilities at amortised cost	**Other financial liabilities**	Financial liabilities at amortised cost	Other financial liabilities
	£'000	***£'000***	*£'000*	*£'000*
Financial liabilities				
Due to subsidiaries	**12**	**-**	-	-

26. COMMITMENTS

Capital commitments

The Group formed a subsidiary, Jarlway-Lishitong Machinery Inc ("Jarlway-Lishitong"), with with Guangdong Lishitong Machinery Co Ltd , a predominantly state-owned Chinese manufacturer of engineering machinery during the year (see note 13) According to the formation document, the registered capital of Jarlway-Lishitong is RMB5 million (approximately £330,000) and the Group is required to contribute RMB3 5 million (approximately £231,000) in return for a 70% interest Up to the balance sheet date, the amount contracted but not yet injected by the Group amounted to RMB2 4 million (approximately £158,000) The amount has been paid up subsequently in May 2008

Commitments under operating leases

The Group leases a number of properties under operating leases, which typically run for an initial period of 1 – 5 years, with an option to renew the lease when all terms are renegotiated None of the lease includes contingent rentals

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

	2007 £'000	2006 £'000
Within 1 year	115	83
2 to 5 years	222	284
	337	367

27. CONTINGENT LIABILITIES

Financial guarantee issued

At the balance sheet date, the company have issued guarantee in respect of loans made by finance companies to a subsidiary of the company with amounting to RMB20,000,000.

28. RELATED PARTY TRANSACTIONS

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

(a) The directors of the Company are the only key management personnel of the Group and compensation to the directors of the Company for the year are as follows

	2007	2006
	£'000	*£'000*
Directors' fees	**37**	47
Salaries and other benefits	**48**	32
Employee share-based payments	**5**	5
	90	84

(b) During the year, the Company accrued interest expense of £35,000 *(2006 £30,000)* to a director, Ng Chi Chor, in respect of the amount due to him At 31 December 2007, £442,000 *(2006 £441,000)* was due to this director The details of the terms of the amount due are set out in Note 19

(c) During the year, the Group had incurred a retainer fee of £2,400 *(2006 £15,000)* in favour of Steeds & Co , of which David Steeds, a director of the Group until his resignation on 19 February 2007, is a partner of the Company.

(d) During the year, the Group had incurred a retainer fee of £6,500 *(2006 Nil)* in favour of a company of which Stephen Chun Hong Wong, a director of the Group, is a partner of the Company

(e) The Group's short-term and long-term borrowings which bear interest rates ranging from 7 02% to 8 3835% per annum are secured by a third party corporate guarantee of approximately £1,921,000 *(2006 £985,000)* and third party and directors' guarantee of approximately £988,000 *(2006 Nil)*

(f) During the year, the Company accrued service charge of £4,000 *(2006 £4,000)* and expenses of £60,000 *(2006 £137,000)* to its subsidiaries At 31 December 2007, amount due to subsidiaries amounted to £12,000 *(2006 amount due from subsidiaries £77,000).*

29. POST BALANCE SHEET EVENT

Included in assets held for sale are properties with a carrying value of £67,486 situated in Sichuan Province of China, which was hit by an earthquake in May 2008 Although the Group's properties were not directly affected by the earthquake, the management consider that the earthquake may have a negative impact on the local property market However, up to the date of this report, there was insufficient information for management to estimate any possible decline in value of the properties held The Group will keep track of market conditions and recognise a provision if necessary