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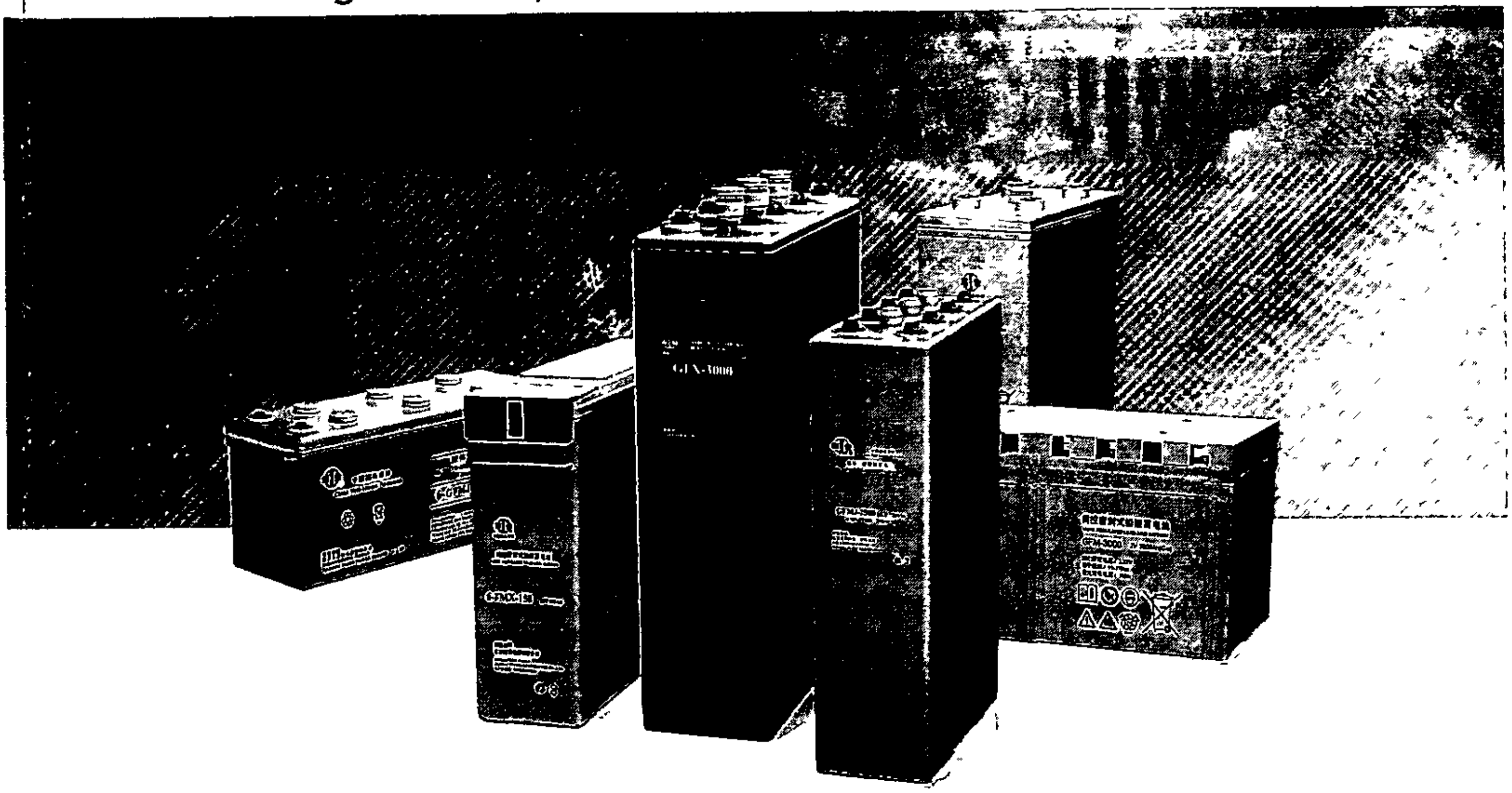
a leading Chinese producer of lead acid batteries



china shoto plc

2006 Annual Report

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Presenter -
REED SMITH
RICHARDS BUTLER LLP
BEAUFORT HOUSE
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LONDON EC3A 7EE
SOLICITORS
Ref: smy/763405 01

china shoto plc
2006 Annual Report

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Ref: SMG/763405.01

bringing benefits to our earth

China Shoto

a green energy solution provider

contents

Directors, Secretary and Advisers

Directors
Cao Guifa (Chairman)
Yang Shanji (Chief Executive)
Zhou Yuezhang (Finance Director)
Zhu Shiping (Executive Director)
Wang Zhaobin (Executive Director)
Bernard Asher (Non-executive Director)
Li Shuang (Non-executive Director)
David Thomas (Non-executive Director)

Company Secretary
David Thomas

Registered Office
Beaufort House
15 St Botolph Street
London EC3A 7EE

Registered Number
05448599

Auditors
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West Sussex
RH6 0PA

Nominated Adviser and Broker
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Bucklersbury House
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London EC4N 8EL

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Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors
Reed Smith Richards Butler LLP
Beaufort House
15 St Botolph Street
London EC3A 7EE

Highlights

- Revenue increased by 134% to £66 45 million (2005 £28 41 million)
- Net profit increased by 29% to £4 0 million (2005 £3 11 million)
- Sales revenues of new power type battery business in 2006 represent 30% of total revenues
- Acquired 59% controlling stake in Yangzhou Zhenghe Company in March 2006
- Acquired additional 21% stake in Beijing Full Three Dimension Power Engineering Co, Ltd ("FTD") to take a controlling position of 51%
- Debtor days fell from 121 days in 2005 to 75 days in 2006
- Second fund-raising, raising £5 0million, with new shares admitted to trading on 12 June 2006
- An interim dividend for 2006 of 1 5 pence per share (2005 nil)
- A final dividend for 2006 of 3 pence per share (2005 nil)

Company Overview

Business

China Shoto is a leading Chinese producer of lead acid batteries Revenue increased by 134% to £66 45 million (2005 £28 41million) The sales revenue of the back up battery business in 2006 was £39 22 million, an increase of 38% compared with £28 41million in 2005 With its strategy, the Company extended its market penetration in the power type battery ('PTB') business and further developed its market in turbine technology in 2006, the revenues of which are £20 33 million and £6 91 million respectively The Company acquired a 59% stake in Yangzhou Zhenghe Company ("Yangzhou Zhenghe")

Objectives

China Shoto intends to become

- The largest lead acid battery producer in Asia
- A recognised environmentally friendly energy solution provider

Batteries

Product Portfolio

- AGM VRLA battery
- GEL VRLA battery
- Flooded Lead Acid Battery
- Power Type VRLA Battery ("PTB")

Manufacturing

- Factories are well located 2 hours by highway from Shanghai giving access to convenient transportation networks
- Substantial modern manufacturing facilities, the annual production capacity of power type battery production lines is 648,000 KVAh (0 12 KVAh is equivalent to one PTB battery), and the annual production capacity of back up battery production lines is 1,385,000 KVAh (1 0 KVAh is equivalent to one back up battery)
- Products are manufactured to international standards, export licenses and international certificates obtained to allow for overseas sales

Research and development

Our R&D center in Nanjing has programs for new products and updating the technology of existing products etc

Main clients

Sales and Marketing

Market sectors Served

Telecommunications, power generation and transmission, electric bicycle, railway and shipping, solar and wind energy storage

Key customers

Back up battery business China Mobile, China Unicom, China Netcom, China Telecom, China Tietong

PTB business Beijing Xinri Electric Vehicle Co , Ltd ("Beijing Xinri"), Tianjin Taimei Electric Vehicle Co , Ltd ("Tianjin Taimei"), Tianjin Taifeng Xiaoniao Electric Vehicle Co , Ltd ("Tianjin Taifeng")

Sales and service network

Sales offices have been increased from 30 in 2005 to 80 in 2006

Turbine business

Services

We are involved in both the reconstruction of old turbines under 200MW, and the design and development of a new generation 150MW turbine

Key customers

Turbine business Minjiang Thermal Power Generation Co , Ltd , Panzhihua Three Dimension Power Generation Co , Ltd , Yibin Power Generation Co , Ltd

Research and Development

- The design of steam control valve of CC150-8 83/(4 2)/1 27 type turbine has been accomplished with FTD technology
- 30 R&D staff are employed, and our R&D is supported by the China Academy of Sciences

Chairman's Statement

Our strategy is to focus on grown segments in our core markets by positioning china Shoto as a leading Chinese producer of lead acid batteries. We are taking and shall continue to take advantage of the favourable opportunities in our strongly growing markets.

Placing
2006 has been another successful year for China Shoto The Group raised £5 0 million before expenses in a secondary placing of new shares which were admitted to trading on AIM on 12 June 2006 The proceeds of the placing have been mainly used to increase AGM battery production capacity to provide working capital for the Group, to extend the current AGM product portfolio through an investment in Yangzhou Zhenghe and to purchase the power type battery production line of Jiangsu Electrical Appliance and Cable Co Ltd ("Cable Co ")

Results and Dividend
Revenue increased by 134% to £66 45 million in 2006 (2005 £28 41 million) Operating profit increased by 30% to £5 79 million (2005 £4 42 million)

Basic earnings per share in 2006 are 18 30 pence (2005 19 80 pence) which was affected by the significant increase in raw material prices during the year An interim dividend in relation to 2006 of 1 5 pence per share was paid in November 2006 The Directors recommend the payment of a final dividend for 2006 of 3 pence per share

Business Progress
The sales revenue of the back up battery business in 2006 was £39 22 million, an increase of 38% compared with £28 41million in 2005 Sales to five major telecommunication service providers constitute 74% of total back up battery business revenues

The power type battery ("PTB") business was newly added in 2006, and will become an important business sector for the Group in the future Best Co constructed a new production facility of 28 000 sq metres in less than nine months with £3 25 million of the funds raised during 2006 The Group also purchased the PTB production line from Cable Co The aggregate PTB revenue for the year is 30% of the total revenues of the Group According to market forecasts the PTB business will be the main growth highlight for the Group in 2007

In the turbine business, the Company acquired an additional 21% stake to take its controlling position in Beijing Full Three Dimension Power Engineering Co Ltd ("FTD") to 51% in 2006 For the year ended 31 December 2006, FTD's revenue and net profit were £6 91 million and £0 51 million respectively The revenue is 10% of the total revenues of the Group

Global telecommunications expansion and Chinese 3G network construction both offer considerable opportunities China Shoto is confident of the quality and competitiveness of its products which have already successfully challenged foreign suppliers in the Chinese domestic market Furthermore, the Group continues to establish an international distribution network

Social Responsibilities
The Company is committed to the welfare of its employees and its social and community responsibilities We are dedicated to offering our customers quality products and excellent services China Shoto will continue to strive towards best practice standards consistent with profitability and at the same time will seek to deliver attractive shareholder returns The Company offers employees career development opportunities and is supportive of their family life and goals outside work

Environmental Standards
The Group passed the certification of ISO14001 and GB/T18001 vocation health and safety management system In June 2006, the battery products passed the EU RoHS test

Outlook
We believe that our expanded and improved range of products and sharply increasing output underpin the prospects for a successful 2007, and that the Group will continue to deliver impressive results and create significant long term value for shareholders

We believe that, building on the strong foundations that have been established, the Group is well positioned to achieve further substantial growth We look forward to the future with confidence and enthusiasm

Cao Guifa

Chairman

10 May 2007

Chief Executive's Review

I am delighted to report China Shoto's results for 2006. In June 2006 we raised £5.0 million (before expenses) in a secondary placing, and the new shares were admitted to trading on AIM on 12 June 2006. These funds enabled China Shoto to undertake a significant expansion of its production facilities and laid a strong foundation for the performance growth in 2006.

Market Overview

Market Sectors

The revenue from back up battery sales was £39 22 million in 2006, an increase of 38% compared with £28 41 million in 2005

The revenue from the newly added PTB business was £20 33 million in 2006, representing 30% of the total Group revenue

The revenue from the turbine business in 2006 was £6 91 million, representing 10% of the total Group revenue

The Group continues to supply start-up batteries to the locomotive industry, and back-up batteries for both the power plant and broadcasting markets

International

The export refund policy has been cancelled by the Chinese government impacting the overseas revenues in 2006 As a result, export sales only rose by 5% in 2006 China Shoto's main export products are gel and flooded batteries

Gel and flooded batteries

More than 80% of the total exports of gel and flooded batteries are distributed to the European, American and Russian markets Marketing and sales breakthroughs have also been made in South-East Asia and South America

AGM Batteries

The 12V front-access battery which is used in the telecommunications and power industries is exported to Russia and Italy

Key Customers

Back up batteries

China Mobile, China Unicom, China Netcom, China Telecom and China Tietong continued to be the key customers of the Group in 2006 Sales to these five major telecommunication service providers amounted to 74% of total back up battery business revenues, amongst which sales to China Mobile have increased by 97%

PTB Business

The key customers of the PTB business are Beijing Xinri, Tianjin Taimei and Tianjin Taifeng The total PTB supply to the three key customers was £7 61 million, which is more than 50% of their purchases and accounts for 39% of the Group's total PTB sales

Turbine Business

The key customers of the turbine business are Minjiang Thermal Power Generation Co , Ltd , Panzhihua Three Dimension Power Generation Co , Ltd , and Yibin Power Generation Co , Ltd

Sales and marketing

Back up battery

The sales network has been improved further, seven new sales offices have been set up in 2006

PTB business

In 2006, the Group further developed the strategy of expanding PTB production and sales This included setting up sales and service networks in Tianjin, Zhejiang and Jiangsu provinces, key areas for the manufacture of electric bicycles So far to date, 43 sales offices have been set up, and 138 sales staffs have been employed

Technical exchange, training and seminars

The Group has further strengthened its reputation as a leading brand in China, by participating in industry seminars and by providing technical training to our customers The Group attended the 2006 Hanover Information and Telecommunication Technology Fair (CeBIT 2006) in March 2006, and the Singapore Telecommunication Exhibition in June 2006

Operating Overview

Battery Products

Quality Control

China Shoto manufactures batteries according to IEC and German DIN standards, and ensures the highest quality control using advanced manufacturing equipment and production procedures All of the 2V and 12V series of batteries have been recognised as "State-designated Product Exempt from Quality Inspection" by the General Administration of Quality Supervision Inspection and Quarantine of P R China

Manufacturing

The product quality has been effectively guaranteed through strict monitoring in the manufacturing process and detailed checks Production capacity has also increased through the installation of new equipment and the recruitment of additional labour

Logistics management

The transportation costs have decreased by 12% per KVAh through obtaining timely transportation information, reducing one way transportation and focused tendering based on specific areas or major projects

Research and development

Patents Granted

The Company now holds over 90 patents Fourteen patents were granted in 2006, among which there are four invention patents

Back up battery

High Power AGM Battery

In order to meet some particular requirements for high power batteries, the GFM (G) series of AGM batteries with high power performance has been developed At the same time, four new specifications of 12V/80Ah, 12V/85Ah, 12V/100Ah and 12V/165Ah front access batteries have been developed to meet international market requirements

Energy storage battery particularly used for photovoltaic systems
GFMJ series, GFX (2V) series and 6-GFMJ (12V) series energy storage batteries particularly used for photovoltaic systems have been developed according to BS EN61427-2002 Standard, these batteries can meet the long-term cycle requirement of photovoltaic solar storage systems

Spiral Wound Battery
11 types of 2V, 6V and 12V series were developed in 2006

Power type batteries
Several new models of 12V14Ah, 12V20Ah and 16V18Ah PTB have been successfully developed, the performances of which have been significantly improved with the application of nanometre additives

Beijing Full Three Dimension Co , Ltd (FTD)
As announced during 2006, the Group now has a controlling stake in FTD after increasing its shareholding from 30% to 51% in January 2006 Sales generated by FTD were £6 91 million and net profit was £0 51 million in 2006 This revenue is 10% of the total Group revenue

FTD has continued the successful introduction of its 150MW turbine Four have been installed and are now in operation In 2006, three new orders were taken, one for the 150MW turbine design and two for refurbishment of three turbines

The design of a steam control valve for the CC150-8 83/(4 2)/1 27 type turbine has been accomplished with FTD technology

Acquisition
The Group acquired Yangzhou Zhenghe in 2006 This company mainly produces AGM batteries and has a production capacity of 25 000 KVAh of batteries (1 0 KVAh is equivalent to one back up battery) The cost of the acquistion was £216,000

Acquisition of Facilities
The Group purchased the PTB production line from Cable Co in 2006

Prospects
China Shoto has established a strong reputation as a provider of high quality products and services in its markets The Group has clearly demonstrated its ability to grow in the domestic market The Company views the future with optimism

Yang Shanji
Chief Executive
10 May 2007

Finance Director's Review

Results

The sales revenues of the Group have increased by 134% to £66 45 million (2005 £28 41 million)

The operating profit of the Group is £5 79 million, an increase of 30% (2005 £4 42 million)

The pre-tax profit of the Group is £5 06 million, an increase of 40% (2005 £3 63 million)

The net profit of the Group attributable to equity holders of the parent is £4 0 million, an increase of 29% (2005. £3.11 million)

Taxation

China Shoto's subsidiaries were subject to different tax treatments in 2006 based on the enterprise, technology and location rules Set out below are the applicable treatments and the major changes anticipated in the next few years

Shuangdeng Group Co , Limited

Incorporated as a foreign enterprise on 10 May 2005, the company has been entitled to exemptions from PRC income tax for the last two years (2005 to 2006) and 50% relief for another three years thereafter (2007 to 2009)

Shuangdeng Power Supply

The company is recognised as a 'Technology and Knowledge Concentrated Enterprise' and has been and continues to be entitled to a 15% PRC income tax rate

Fustc Power Supply

The company is located in an area designated as an Economic Development Coastal Region in accordance with PRC tax regulations and is entitled to an applicable tax rate of 24% As an industry enterprise with foreign capital invested, it is entitled to 50% income tax relief from 2006 to 2008

Best Power Supply

The company is located in an area designated as an Economic Development Coastal Region In accordance with PRC tax regulations the company is entitled to an applicable tax rate of 24% As a production enterprise in accordance with the PRC tax legislation applicable to foreign investment enterprises the company is also entitled to exemptions from PRC income tax for the two years commencing from 2006, being its first profit-making year of operation, and for three years thereafter it is entitled to a 50% relief from PRC income tax

Nanjing R&D

In 2005 the Nanjing operations were reregistered as both a foreign investment enterprise and an industry enterprise located in a development zone in accordance with PRC income tax legislation It is therefore entitled to exemptions from PRC income tax for two years commencing from its first profit-making year of operation and 50% relief for another three years thereafter The applicable tax rate is 24%

FTD

Beijing FTD is a foreign invested enterprise located in Zhongguancun High-New Tech Ind Zone Haidian District Beijing City Its enterprise income tax rate has been 15% since 2004

Yangzhou Zhenghe Power Supply

Yangzhou Zhenghe is a production type foreign invested enterprise located in Xiaoji Town Jiangdu City which has been entitled to exemptions from PRC income tax for the first two years and 50% relief for another three years thereafter from the first profit making year Its applicable tax rate is 24%

Earnings and Dividends

Basic earnings per share in 2006 are 18 30 pence (2005 19 80 pence), which was affected by the significant increase in raw material prices during the year An interim dividend of 1 5 pence per share was paid in November 2006 (2005 nil) The Directors recommend the payment of a final dividend for 2006 of 3 pence per share (2005 nil)

Reorganisation

During the year the operations of a subsidiary, Jiangsu Longyuan Shuangdeng Power Supply Co , Ltd were amalgamated into another subsidiary, Jiangsu Shuangdeng Power Supply Co , Ltd and Jiangsu Longyuan Shuangdeng Power Supply Co Ltd has subsequently been wound up

Acquisition

The Company acquired Yangzhou Zhenghe in 2006 for £216,000 Yangzhou Zhenghe mainly produces AGM batteries and has a production capacity of 25,000 KVAh of batteries (1 0 KVAh is equivalent to one back up battery)

Acquisition of Facilities

The Group purchased the PTB production line from Cable Co in 2006

Equity shareholders' funds

Shareholders' funds have increased to £23 44 million (2005 £16 06 million) The retained earnings were £6 77 million (2005 £3 84 million)

Cash Flow

The Group achieved good results in its cash flow from operating activities in 2006 Debt management has also been extremely effective in 2006 Interest paid was £822,000 (2005 £864,000) and tax payments were £607,000 (2005 £496,000)

Debtor days

Debtor days fell from 121 days in 2005 to 75 days in 2006

In the back up battery business debtor days fell from 121 days in 2005 to 91 days in 2006

In the power type battery business, debtor days were 38 days in 2006

In the turbine business, debtor days were 152 days in 2006

Borrowing

The Group entered into short-term credit agreements with Jiangyan Branch of Bank of China Jiangyan Branch of China Construction Bank, Jiangyan Branch of Agricultural Bank of China and Nanjing Branch of Shenzhen Development Bank

At 31 December 2006, the Group had outstanding bank loans of £12 24 million (2005 £12 08 million)

Currency risks

The Group has limited exposure to currency risk Raw materials are purchased in Chinese Renminbi (RMB") and export sales are currently relatively small In developing an international market, the Group will need to take account of the negative effect of appreciation of the RMB

Interest rate risks

The interest rate risk is the fluctuation of interest rates both at the present time and in the future The interest rates payable under the Group's bank facilities are generally variable with the fluctuation of the Central Bank's base interest rate Changes in this rate have been modest For certain bank borrowing arrangements, the interest rate is fixed

Zhou Yuezhang
Finance Director
10 May 2007

Board of Directors

Cao Guifa

Executive Chairman (aged 53)

Cao Guifa became the chairman of the former holding company of what is now the China Shoto group in 2002 and he is a substantial shareholder in the Company From 1979 to 1993 he served as a research fellow and then doctoral supervisor in the Chinese Academy of Sciences ("CAS"), which is a leading Chinese academic institution and comprehensive research and development centre for science and technology Between 1988 and 1995 Mr Cao held several positions as a local consultant to the World Bank on development projects in China He has more than 10 years of investment banking experience gained at a subsidiary of CAS, where he was general manager

Zhou Yuezhang

Finance Director (aged 49)

From 1990 to 1995 Zhou Yuezhang was the deputy director of the Jiangyan Sealed Storage Battery Factory Mr Zhou is also one of the founders of the Company He joined JS Power as deputy general manager in 1995 when it was set up He has been the deputy general manager of the Shuangdeng Group since September 2002 when the Shuangdeng Group formally came into existence Mr Zhou has nearly 16 years of management experience in the storage battery industry Mr Zhou holds a masters degree

Yang Shanji

Chief Executive (aged 54)

Yang Shanji has a master's degree in administration, a title of senior economist and is the main founder and the largest shareholder in the Company He is one of the outstanding men in the China battery industry, and is the vice director of the China Battery Industry Association and China Industrial Association of Power Sources He has more than 26 years of senior enterprise management experience and has a strong reputation in the battery industry Mr Yang is regularly recognised for his work in the industry, receiving titles such as National Model Labor in Light Industry and Top Ten Outstanding Men in the China Telecommunications Power Supply Industry on several occasions

Zhu Shiping

Executive Director (aged 65)

Zhu Shiping is a graduate of Anhui University and has been a senior engineer since 1989 From 1963 to 1987, Mr Zhu worked in the fourteenth research institute of the government's former Electronic Department Having worked for Shenzhen Huada Power Supply Co , Ltd from 1987 to 1993, Mr Zhu became the chief engineer of the Jiangyan Sealed Storage Battery Factory He has served as deputy general manager of JS Power and Shuangdeng Group and as a director of Shuangdeng Group since September 2003 Mr Zhu is to retire at the Annual General Meeting and will not be seeking re-election to the Board

Wang Zhaobin

Executive Director (aged 44)

Wang Zhaobin is a graduate of Suzhou University He served as a civil servant from 1989 to 2003 In September 2003 Mr Wang joined the Group, and has been appointed as deputy general manager since March 2004 Mr Wang is to retire at the Annual General Meeting and will not be seeking re-election to the Board

Li Shuang

Non-executive Director (aged 63)

Li Shuang is a professor in the Central University of Finance and Economics Professor Li was appointed as the deputy secretary-general of the Chinese Institute of Certified Public Accountants (CICPA) from 1999 to 2002, and then an advisor to CICPA from 2002-2004 Now he is the director and member of Academic Committee of Accounting Society of China (ASC), and China Audit Society, and director of CICPA He is also an independent non-executive director of three companies listed in China

Bernard Asher

Non-executive Director (aged 71)

Bernard Asher, who resides in London, was an Executive Director of HSBC Holdings from 1986 to 1998 and Chairman of HSBC Investment Bank In 1998 Bernard became Non-executive Vice Chairman of Legal & General Group, Chairman of Lonrho Africa, and a Non-executive director of Morgan Sindall, IMH (formerly Seymour Pierce Group plc) and TIR Capital Protection Fund Mr Asher is the chairman of Liontrust, a UK based equity investment fund Currently, Mr Asher is a director of Debts U K. and Medicap

David Thomas

Non executive Director (aged 52)

Mr Thomas, who resides in London, has a degree in Law from Oxford University He is an English solicitor and has more than 20 years working experience in the fields of international enterprise financing, law, and quoted companies Between 1985 and 2000, he was a partner in several major law firms specialising in corporate finance and finance law Between 2000 and 2002 he was involved in the management of a London investment bank, and was also involved in the financing of enterprises whilst with the bank Mr Thomas is also an independent non-executive director of four other public companies whose shares are traded on AIM and whose businesses are based in China

Directors' Report

The Directors have pleasure in submitting the annual report and financial statements for the year ended 31 December 2006

Principal Activities and future developments

The principal activity of the Company is acting as a holding company Its subsidiaries mainly devote themselves to the design, development, manufacture and sale of back up or power type lead acid batteries, and the operation of turbine design and consultancy business

Business Review

The Group has performed satisfactorily during the year and the trading performance is in line with the directors' expectations The directors expect the Group's activity levels to be sustained through the foreseeable future

The Company newly entered into the PTB and turbine businesses in 2006, and acquired a 59% stake of Yangzhou Zhenghe

The profit and loss account is set out on page 21 and shows revenue for the year of £66 45 million and profit for the year attributable to equity holders of the parent of £4 0 million

Revenue has increased by 134% The directors believe that the revenue will continue to increase further in 2007, and are particularly satisfied with the PTB sales revenues Back up battery revenue was £39 22 million, which increased by 38% comparing with £28 41 million in 2005 Further details of revenue by product segment are given in note 31 to the accounts

During the year, the Company opened 43 new sales offices in the PTB business sector These new offices will give opportunities to expand the PTB business in 2007 and beyond

There have been no events since the balance sheet date which materially affect the position of the Company or the Group

Further details of the Group's operations and performance are disclosed in the Chairman's statement, the Chief Executive's review and the Finance Director's review on pages 4 to 11

Principal risks and uncertainties

Overseas sales are a small percentage of the Group's sales at present, and the major parts of the raw materials are sourced locally, therefore the currency exchange rate has little influence on the operating results of the Group

The Group credit risk is primarily attributable to its trade receivables Credit risk is managed by running credit checks on new customers and by monitoring payments against contractual agreements

The Group monitors cash flow as part of its day to day control procedures The Board considers cash flow projections on a monthly basis and ensures that appropriate facilities are available to be drawn upon as necessary

Proposed Dividend

An interim 2006 dividend of 1 5 pence per share was paid in November 2006 (2005 nil) The Directors recommend the payment of a final dividend for 2006 of 3 pence per share (2005 nil)

Substantial Shareholders

As at 25th April 2007 the Company has been notified of no beneficial interests, other than those of the directors, in 3% or more of the issued capital of the Company

Directors and Directors' Interests

The names of the current directors, along with their brief biographical details are given on page 12 and 13

The interests of the directors in the shares of the Company were as follows

	1 January 2006		31 December 2006	
Name	Number of Ordinary Shares	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Cao Guifa	1 107 693	7 2%	1,107,693	4 74%
Yang Shanji	10 984 614	71 4%	10,984,614	47 06%
Zhou Yuezhang	523 077	3 4%	523 077	2 24%
Zhu Shiping	523 077	3 4%	523 077	2 24%
Wang Zhaobin	-	-	-	-
David Thomas	-	-	-	-
Li Shuang	-	-	-	-
Bernard Asher	-	-	-	-

All directors' interests in shares are beneficially held There has been no change in the interests set out above since the balance sheet date to one month before the notice of AGM

Options over the Company's ordinary shares granted to directors are disclosed in the Remuneration Report on page 18

Directors' Retirement

Two directors, Mr Zhu and Mr Wang, are to retire from their positions on the Board by rotation in accordance with the Company's Articles of Association but will not be seeking re-election at the AGM They will be leaving the Board immediately after the AGM to pursue other duties The Board would like to thank each of Mr Zhu and Mr Wang for their contributions to the board whilst serving as directors

Employee policy

The motivation and commitment to our people is extremely important to the Group The Group's policy is that training, career development and promotion opportunities will be available to all employees Tsinghua Remote Education School has been opened, and the occupational career plan and the professional promotion system are now under construction

The Group is committed to equal opportunities to its employees regardless of gender age religion and other forms of discrimination Personnel are selected on the basis of merit and capability

Environmental policy

As an environment friendly energy supplier, the Group always takes account of environmental protection when formulating and implementing its business strategy This concern manifests itself for instance, in the construction of our new manufacturing facility, the purchase of equipment and materials, recycling, and reducing our waste emissions The Group has also invested in improvements of the environment surrounding its facilities, and improvements of local transportation

The Group has passed the certification of ISO14001 and GB/T18001 vocation health and safety management system In June 2006, the battery products have passed the test of EU RoHS

Creditor payment policy

The Group pays for the main raw material consumed (lead ingot) against delivery The Group's payments for other raw materials are usually made on 30 to 60 days credit through long term co-operation agreements with suppliers The Company has no trade creditors

Financial instruments

Details of financial instruments, including financial risk management objectives and policies, details of the Group's exposure to credit risk, interest rate risk, foreign currency risk and liquidity risk are set out in note 28 to the financial statements

Communication with Shareholders and the market

The annual report and financial statements and interim statement at each half year are the primary vehicles for communication with shareholders Meetings with significant shareholders are arranged through our nominated advisor, and will take place after the final and interim financial statements are published Such meetings may also take place after other significant announcements are made to the market

Reports published by the Company's brokers are another means of communication with shareholders and the market General information about the Company and its business is also available on the Company's website www chinashoto com

Annual general meeting

The annual general meeting (AGM) of the Company will take place at 100 Cannon Street London EC4N6EU on 12 June 2007 at 10 00 am Full details of the resolutions to be put to the meeting are given in the notice of the AGM to be found at pages 53 and 54 of this annual report

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of BDO Stoy Hayward LLP as auditor of the Company is to be proposed at the AGM

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information The directors are not aware of any relevant audit information of which the auditors are unaware

By order of the board
David Thomas
Company Secretary
10 May 2007

Corporate Governance

Introduction

The board of directors is accountable to the Company's shareholders for good corporate governance Although the Company's shares are traded on AIM, the directors plan to comply with the Combined Code where practicable and appropriate

Below is a brief description of the role of the Board and its committees, followed by a statement regarding the Group's system of internal financial control

The Board and its committees

The Board

The board comprises eight directors, five of whom are executive directors and three of whom are non-executive directors It is responsible to shareholders for the proper management of the Group and it meets not less than four times a year, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining acquisition opportunities and capital expenditure projects, and reports to shareholders

Audit Committee

The Audit Committee, which is chaired by Li Shuang, comprises non-executive directors only It meets at least once annually

The Audit Committee receives and reviews reports from management and the Group's auditors relating to the interim and annual financial statements, and the accounting and internal control systems in use throughout the Group The Audit Committee has unrestricted access to the Group's auditors

The Audit Committee advises the Board on the appointment of external auditors and on their remuneration and discusses the nature and scope of the audit with the external auditors

A formal statement of independence is received from the external auditors each year

Remuneration Committee

The Remuneration Committee is chaired by David Thomas and includes Li Shuang and Wang Zhaobin It meets at least once annually

It 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

Investment Committee

The Investment Committee is chaired by Zhu Shiping and assists the Board in reviewing the Company's strategy and investment opportunities Formal approval of strategy and investment decisions is reserved for the full board

Internal Control and Risk Management

The board is responsible for establishing and maintaining the Group's system of internal controls The key procedures, which the directors have established with a view to providing effective internal controls are as follows

Management structure

The Board has overall responsibility for the Group Executive directors together with key senior executives at the Group level meet monthly to discuss sales and day to day operational matters The subsidiary undertakings of the Group also hold monthly management meetings to summarize operating activities as well as additional meetings on matters such as quality analysis and control and financial cost analysis

Identification of business risks

The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate course of action to manage those risks

Budgetary process

Each year the Board approves the annual budget, and key risk areas are identified Performance is monitored and relevant action taken throughout the year through the monthly reporting to the Board of variances from the budget, updated forecasts for the year and information on the key risk areas

Directors' responsibility statement

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985 The directors have chosen to prepare financial statements for the Group and the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs

- Consistently select and apply appropriate accounting policies,
- Present information, including accounting policies, in a manner that provides relevant, reliable comparable and understandable information, and
- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions The maintenance and integrity of the Group's website is the responsibility of the directors The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein

Remuneration Report

Remuneration policy

The aim of the Company's remuneration policy is to reward performance and thereby enhance shareholder value Executive remuneration is designed to provide rewards that will attract and retain high quality executives capable of achieving the Group's performance targets on both an annual and a longer-term basis

At the time of listing, it was decided that the remuneration policy then in operation would remain in place, and that adjustments to that policy would be made at the appropriate time

The Remuneration Committee

The principal functions of the Remuneration Committee are to review the remuneration packages of directors and senior employees of the Company and its subsidiaries The Remuneration Committee then approves and endorses the remuneration terms or, if appropriate, makes suggested changes thereto The Committee then reports to the Board accordingly

The Committee also reviews all service contracts for senior staff

The Board (excluding the non-executive directors) determines the remuneration of non-executive directors

Directors' Remuneration

Executive directors

The main components of executive directors remuneration are

Salary

The basic salary of each director is determined by taking into account the director's experience, responsibility and value to the Group

Bonus awards

In addition to salary, all executive directors were eligible for a performance-related bonus The bonus was based on the annual budget and linked to achieving specified executive tasks during the year ended 31 December 2006 The targets were designed to ensure that the total remuneration varies in line with company performance

Benefits

Benefits include medical insurance and contribution to State Pension Scheme (which is subject to stipulations of the State)

Non-executive directors

Non-executive directors' fees reflect the time that they are required to commit to their duties

Remuneration

The remuneration of the directors during the year ended 31 December 2006 is set out in note 5 to the financial statements

Share Options

The following directors had interests in options to subscribe for ordinary shares as follows

Name	As at 31 Dec 2006 and 31 Dec 2005	% of Issued Capital	Exercise price	Date of grant	Exercise period
Cao Guifa	300 000	1 28%	£1 30	30 Nov 2005	Dec 2008-Dec 2015
Yang Shanji	500 000	2 14%	£1 30	30 Nov 2005	Dec 2008-Dec 2015
Zhou Yuezhang	200,000	0 86%	£1 30	30 Nov 2005	Dec 2008-Dec 2015
Wang Zhaobin	80,000	0 34%	£1 30	30 Nov 2005	Dec 2008-Dec 2015

Contracts of Service

The service agreements with each of the executive directors are terminable on 12 months' notice by either party

The Non-executive directors all have letters of appointment with an initial fixed term of 12 months The appointment may be terminated at any time thereafter by six months' written notice

Investment Report

Investment policy

The Company's investment strategy is to seek acquisition targets that would provide scale or, complementary products and services, and new customers

Investment Committee

The Investment Committee is chaired by Zhu Shiping, and includes Bernard Asher and Cao Guifa When established it was intended that it would meet at least once annually

The responsibility of the Committee is to assist the Board in reviewing the Company's strategy and investment intentions

During 2006 the success of the Group's products created an urgent need for additional production capacity The decisions were made to build additional production lines, and to acquire a controlling stake in Yangzhou Zhenghe, and to purchase the PTB production line from Cable Co

Independent auditors' report to the shareholders of China Shoto plc

We have audited the group and parent company financial statements (the "financial statements") of China Shoto plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in equity, and the related notes These financial statements have been prepared under the accounting policies set out therein

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 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements We also report to you if, in our opinion, 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 the chief executive's review the finance director's review, the highlights the company overview, the remuneration report, the investment report, the corporate governance statement and the statement of directors' responsibilities 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

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group'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

Opinion

In our opinion

- the group financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit 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 2006,
- 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

BDO Stoy Hayward LLP

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
Gatwick
10 May 2007

Consolidated income statement

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Revenue	3	66,454	28,413
Cost of sales		(47,654)	(18,161)
Gross profit		18,800	10,252
Other operating income	3	790	694
Selling and distribution expenses		(8,579)	(3,879)
Administrative expenses		(5,172)	(2 681)
Other operating expenses		(47)	(20)
Share of results of associate		-	56
Profit from operations	4	5,792	4,422
Finance income	3	91	67
Finance costs	6	(822)	(864)
Profit before tax		5,061	3,625
Tax	7	(789)	(514)
Profit after tax		4,272	3,111
Attributable to			
Equity holders of the parent		4,003	3,111
Minority interests		269	-
		4,272	3,111
Earnings per share in pence			
Basic	9	18 30p	19 80p
Diluted	9	17 93p	19 74p

All amounts relate to continuing operations

Consolidated balance sheet

As at 31 December 2006

	Notes	31 December 2006 £000	31 December 2005 £000
Assets			
Non-current assets			
Property, plant and equipment	10	12,409	8,559
Investment in associate	13	-	512
Other investment	12	130	-
Land use right	14	1,361	1 393
Other intangible assets	15	167	17
Deferred tax assets	7	31	36
		14,098	10,517
Current assets			
Inventories	16	10,122	3,547
Trade receivables	17	15,009	11,953
Other receivables and prepayments	18	7,224	3,480
Due from related parties	25	1,011	1,963
Short-term investments	19	947	2,350
Cash and cash equivalents	20	9,937	8,300
		44,250	31,593
Total assets		58,348	42 110
Liabilities			
Current liabilities			
Bank borrowings	21	12,236	12,083
Trade payables		7,547	3,919
Notes payable	22	4,041	4,126
Other payables and accruals	23	6,805	5,058
Amount due to customers for construction contract work	24	2,309	-
Due to related parties	25	656	765
Income tax payable		145	97
Deferred tax liabilities	7	21	-
Total liabilities		33,760	26,048
Capital and reserves			
Share capital	26	2 334	2 000
Share premium	27	8,630	3,875
Other reserves	27	2,916	2,916
Statutory reserves	27	5,071	4,024
Retained earnings	27	6,769	3 837
Foreign currency translation reserve	27	(2,272)	(590)
Total equity attributable to equity holders of the parent		23,448	16 062
Minority interests		1 140	-
Total equity and liabilities		58,348	42 110

The financial statements were approved and authorised for issue by the Board of Directors on 10 May 2007 and signed on its behalf by

Cao Guifa
Chairman

Yang Shanji
Chief Executive

Consolidated statement of changes in equity

For the year ended 31 December 2006

Attributable to equity holders	Share capital	Share premium	Other reserves	Statutory reserves	Retained earnings	Currency translation reserve	Total	Minority interests	Total
	Note 26	Note 27	Note 27	Note 27	Note 27	Note 27			
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1 January 2005	-	-	4,454	3,206	1,744	(1,949)	7,455	-	7,455
Net profit for the financial year	-	-	-	-	3 111	-	3,111	-	3 111
Foreign currency translation					-	1,359	1,359	-	1,359
Total recognized income and expense	-	-	-	-	-	-	4 470	-	4,470
Issue of ordinary shares to the vendors									
of Leadstar Enterprises Ltd	1,538	-	(1,538)	-	-	-	-	-	-
Issue of ordinary shares on placing	462	5 538	-	-	-	-	6,000	-	6,000
Share issue costs	-	(1,663)	-	-	-	-	(1,663)	-	(1,663)
Transfer to statutory reserves	-	-	-	818	(818)	-	-	-	-
Share based payment expense									
Employee share options	-	-	-	-	27	-	27	-	27
Expenses of flotation	-	-	-	-	118	-	118	-	118
Dividends paid	-	-	-	-	(345)	-	(345)	-	(345)
Balance as at 31 December 2005	2,000	3 875	2,916	4,024	3,837	(590)	16,062	-	16,062
Net profit for the financial year	-	-	-	-	4,003	-	4,003	269	4,272
Foreign currency translation	-	-	-	-	-	(1 682)	(1,682)	(97)	(1,779)
Total recognized income and expense							2,321		2,493
Acquisition of subsidiary	-	-	-	-	-	-	-	968	968
Issue of ordinary shares on placing	314	4,716	-	-	-	-	5,030	-	5,030
Share issue costs	-	(201)	-	-	-	-	(201)	-	(201)
Exercise of share options	20	240	-	-	-	-	260	-	260
Transfer to statutory reserves	-	-	-	1,047	(1,047)	-	-	-	-
Share based payment expense									
Employee share options	-	-	-	-	326	-	326	-	326
Dividends paid	-	-	-	-	(350)	-	(350)	-	(350)
Balance as at 31 December 2006	2,334	8,630	2,916	5,071	6,769	(2,272)	23,448	1,140	24,588

Consolidated cash flow statements

For the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Net cash from operating activities	a	1,606	3 185
Cash flows from investing activities			
Purchase of associate		-	(425)
Purchase of land use right		(807)	(60)
Purchase of property, plant and equipment		(4,905)	(954)
Purchase of subsidiary undertakings		666	-
Purchase of investment		(130)	-
Purchase of short-term investment		1,664	(2 336)
Proceeds from disposal of property, plant and equipment		186	93
Proceeds from disposal of short-term investment		-	21
Cash flows used in investing activities		(3,326)	(3 661)
Cash flows from financing activities			
Net cash inflow from share placing		5,089	4,337
Increase in short-term bank borrowings		153	674
Interest paid		(822)	(864)
Dividends paid		(350)	-
Cash flows from financing activities		4,070	4,147
Net increase in cash and cash equivalents		2,350	3,671
Cash and cash equivalents at beginning of year		8,300	3,845
Foreign exchange differences		(713)	784
Cash and cash equivalents at end of year		9,937	8 300

Notes to the consolidated cash flow statements

(a) Cash flows from operating activities

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Profit before tax	5,061	3,625
Adjustments for		
Amortisation of other intangible assets	14	1
Amortisation of land use right	29	28
Allowance for doubtful trade debts	104	27
Allowance for doubtful non-trade debts	200	27
Depreciation of property, plant and equipment	820	855
Losses on disposal of property, plant and equipment	21	20
Gain on disposal of short-term investment	-	(56)
Share based payment expense	326	145
Financial income	(91)	(72)
Financial expense	822	864
Operating profit before working capital changes	7,306	5,464
Working capital changes		
(Increase)/decrease in		
Inventories	(6,392)	1,134
Trade receivables	714	(3,615)
Other receivables, deposits and prepayments	(115)	(237)
Due from related parties	952	(102)
Increase/(decrease) in		
Trade payables	444	397
Other payable and accruals	(593)	(130)
Notes payables	(85)	698
Due to related parties	(109)	-
Cash generated from/(used in) operations	2,122	3 609
Interest received	91	72
Income tax paid	(607)	(496)
Net cash from operating activities	1,606	3,185

(b) Non-cash flow transactions

On 30 November 2005, the shareholders of Leadstar Enterprises Limited and China Shoto plc entered into a share exchange agreement China Shoto plc issued 15,384,615 10 pence ordinary shares at 130 pence each to the shareholders of Leadstar Enterprises Limited in exchange for the entire share capital of Leadstar Enterprises Limited

A subsidiary undertaking, Hong Kong Wealth Source Development Co Ltd, declared a dividend of £34 50 per ordinary share amounting to £345 000 on 30 June 2005 to its shareholders at that date All the dividend was set against the debt due from those shareholders

Company balance sheet

As 31 December 2006

Assets	Notes	31 December 2006 £000	31 December 2005 £000
Non-current assets			
Investment in subsidiaries	11	20,000	20 000
		20 000	20,000
Current assets			
Other receivables	18	-	6
Due from related parties	25	10,620	4,928
Cash and cash equivalents	20	71	67
		10,691	5,001
Total assets		30,691	25,001
Liabilities			
Current liabilities			
Due to related parties	25	369	667
Other payables	23	21	-
Total liabilities		390	667
Capital and reserves			
Share capital	26	2,334	2,000
Share premium	27	8,630	3 875
Other reserve	27	18,462	18,462
Retained earnings	27	875	(3)
Total equity		30,301	24 334
Total equity and liabilities		30,691	25 001

The financial statements were approved and authorised for issue by the Board of Directors on 10 May 2007 and signed on its behalf by

Cao Guifa
Chairman

Yang Shanji
Chief Executive

Company statement of changes in equity

For the period ended 31 December 2006

	Share capital Note 26 £000	Share premium Note 27 £000	Other reserves Note 27 £000	Retained earnings Note 27 £000	Total £000
Incorporation (10 May 2005)	-	-	-	-	-
Net loss for the financial period and total recognized income and expenditure	-	-	-	(148)	(148)
Issue of ordinary shares to the vendors of Leadstar Enterprises Limited	1,538	-	18,462	-	20,000
Issue of ordinary shares on placing	462	5,538	-	-	6,000
Share issue costs	-	(1,663)	-	-	(1 663)
Share based payment expense					
- Employee share options	-	-	-	27	27
- Expenses of flotation	-	-	-	118	118
Balance as at 31 December2005	2 000	3 875	18,462	(3)	24,334
Net profit for the financial period and total recognized income and expenditure	-	-	-	902	902
Issue of ordinary shares on placing	314	4,716	-	-	5,030
Share issue costs	-	(201)	-	-	(201)
Exercise of share options	20	240	-	-	260
Share based payment expense					
- Employee share options	-	-	-	326	26
Dividends paid to external shareholders	-	-	-	(350)	(350)
Balance as at 31 December 2006	2,334	8,630	18,462	875	30,301

Company cash flow statement

For the period ended 31 December 2006

	Notes	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Net cash from operating activities	a	(4,637)	(4,937)
Cash flows from investing activities			
Dividends received from subsidiaries		200	-
Cash flow from investing activities		200	-
Cash flows from financing activities			
Net cash inflow from share placing		4,791	5 004
Dividends paid to external shareholders		(350)	-
Cash flow from financing activities		4,441	5,004
Net increase/(decrease) in cash and cash equivalents		4	67
Cash and cash equivalents at beginning of year		67	-
Cash and cash equivalents at end of year		71	67

Notes to the Company cash flow statements

(a) Cash flows from operating activities

	Year ended 31 December 2006 £000	Year ended 31 December 2005 £000
Profit/(loss) before income tax	902	(148)
Investment income from subsidiary	(1,300)	-
Adjustment for share based payment expense	326	145
Financial income	(3)	-
Operating loss before working capital changes	(75)	(3)
Working capital changes		
(Increase)/decrease in		
Amounts due from subsidiary undertakings	(4,592)	(4 928)
Other receivables	6	(6)
Increase in		
Other payable	21	-
Cash used in operations	(4,640)	(4,937)
Interest received	3	-
Net cash used in operating activities	(4,637)	(4,937)

Notes to the financial statements

For the year ended 31 December 2006

1 General information

China Shoto plc is a company incorporated in the United Kingdom on 10 May 2005 under the Companies Act 1985 The address of the registered office is given on page 1, and the principal place of business is Shuangdeng Science and Industrial Zone, Liangxu Town, Jiangyan City, Jiangsu Province, China Details of the Group's reporting and functional currencies are disclosed in note 2 below

These financial statements present information about the Company on a stand alone basis and as a consolidated group of companies The nature of the Group's operations and its principal activities are set out in the Directors' report on page 14 and 15

2 Accounting policies

The consolidated financial statements of China Shoto plc and its subsidiary undertakings (the 'Group') and the individual financial statements of China Shoto plc (the 'Company') have been prepared in accordance with those International Financial Reporting Standards and Interpretations in force ('IFRS'), as adopted by the European Union, and those parts of the Companies Act 1985 applicable to companies preparing financial statements under IFRS

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective, none of which are expected to have a significant impact on the Group's or the Company's reported results and financial position

- IFRS 7 'Financial Instruments Disclosure' (effective for year ending 31 December 2007)
- IFRS 8 'Operating Segments' (effective for year ending 31 December 2007)
- IFRIC 7 'Applying the Restatement Approach under IAS 29'(effective for year ending 31 December 2008)
- IFRIC 8 'Scope of IFRS 2 (effective for year ending 31 December 2007)
- IFRIC 9 'Reassessment of Embedded Derivatives'(effective for year ending 31 December 2007)
- IFRIC 10 'Interim Financial Reporting and Impairment'(effective for year ending 31 December 2007)
- IFRIC 11 'Group and Treasury Share Transactions'(effective for year ending 31 December 2008)
- IFRIC 12 'Service Concession Agreements'(effective for year ending 31 December 2007)
- Amendment to IAS 1 'Presentation of Financial Statements Capital Disclosures'(effective for year ending 31 December 2007)
- IAS 23 Revised 'Borrowing Costs'(effective for year ending 31 December 2009)

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its income statement in these financial statements The Group profit for the year includes a profit after tax of £902,000 (2005 loss £148,000), which is dealt with in the financial statements of the Company

The preparation of financial statements in conformity with IFRSs requires management to make assumptions that affects the application of accounting policies and the amounts of assets, liabilities, income and expenditure The estimates and associated assumptions are based on historical experience and other relevant factors, the results of which form the basis for the judgements that underlie the carrying value of the assets and liabilities Actual results may differ from these estimates The most significant areas in which judgements are required relate to the evaluation of fair values in the application of acquisition accounting, the estimate of useful economic lives and residual values of non-current assets and the recoverable amount of current and non-current assets The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of revision and future periods if the revision affects both the current and future periods For the year ended 31 December 2006, the Group is comprised of three business segments and one geographic segment (2005 one business and geographic segment)

The following principal accounting policies have been applied consistently in dealing with items which are considered material to the financial statements

Basis of consolidation

The consolidated financial statements include the financial statements of the China Shoto plc and all of its subsidiary undertakings as at 31 December 2006 using the acquisition method of accounting The results of subsidiary undertakings are included from the date of acquisition

2 Accounting policies (continued)

The acquisition of Leadstar Enterprises Limited by China Shoto plc on 30 November 2005 has been accounted for using the principles of reverse acquisition accounting in accordance with IFRS 3 'Business Combinations', on the basis that the management who are the former majority shareholders of Leadstar Enterprises Limited, retained effective control of the Group The fair value of the assets of China Shoto plc at the date of the business combination were equivalent to the fair value of the company and the fair value of the notional number of equity instruments which would have been issued by Leadstar Enterprises Limited to acquire China Shoto plc, and therefore no goodwill arose in respect of this transaction The comparative financial statements and the results up to the date of the business combination represent those of the Leadstar Enterprises Limited group

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associated undertaking at the date of acquisition

Goodwill is recognised as an asset and reviewed for impairment at least annually Any impairment is recognised immediately in the income statement, through administrative expenses, and is not subsequently reversed

Any excess of the Group's interest, in the net fair value of the identifiable assets and liabilities acquired, over cost will be recognised as income after considering the future losses and expenses identified in the Group's acquisition plan and the aggregate fair value of acquired identifiable non-monetary assets

Subsidiary undertakings

An entity is treated as a subsidiary undertaking when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities In assessing control, potential voting rights that are currently exercisable or convertible are taken into account The financial statements of subsidiary undertakings are included in the consolidated financial statements from the date that control commences until the date that control ceases

Associated undertakings

An entity is treated as an associated undertaking where the Group has power to exercise significant influence over its operating and financial policy decisions In the consolidated financial statements, interests in associated undertakings are accounted for using the equity method of accounting The consolidated income statement includes the Group's share of the associate's net profit based on audited financial statements and/or management accounts In the consolidated balance sheet, the investment in associated undertakings is shown as the Group's share of the net assets of the associated undertakings

Foreign currencies

The functional currency of the subsidiary undertakings is Renminbi ('RMB'), and the audited financial statements of the subsidiary undertakings have been drawn up in RMB As sales and purchases are denominated primarily in RMB and receipts from operations are usually retained in RMB, the directors are of the opinion that RMB reflects the economic substance of the underlying events and circumstances relevant to the Group Monetary assets and liabilities maintained in currencies other than RMB are translated into the RMB at the approximate rates of exchange ruling at the balance sheet date Transactions in currencies other than RMB are translated at rates ruling on the transaction dates All resulting exchange differences are dealt with in the income statements

The presentation currency of the Group is pounds sterling and therefore the financial statements have been translated from RMB to pounds sterling at the following exchange rates

	Year-end rates	Average rates
31 December 2005	£1 = RMB 13 9122	£1 = RMB 14 8270
31 December 2006	£1 = RMB 15 3232	£1 = RMB 14 7505

Assets and liabilities are translated into sterling at the closing rate and all income and expenses are translated at the average rate during the financial period, being an approximation for the actual rates at the date of the transactions All resulting exchange differences are taken to the Exchange reserve within equity

The functional currency and the presentation currency of the Company is pounds sterling Monetary assets and liabilities maintained in currencies other than pounds sterling are translated into pounds sterling at the approximate rates of exchange ruling at the balance sheet date Transactions in currencies other than pounds sterling are translated at rates ruling on the transaction dates All resulting exchange differences are dealt with in the income statement

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the customer, when the Group neither retains continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when it is probable that the economic benefits associated with the transaction will flow to the Group and when the relevant amount of revenue and costs can be measured reliably

Construction revenue

Revenue from construction contracts is recognized in accordance with the Group's policy on construction contracts (see below)

Interest income

Interest income is recognised on a time apportioned basis taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the companies within the Group

Government grants

Government grants in respect of revenue items are recognised when received, dependent upon the revenue item cost having been booked or incurred

Management changes

Management charges are recognized monthly as services are provided

Construction contracts

Revenue from turbine repair and construction contracts is recognized based on the percentage-of-completion method of accounting measured on the basis of the costs incurred to date in relation to estimated total costs of the contract Contracts costs are recognized as expenses in the period in which they are incurred Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probably will be recoverable When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately

Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statements as incurred

Borrowings costs

All borrowings costs are recognised in the income statement in the period in which they are incurred

Share-based payments

The Group has applied the requirements of IFRS2 Share-based payments in these financial statements

The Group has issued equity-settled share-based payments to certain directors and employees, and to its advisors for services provided in respect of the flotation Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed to the income statement on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest

Fair value is measured by use of the Black-Scholes model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

Income tax

Income tax for the financial year comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case such tax is recognised in equity

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous financial years

2 Accounting policies (continued)

Deferred tax is provided using the liability method, providing for temporary differences as at the balance sheet date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on the initial recognition of goodwill and goodwill for which amortisation is not deductible The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised

Dividends

Equity dividends are recognised when they become legally payable In respect of interim dividends to equity shareholders, this is when they are declared and paid In respect of final dividends to equity shareholders, this is when they are approved by the Annual General Meeting

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use

Depreciation is calculated on the straight-line method so as to write off the cost of property, plant and equipment reduced by the estimated residual value of the assets over their estimated useful lives The estimated residual value and annual depreciation rates used for this purpose are as follows

Item	Estimated residual value	Useful life	Annual depreciation rates
Building	10%	40	2 25%
Machinery	10%	10	9%
Motor vehicles	10%	5	18%
Office equipment	10%	5	18%

Fully depreciated plant and equipment are retained in the financial statements until such time that they are no longer in use Construction in progress represents property, plant and equipment under construction and is stated at cost No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for use

From 1 January 2006, the Group changed the useful life of buildings from 20 years to 40 years to reflect the actual useful life of buildings This change of useful life will affect depreciation expenses in the current and future periods

Land use rights

Land use rights are measured initially at fair value, including the fair value of government grants, as deemed cost Government grants relating to land use rights, being the difference between the fair value and the cost to the Group are deducted from the fair value of the asset, and the net cost amortised through the income statement on a straight line basis over the life of the asset The life of the land use right is taken to be the length of time for which the right has been granted (42 to 50 years) The carrying values of land use rights are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

Other intangible assets

Other intangible assets are stated at cost less any impairment losses Intangible assets are amortised through administrative expenses using the straight-line basis over the following estimated useful lives

Trademark & Patent	10 years

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

Investment in subsidiary undertakings

Investments in subsidiaries are stated at cost less provision for any permanent impairment in value

Impairment of assets
The carrying amounts of non-current assets are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated An impairment loss is recognised whenever the carrying amount of the asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised through administrative expenses in the income statement

The recoverable amount is the higher of an asset's net selling price and value in use The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised Reversals of impairment losses are recognised in the income statement

Inventories
Inventories are stated at the lower of cost and net realisable value Cost is determined using the weighted average cost method The cost of finished goods comprises raw materials direct labour, other direct costs and related production overheads but excludes borrowing costs Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses

Financial assets
Financial assets are cash and bank balances, trade and other receivables, amounts due from related parties, notes receivable and investments

Trade and other receivables, amounts due from related parties, notes receivable and short-term investments are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts

Known bad receivables are written off as incurred when collection for the full amount is no longer probable, and an estimate for doubtful debts made based on past experience

Cash and cash equivalents
Cash comprises cash in hand and demand deposits Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into Financial liabilities include trade and other payables, amounts due to related parties and shareholders bank borrowings and notes payable

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group

Bank borrowings and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges are charged to the income statement on the effective interest rate method

Equity instruments are recorded at fair value, net of direct issue costs

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at cost being the fair value of the borrowing received net of issue costs associated with the borrowing and subsequently measured at amortised cost using the effective interest rate method

Government grants
Government grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased Grants for revenue expenditure are spread over the relevant periods in to match the grant income against the relevant costs

Where retention of a government grant received is dependent on the Group satisfying certain criteria it is initially recognised as deferred income When the criteria for retention have been satisfied, the deferred income balance is released to the income statement or deducted from the carrying amount of the asset purchased as appropriate
Related parties

2 Accounting policies (continued)

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions Parties are also considered to be related if they are subject to common control or common significant influence Related parties may be individuals or corporate entities

Research and development expenditure

Development expenditure not satisfying the capitalisation criteria set out in IAS 38 Intangible Assets and expenditure on the research phase of internal projects are recognised in the income statement as incurred

3 Revenue

	Group Year ended 31 December 2006 £000	Group Year ended 31 December 2005 £000
Revenue		
Sale of goods	59,544	28,413
Revenue from construction contracts	6,910	-
	66,454	28,413
Other operating income		
Waste disposal and sale of by-products	167	30
Management fee	-	385
Government grant income	262	266
Profit on acquisition of subsidiaries	277	-
Exchange gain	41	5
Other	43	8
	790	694
Finance income		
Interest income	91	67
Total income	67,335	29,174

Sale of goods represents the invoiced amount of delivered goods net of discounts, returns and valued added tax All intra-group transactions are excluded from the revenue of the Consolidated Group

4 Profit from operations

	Group Year ended 31 December 2006 £000	Group Year ended 31 December 2005 £000
After charging / (crediting)		
Cost of inventories recognised as an expense	47,654	18,161
Remuneration of auditors		
- Audit services	68	49
Amortisation of land use right	29	28
Amortisation of intangible assets	14	1
Depreciation of property plant and equipment	820	855
Loss/(gain) on disposal of property, plant and equipment	21	20
Allowance for doubtful trade debts/(no longer required)	104	27
Allowance for doubtful non-trade debts / (no longer required)	200	27
Research and development expenditure	264	224
Foreign exchange gains	(41)	(5)
Share based payment expense		
Employee share options	326	27
Expenses of flotation	-	118

Audit fees include an amount of £21,000 in respect of the Company (2005 22 000)

5 Information regarding directors and employees

Average number of employees of the Group	Group Year ended 31 December 2006 Number	Group Year ended 31 December 2005 Number
Management and administration	344	186
Sales	252	141
Manufacturing	1,957	450
	2,553	777

The aggregate payroll costs of these employees was as follows	£000	£000
Wages and salaries	5,387	1,956
Social security costs	38	139
Retirement benefits	194	27
Share-based payment expense (see note 30)	326	27
	5,945	2,149

£237 000 of the share based payment expenses is in respect of directors (2005 £20 000) All of the Group's employees are employed by subsidiary undertakings

Directors remuneration was as follows

	Year ended 31 December 2006 Salary £000	Year ended 31 December 2006 Benefits £000	Year ended 31 December 2006 Bonus £000	Year ended 31 December 2006 Total emoluments £000	Year ended 31 December 2005 Total emoluments £000
Cao Guifa	30	-	21	61	36
Yang Shanji	31	-	139	170	67
Zhou Yuezhang	21	1	69	91	35
Wang Zhaobin	19	-	50	69	34
Zhu Shiping	16	-	14	30	27
Li Shuang	10	-	-	10	5
Bernard Asher	10	-	-	10	1
David Thomas	10	-	-	10	1
Total	147	1	303	451	206

One director (Zhou Yuezhang) is a member of the company's pension scheme Total contributions to the pension scheme in respect of Zhou Yuezhang were £599 (2005 £175)

6 Finance costs

	Group Year ended 31 December 2006 £000	Group Year ended 31 December 2005 £000
Interest expense on bank and other loans	822	864

7 Income tax

Income tax expense is as follows	Group Year ended 31 December 2006 £000	Group Year ended 31 December 2005 £000
Current income tax	778	527
Deferred income tax	11	(13)
	789	514
Deferred tax assets		
At beginning of the financial period	36	20
Transfer to/(from) income statement	(3)	13
Exchange differences	(2)	3
At end of the financial period	31	36
Deferred tax liabilities		
At beginning of the financial period	-	-
Acquisition of a subsidiary	14	-
Transfer from/(to) income statement	8	-
Exchange differences	(1)	-
At end of the financial period	21	-
Tax effect of temporary difference arising from		
Allowance for bad and doubtful debts	31	31
Income not subject to income tax until 2007	(21)	-
Potential gain on share options	-	5
	10	36
Reconciliation of effective tax rates		
Profit before tax	5,061	3,625
Tax at respective companies' domestic income tax rate	660	519
Tax effect of non-deductible expenses	171	-
Tax effect of prior year expenses recognised for tax purposes in the current year	(42)	-
Tax effect of share-based payment expenses	-	(5)
	789	514

The Company and the significant subsidiary undertakings are subject to income tax on the following bases and at the following rates

China Shoto plc
The Company is a non-resident UK company subject to UK corporation tax at the standard rate of 30% on UK profits

Jiangsu Shuangdeng Group Co Ltd
In 2005 the company reregistered as a foreign enterprise and is entitled to exemptions from PRC income tax for the first two years (2005 and 2006) and to a 50% relief from PRC income tax for another three years thereafter Its standard applicable tax rate is 24%

Jiangsu Longyuan Shuangdeng Power Supply Co Ltd, Jiangsu Fuste Power Supply Co Ltd and Jiangsu Best Power Supply Co Ltd
The companies are located in an area designated as an Economic Development Coastal Region in accordance with PRC tax regulations and are entitled to an applicable tax rate of 24%, meanwhile as a production enterprise in accordance with the PRC tax legislation applicable to foreign investment enterprises each company is entitled to exemptions from PRC income tax for the two years commencing from their first profit-making year of operation (2001 for Jiangsu Longyuan Shuangdeng Power Supply Co Ltd, 2004 for Jiangsu Fuste Power Supply Co Ltd and 2006 for Jiangsu Best Power Supply Co Ltd) and for another three years thereafter they are entitled to a 50% relief from PRC income tax

Jiangsu Shuangdeng Power Supply Co Ltd
The company is recognised as a 'Technology and Knowledge Concentrated Enterprise' and entitled to a 15% PRC income tax rate because it is a production enterprise and also located in an area designated as an Economic Development Costal Region in accordance with PRC tax regulations

Nanjing Shuangdeng Science and Technology Development Academy Co Ltd
In 2005 the company reregistered as a foreign investment enterprise and meanwhile it is a production enterprise located in a development zone in accordance with the PRC income tax legislation so it is entitled to exemptions from PRC income tax for the two years commencing from its first profit-making year of operation and thereafter it is entitled to a 50% relief from PRC income tax for the next three years Its applicable tax rate is 24%

Yangzhou Zhenghe Power Supply Co , Ltd
The company is a production enterprise and in accordance with the PRC tax legislation applicable to foreign investment enterprises the company is entitled to exemptions from PRC income tax for the two years commencing from its first profit-making year of operation and for another three years thereafter they are entitled to a 50% relief from PRC income tax Its applicable tax rate is 24% To date the company has incurred losses

Beijing Full Three Dimension Engineering Co , Ltd
The company is recognized as a 'High New Technology Enterprise' in a high new technology region and in accordance with PRC tax regulations applicable to foreign investment enterprises is entitled to an applicable tax rate of 15%

8 Dividends

	Group Year ended 31 December 2006 £000	Group Year ended 31 December 2005 £000	Company Year ended 31 December 2006 £000
Interim dividends paid	350	345	350

China Shoto plc declared a dividend of 1 5p per ordinary share amounting to £350 000 on 3 November 2006 to its shareholders at that date No dividends were paid or declared by the Company in the year ended 31 December 2005

The directors recommend a final dividend of 3 pence per share for 2006 (2005 nil) This dividend has not been accrued in the financial statements

A subsidiary undertaking, Hong Kong Wealth Source Development Ltd declared a dividend of £34 50 per ordinary share amounting to £345 000 on 30 June 2005 to its shareholders at that date All the dividend was set against the debt due from those shareholders

9 Earnings per share

Earnings for the purpose of basic and diluted earnings per share are the net profit for the financial year attributable to equity holders of the parent of £4 003 000 (2005 £3 111 000)

The weighted average number of ordinary shares used in the calculation of earnings per share has been derived as follows

Number of ordinary shares	Group Year ended 31 December 2006 Number	Group Year ended 31 December 2005 Number
Weighted average number of ordinary shares - basic	21,880,671	15,713,395
Dilutive effect of share options	441,050	48,600
Weighted average number of ordinary shares - diluted	22,321,721	15,761,995

10 Property, plant and equipment

Group	Buildings	Machinery	Motor vehicles	Office equipment	Construction in progress	Total
Cost	£000	£000	£000	£000	£000	£000
At 1 January 2005	4,839	5,175	81	388	68	10,551
Additions	222	236	180	174	35	847
Reclassifications	62	13	-	2	(77)	-
Disposals	(15)	(85)	(44)	(88)	-	(232)
Exchange adjustments	588	594	9	46	8	1,245
At 31 December 2005	5,696	5,933	226	522	34	12 411
Acquisition of subsidiaries	306	562	54	28	-	950
Additions	131	2,703	134	419	1,702	5,089
Reclassifications	1,393	(312)	-	627	(1,708)	-
Disposals	(78)	(173)	(14)	(163)	-	(428)
Exchange adjustments	(860)	(658)	(19)	(111)	(3)	(1,651)
At 31 December 2006	6,588	8,055	381	1,322	25	16,371
Accumulated depreciation						
At 1 January 2005	778	1,702	37	223	-	2,740
Charge for the period	262	464	14	115	-	855
Disposals	(2)	(6)	(22)	(19)	-	(49)
Exchange adjustments	87	192	2	25	-	306
At 31 December 2005	1,125	2,352	31	344	-	3,852
Reclassfications	-	(368)	-	368	-	-
Charge for the period	133	531	39	117	-	820
Disposals	(24)	(28)	(2)	(25)	-	(79)
Exchange adjustments	(363)	(229)	-	(39)	-	(631)
At 31 December 2006	871	2,258	68	765	-	3 962
Net book value						
At 1 January 2005	4,061	3,473	44	165	68	7,811
At 31 December 2005	4,571	3,581	195	178	34	8,559
At 31 December 2006	5,717	5,797	313	557	25	12,409

From 1 January 2006, the Group changed the useful life of buildings from 20 years to 40 years to reflect the actual expected useful life of buildings This change of useful life will affect depreciation expense in the current and future periods

The change of accounting estimate decreased the depreciation expense by £118,000 in 2006

11 Investment in subsidiary undertaking

The Company issued 15,384 615 10p ordinary shares at 130p each to the shareholders of Leadstar Enterprises Limited on 30 November 2005 in return for the entire issued share capital of that company

	Company 31 December 2006 £000	Company 31 December 2005 £000
Cost		
At the beginning of financial year/period	20,000	-
Additions	-	20,000
At the end of financial year/period	20 000	20,000

12 Other investment

	Group 31 December 2006 £000	Group 31 December 2005 £000
Non-current investments		
Investment available-for-sale	130	-
	130	-

The investment available-for-sale is an equity investment not qualifying as a subsidiary, associate or joint controlled entity, it is measured at cost because it is not quoted in an active market and the fair value cannot be determined

13 Acquisition of subsidiaries

Acquisition of Beijing Full Three Dimension Engineering Co Ltd ('FTD')
FTD became an associated undertaking of the Group on 23 June 2005 On 6 January 2006, the Group increased its interest in FTD from 30% to 51% Accordingly it has been treated as a subsidiary undertaking from that date In calculating the goodwill arising on acquisition the fair values of the net assets acquired have been assessed and adjusted from book values where necessary The principal adjustments reflect the Group's assessment of the fair values of construction contracts No profits were generated by FTD in the 6 day period from 1 January 2006 to 6 January 2006 In the financial year ended 31 December 2006 FTD contributed £259,000 to consolidated profit after tax and minority interests

	Recognised on acquisition 23 June 2005 £000	Recognised on acquisition 6 January 2006 £000	Fair value adjustments 6 January 2006 £000	Carrying amount before combination 6 January 2006 £000
Non-current assets	112	101	-	101
Current assets				
Trade and other receivables	11,316	7,674	(964)	8,638
Cash and cash equivalents	1 946	1 168	-	1,168
Total assets	13,374	8,943	(964)	9,907
Creditors due within one year	(12,474)	(7 704)	1,046	(8 750)
Net identifiable assets	900	1,239	82	1,157
Share of net assets on acquisition date	270	632		

	23 June 2005	6 January 2006
Cost of investment on acquisition 30% interest in FTD	425	-
Cost of investment on acquisition 21% interest in FTD	-	260
Share of net assets on acquisition 30% interest in FTD	(270)	-
Share of net assets on acquisition 21% interest in FTD	-	(260)
Goodwill arising	155	-

The total goodwill arising on the acquisition was £155,000

Cash inflow on acquisition

	£000
Cash paid	(260)
Net cash acquired with the subsidiary	1,168
Net cash inflow on acquisition	908

13 Acquisition of subsidiaries (Continued)

Acquisition of Yangzhou Zhenghe Power Supply Co Ltd ("YZP")

On 31 March 2006, the Group acquired 59% of YZP It has been treated as a subsidiary undertaking from that date In calculating the goodwill arising on acquisition the fair value of the net assets of YZP have been assessed and adjusted from book value where necessary In the nine months to 31 December 2006, YZP contributed £7,000 to consolidated profit after tax and minority interests Included within other operating income is £277,000 which represents, the excess of the Group's interest in the net fair value of YZP's identifiable assets, liabilities and contingent liabilities over cost, arising on this acquisition In accordance with IFRS 3 this has been recognised immediately in the consolidated income statement, within other operating income

	Recognised on acquisition £000	Fair value adjustments £000	Carrying amount before combination £000
Non-current assets	880	(41)	921
Current assets			
Inventories	182	(71)	253
Total assets	1 062	(112)	1 174
Creditors due within one year	(182)	161	(343)
Net identifiable assets	880	49	831
Share of net assets on acquisition date	519		

	31 March 2006 £000
Cost of investment on acquisition	(242)
Share of net assets on acquisition date	519
Excess of net assets over costs	277

Cash inflow on acquisition	£000
Cash paid	(242)
Net cash acquired with the subsidiary	-
Net cash inflow on acquisition	(242)

14 Land use rights

Cost	Group 31 December 2006 £000	Group 31 December 2005 £000
At the beginning of financial year	1,446	1,232
Additions	130	60
Exchange adjustments	(127)	154
At the end of financial year	1,449	1 446
Accumulated amortisation		
At beginning of financial year	53	24
Amortisation for the financial year	29	28
Exchange adjustments	6	1
At the end of financial year	88	53
Net book value	**1,361**	**1,393**

The Group's land use rights have a remaining amortization period of between 39 and 47 years

15 Other intangible assets

Cost	Group Trademake £000	Group Patent £000	Group Goodwill £000	Group Total £000
At 1 January 2005	19	-	-	19
Additions	-	-	-	-
At 31 December 2005	19	-	-	19
Acquisition of a subsidiary	-	28	-	28
Additions	-	-	155	155
Exchange adjustments	-	(2)	(17)	(19)
At 31 December 2006	19	26	138	183
Accumulated amortization				
At 1 January 2005	1	-	-	1
Amortisation for the financial year	1	-	-	1
At 31 December 2005	2		-	2
Amortisation for the financial year	1	13	-	14
Exchange adjustments	-	-	-	-
At 31 December 2006	3	13	-	16
Net book value				
At 1 January 2005	18	-	-	18
At 31 December 2005	17	-	-	17
At 31 December 2006	16	13	138	167

16 Inventories

	Group 31 December 2006 £000	Group 31 December 2005 £000
Raw materials	1,253	704
Work in progress	3,733	1,009
Finished goods	5,136	1,834
	10,122	3,547

17 Trade receivables

	Group 31 December 2006 £000	Group 31 December 2005 £000
Trade receivables	15,196	12,117
Allowance for doubtful receivables	(187)	(164)
	15,009	11,953

18 Other receivables and prepayments

	Group 31 December 2006 £000	Group 31 December 2005 £000	Company 31 December 2006 £000	Company 31 December 2005 £000
Notes receivable	964	145	-	-
Advances to suppliers	4,666	2,500	-	-
Advances to employees	590	816	-	-
Other advances	16	17	-	6
Other receivables	1,030	55	-	-
	7,266	3 533	-	6
Allowance for doubtful other receivables	(42)	(53)	-	-
	7 224	3 480	-	6

Notes receivable have an average maturity of 4 months from the end of the financial year (2005 3 months) and are interest free

19 Short term investment

	Group 31 December 2006 £000	Group 31 December 2005 £000
Cost		
Deposits with an initial maturity of more than 3 months		
- Short term deposits secured for notes payable	934	755
- Other short term deposit	-	1,581
Investment in shares	13	14
	947	2,350

The short term deposits are invested at an average annual interest rate of 2 07% (2005 2 07%)

20 Cash and cash equivalents

	Group 31 December 2006 £000	Group 31 December 2005 £000	Company 31 December 2006 £000	Company 31 December 2005 £000
Cash	7,597	6,884	71	67
Deposits-secured for Notes Payables with an initial maturity of 3 months	2 340	1,416	-	-
	9,937	8 300	71	67

The short term deposits are invested at an average annual interest rate of 2 07% (2005 2 07%) Cash earns interest at variable rates, averaging 0 72% (2005 0 72%)

21 Bank borrowings

	Group 31 December 2006 £000	Group 31 December 2005 £000
Short-term bank borrowings	12,236	12,083

Short-term bank borrowings are all at fixed rates and are secured by a first mortgage over the Group's main property, plant and equipment and land use right, guaranteed by the related party, Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd or secured by Jiangyan Medium-Small Enterprise Credit Assure Co , Ltd

Short-term bank borrowings have an average maturity of 5 months from the end of the financial year (2005 7 months) and an interest rate ranging from 5 58% to 7 61% (2005 5 58% to 5 74%) The weighted average interest rate is 5 75% (2005 5 62%)

22 Notes payable

	Group 31 December 2006 £000	Group 31 December 2005 £000
Notes payable	4,041	4,126

Notes payable are secured by fixed deposits (notes 19 and 20), are interest free and have an average maturity of 6 months

23 Trade and other payables and accruals

Other payables and accruals comprise	Group 31 December 2006 £000	Group 31 December 2005 £000	Company 31 December 2006 £000	Company 31 December 2005 £000
Advances from customers	581	292	-	-
Staff costs	1 638	1 048	-	
Other tax payable	377	465	-	-
Amount due to employees	1,785	1,540	-	-
Staff housing costs	1,161	974	-	-
Other payables	1 263	739	21	-
	6,805	5,058	21	-

Trade payables comprise amounts outstanding for trade purchases and ongoing costs The Group pays for the main raw material (lead ingot) against delivery of the goods The Group's payments for other raw materials are usually made on 50 to 90 days credit

The directors consider that the carrying amount of trade and other payables and accruals approximate to their fair values

24 Amount due to customers for construction contract work

	Group 31 December 2006 £000	Group 31 December 2005 £000
Construct costs incurred to date	(186)	-
Recognised profits less recognised losses to date	(61)	-
	(247)	-
Progress billings	2,556	-
Amounts due to customers for contract work, net	2,309	-
Gross amount due from customers for contract work	-	-
Gross amount due to customers for contract work	2,309	-

25 Related parties

The group companies set out in note 29 the directors and the following related parties have been identified

Related parties	Relationship
Shenyang Shuangdeng Sci-tech Development Co Ltd	Common director
Nanjing Wo Bang Sci-tech Co Ltd	Common director
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	Common director

Directors' remuneration is disclosed in note 5 Amounts due from and to related parties are as follows

	Group 31 December 2006 £000	Group 31 December 2005 £000	Company 31 December 2006 £000	Company 31 December 2005 £000
Due from related parties - Trade	1,011	757	-	-
Due from related parties - Non-trade	-	1,206	-	-
Due from subsidiary undertakings - Non-trade	-	-	10,620	4,928
	1,011	1,963	10,620	4,928
Due to related parties - Trade	-	-	-	-
Due to related parties - Non-trade				
- due to Chief Executive Shanji Yang	654	746	-	-
- due to other shareholders	2	19	-	-
Due to subsidiary undertakings - Non-trade	-	-	369	667
	656	765	369	667

In addition to the related party information disclosed elsewhere in the financial statements, significant transactions during the financial years with related parties, all of which were negotiated at arms' length, were as follows

	Group Year ended 31 December 2006 £000	Group Year ended 31 December 2005 £000
Sale of goods		
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	731	643
Shenyang Shuangdeng Sci-tech Development Co Ltd	2,590	2 146
	3,321	2,789
Other operating income		
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	51	-
Shenyang Shuangdeng Sci-tech Development Co Ltd	-	386
	51	386
Purchases		
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	2,535	-
Shenyang Shuangdeng Sci-tech Development Co Ltd	168	(49)
	2,703	(49)

Amounts due to the Company from subsidiary undertakings represent net proceeds from the flotation which have been advanced to the trading subsidiaries to invest in new plant Amounts due to subsidiary undertakings represent share issue costs paid on the Company's behalf by subsidiary undertakings In the opinion of the directors the Group is controlled by Mr Shanji Yang General Manager and Director who owned 47 06% of the issued share capital of China Shoto plc at 31 December 2006

26 Share capital

Authorised	31 December 2006 £000	31 December 2005 £000
100,000,000 Ordinary shares of 10p each	10,000	10,000
Allotted, called up and fully paid		
23,343,770 (2005 20 000,020) Ordinary shares of 10p each	2,334	2 000

	Number	£000
Issued on incorporation - 2 £1 ordinary shares	2	-
Sub-division into 10 ordinary shares	18	-
Issue of 10p ordinary shares on reverse acquisition of Leadstar Enterprises Ltd on 30 November 2005	15,384,615	1,538
Issue of 10p ordinary shares on placing on 6 December 2005	4,615,385	462
At 31 December 2005	20,000,020	2 000
Exercise of 10p share options on 3 April 2006	100,000	10
Exercise of 10p share options on 5 May 2006	100,000	10
Issue of 10p ordinary shares on placing on 12 June 2006	3,143,750	314
At 31 December 2006	23,343,770	2,334

The Company was incorporated on 10 May 2005 with authorised share capital of £1 000 divided into 1 000 ordinary shares of £1 each On incorporation, 2 ordinary shares of £1 each were issued for cash at £1 per share

On 30 November 2005 the authorised share capital was sub-divided into 10,000 ordinary shares of 10p each, and the authorised share capital was increased to £10,000 000 by the creation of a further 99,990,000 ordinary shares of 10p each, and 15,384 615 shares were issued in consideration for the entire issued share capital of Leadstar Enterprises Limited

On 5 December 2005, 4 615,385 ordinary shares of 10p were issued in connection with the placing

On 3 April and 5 May 2006, 200,000 ordinary shares of 10p were issued in respect of the exercise of share options granted to the Company's advisers at the time of the flotation The weighted average price of options exercised in the year was 130 pence

On 12 June 2006, 3 143,750 ordinary shares of 10p were issued in connection with the placing

Details of share options are given in note 30

27 Reserves

Share premium account

	31 December 2006 £000	31 December 2005 £000
At 1 January	3 875	-
Arising on issue of ordinary shares		
Premium of £1 20 per share arising on placing	-	5,538
Premium of £1 50 per share arising on placing	4 716	-
Premium of £1 20 per share arising on exercise of options	120	-
Premium of £1 20 per share arising on exercise of options	120	-
Less expenses of issue	(201)	(1,663)
At 31 December	8 630	3,875

In accordance with s131 Companies Act 1985, no share premium has been created in respect of the shares issued in consideration for the acquisition of Leadstar Enterprises Limited The difference between the fair value of the consideration paid and the nominal value of the 10p ordinary shares issued to the vendors of Leadstar Enterprises Limited has been credited to other reserves in the Company's books

Other reserves

In accordance with IFRS 3, the principles of reverse acquisition accounting have been applied in the consolidated financial statements in respect of the business combination of the Company and Leadstar Enterprises Limited The fair value of the Company's net assets and business were assessed at £2, being the book value of its assets, and therefore no goodwill arose on this transaction The difference between the net book value of Leadstar Enterprises Limited's net assets and the nominal value of the ordinary shares issued by the Company has been credited to other reserves

In the Company's financial statements the difference between the fair value of the consideration paid and the nominal value of the 10p ordinary shares issued to the vendors of Leadstar Enterprises Limited has been credited to other reserves

Statutory reserves

Statutory reserves comprise the following

Statutory surplus reserve

Under People's Republic of China ("PRC") regulations and the Articles of Association of the relevant companies, companies within the Group registered in the PRC are required to transfer 10% of their profit after income tax, as determined under PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital The transfer to this reserve must be made before the distribution of dividends to equity owners The statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into paid-in capital in proportion to the existing interests of equity owners provided that the balance after such conversion is not less than 25% of the registered capital

Statutory public welfare fund

According to the relevant PRC regulations and the Articles of Association of the relevant companies, companies within the Group registered in PRC are required to transfer 10% of their profit after income tax, as determined under PRC GAAP, to the statutory public welfare fund The statutory public welfare fund is incorporated for the purpose of providing employee facilities and other collective benefits to its employees

Retained earnings

The retained earnings reserve comprises the cumulative net gains and losses recognised in the consolidated income statement

Foreign currency translation reserve

The foreign currency translation reserve comprises the gains and losses arising on translating the net assets of overseas operations into pounds sterling

28 Financial instruments

The Group is exposed to interest rate and other market risks arising in the normal course of business The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange rates

(a) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a loss to the Group The Group has adopted the policy of only dealing with creditworthy counter parties and monitors their balances

The Group's credit risk is primarily attributable to its trade and other receivables The trade and other receivables presented in the balance sheet are net of an allowance for doubtful receivables, estimated by management based on current economic conditions Cash is placed with creditworthy financial institutions

The carrying amount of financial assets recorded in the financial statements net of any allowance for doubtful receivables, represents the Group's maximum exposure to credit risk

(b) Interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Group in the current reporting period and in future years

The Group is exposed to interest rate risk through the impact of change in interest rates on interest bearing debts and interest-bearing cash All of the Group's interest bearing debts and interest-bearing cash are at fixed rates and in RMB The Group does not enter into any derivative instruments to hedge this risk

(c) Foreign currency risk

Foreign exchange risk refers to the risk that movement in foreign currency exchange rates against the Group's functional or reporting currency will affect the Group's financial results and cash flows Substantially all the Group's transactions are in RMB and all of the Group's interest bearing financial assets and liabilities are in RMB

(d) Liquidity risk

Liquidity risk arises from the possibility that the Group is unable to meet its obligations towards other counter parties

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

(e) Fair values

The carrying amounts of the financial assets and financial liabilities in the financial statements approximate their fair values

29 Group companies

The companies comprising the Group are as follows

Name of the companies	Place and date of incorporation	Principal activities	Proportion of voting rights and ordinary share capital attributable to the Group at 31 December 2006
Leadstar Enterprises Limited	British Virgin Islands 18 March 2005	Investment holding	100%
Jiangsu Shuangdeng Group Co Ltd	China, 16 September 2003	Investment holding	100%
Hong Kong Wealth Source Development Co Ltd	Hong Kong China, 24 September 1997	Investment holding	100%
Jiangsu Shuangdeng Power Supply Co Ltd	China, 9 December 1995	Manufacturing, sales and development of AGM batteries	100%
Jiangsu Longyuan Shuangdeng Power Supply Co Ltd	China, 2 August 1999	Manufacturing AGM batteries	100%
Jiangsu Fuste Power Supply Co Ltd	China, 23 October 2001	Manufacturing and sales of GEL and GFX batteries	100%
Nanjing Shuangdeng Science and Technology Development Academy Co Ltd	China, 18 June 2001	Technology research and development, manufacture and sales of UPS	100%
Jiangsu Shuangdeng Best Supply Co Ltd	China 13 January 2006	Manufacturing and sales power-aided bicycle batteries	100%
Beijing Full Three Dimension Engineering Co Ltd	China, 13 April 1995	Design and reconstruction of turbines	51%
Yangzhou Zhenghe Power Supply Co Ltd	China 2 November 2001	Manufacturing sales and development of GFM batteries	59%

The only direct subsidiary of the Company is Leadstar Enterprises Limited All other investments in subsidiaries are held through intermediate holding companies

In July 2006 the trade and assets of Jiangsu Longyuan Shuangdeng Power Supply Co Ltd were transferred into Jiangsu Shuangdeng Power Supply Co Ltd

30 Share-based payments

Equity-settled share options

1,480,000 share options were granted to certain directors and employees on flotation of the Company and a total of 320 000 share options were granted to Seymour Pierce Limited and FT International Corporate Advisory Limited for services provided in respect of the flotation The options granted to the directors and employees are exercisable in the period December 2008 to December 2015 and lapse thereafter or if the employee leaves the Group The options granted to Seymour Pierce Limited and FT International Corporate Advisory Limited are exercisable at any time up to 2 years from the date of listing on AIM, 200,000 of the options were issued during the year and the remaining 120,000 options were exercisable at 31 December 2006 All the options were granted at the placing price of £1 30 per share

	31 December 2006 Number of Options	31 December 2005 Number of Options	Exercise price £
Exercisable at the beginning of the period	1,800,000	-	1 30
Granted during the period	-	1,800 000	-
Exercised during the period	(200,000)	-	1 30
Outstanding at the end of the period	1,600,000	1,800 000	1 30
Exercisable at the end of the period	1 600,000	1,800,000	1 30

The options outstanding at 31 December 2006 had a weighted average exercise price of £1 30 and a weighted average remaining contractual life of 8 4 years For share options exercised in the year, the weighted average share price at the date of exercise was £1 7496

The inputs into the Black-Scholes model are as follows

	2006	2005
Weighted average share price	£1 30	£1 30
Weighted average exercise price	£1 30	£1 30
Expected volatility	46 60%	46 60%
Expected total life	5 3 years	5 3 years
Risk free rate	4 31%	4 31%

Expected volatility was determined by reference to the average volatility of comparable publicly traded companies The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

The Group recognised total expenses of £326,000 (2005 £145,000) related to equity-settled share-based payment transaction during the year

31 Segment reports

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets The operating businesses are all located in the People s Republic of China, and therefore geographic information is provided only in respect of the destination of sales

Business segments

The Group is comprised of the following business segments

The Power Type Batteries ('PTB') business segment is comprised of power-aided bicycle batteries

The Back up batteries business segment includes Value Regulated Lead Acid Batteries and Flooded and Gel Batteries

The Turbine business segment includes the development and construction of new turbines and the refurbishment and reconstruction of existing turbines

Allocation basis and transfer pricing

Segment results assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis

a) Business segments

The following tables present certain sales, profit asset, liability and other information regarding the Group's business segments for the years ended 31 December 2006 and 2005

	Back up Batteries		PTB		Turbine		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue										
Sales to external customers	39 218	28,413	20,326	-	6,910	-	-	-	66,454	28,413
Inter-segment sales	1 706	-	1,166	-	-	-	(2,872)	-	-	-
Total revenue	40,924	28 413	21,492	-	6,910	-	(2,872)	-	66,454	28,413
Results										
Segement profit	3,961	4,426	1,566	-	552	-	-	-	6,079	4,426
Share of profit of associate									-	56
Unallocated corporate expenses									(1,018)	(857)
Profit from operations before taxation									5,061	3,625
Income taxation									(789)	(514)
Profit for the year									4,272	3,111

	Back up Batteries		PTB		Turbine		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Assets and liabilites										
Segment assets	39,574	40,716	9,587	-	6,753	-	(1,706)	(2,892)	54,208	37,824
Unallocated assets									4,140	4,286
Total assets									58,348	42,110
Segment liabiities	27,278	27 673	5 119	-	5,139	-	(4,721)	(2,479)	32 815	25,194
Unallocated liabilites	-	-	-	-	-	-	-	-	945	854
Total liabilites									33,760	26,048
Other segment information										
Capital expenditure										
Property plant and equipment	2,265	847	2,748	-	76	-	-	-	5,089	847
Intangible assets	130	60	-	-	-	-	-	-	130	60
Depreciation and amortization	775	884	71	-	17	-	-	-	863	884

b) Geographical segments

	Domestic sales		Export sales		Elimination		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	£000	£000	£000	£000	£000	£000	£000	£000
Segment sales	65,260	27,272	1 194	1 141	-	-	66,454	28,413

All export sales originate from the Back up Batteries segment

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of China Shoto plc ('the Company') will be held at 100 Cannon Street, London EC4N6EU on 12 June 2007 at 10 00 am to transact the following

Ordinary business

1 To receive and adopt the Company's annual report and financial statements for the financial year ended 31 December 2006 together with the directors' report and the auditors' report on those financial statements

2 To re-appoint BDO Stoy Hayward LLP as auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company at which financial statements are laid and to authorise the directors to fix their remuneration

3 To declare a final dividend of 3 pence per Ordinary Share for the year ended 31 December 2006

Special business

4 That for the purposes of Section 80 of the Companies Act 1985 ('the Act') the Directors be and they are generally and unconditionally authorised to exercise all the powers of the Company to allot grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in Section 80(2) of the Act) in the capital of the Company, in substitution of all previous authorities up to a maximum amount of 5 million shares, nominal value of £500 000 to such persons and at such times and on such terms as the Directors think proper, such authority to expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008 unless and to the extent that such authority is renewed or extended prior to such date, provided that the Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to such an offer or agreement as if the authority conferred hereby had not expired

5 That, subject to passing of resolution 4 above the Directors are empowered in substitution for all previous authorities and pursuant to Section 95 of the Act to allot, grant options over, offer or otherwise deal with or dispose of equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotment grant of options, offer, dealing or disposal provided that this power shall be limited to the allotment of equity securities as follows -

a) the allotment of equity securities in connection with any issue by way of rights or other offering where the number of equity securities to be allotted to holders of Ordinary Shares of the Company on a fixed record date is proportionate (as nearly as may be) to the number of Ordinary Shares then held by such shareholders, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of any regulatory or stock exchange authority in any jurisdiction or in relation to fractional entitlements, and

b) otherwise than pursuant to sub-paragraph (a) above, up to 5 million shares, an aggregate nominal amount of £500,000

provided that this power shall, unless it is (prior to its expiry) duly revoked or varied or renewed by the Company in general meeting expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008, save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement

By order of the board
David Thomas
Company Secretary
10 May 2007

NOTES

- A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and on a poll vote instead of him A proxy need not be a member of the Company

- To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited with the Company's registrars Capita Registrars, not less than 48 hours before the time of the holding of the meeting or any adjournment thereof Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meetings

- In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at 10 00 am on 10 June 2007 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time Or if the meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting Changes to entries on the register of members after 10 00 am on 10 June 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting

- The register of interests of directors and their families in the Company's shares and copies of all Directors' service contracts will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the conclusion of the Meeting

Form of Proxy

I/We (name in full)____of

being (a) shareholder/(s) of China Shoto plc hereby appoint the Chairman of the Meeting

or ____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Meeting of the Company to be held at 100 Cannon Street, London EC4N6EU on 12 June 2007 at 10 00am

Please indicate with an 'X' in the space below how you wish your vote to be cast In the absence of any specific direction, and on any other resolution or motion put to the Meeting the proxy will vote or abstain as the proxy thinks fit

RESOLUTION	FOR	AGAINST
1 To receive the Annual Report and audited financial statements for the year ended 31 December 2006		
2 To re-appoint BDO Stoy Hayward LLP as Auditors		
3 To approve the final dividend		
4 To authorise the Directors to allot relevant securities in the Company pursuant to section 80 of the Companies Act 1985		
5 To disapply the provisions of section 89 of the Companies Act 1985 in respect of the allotment of equity securities in the Company		

Signature(s)________________________Date__________________________2007

NOTES

- To be valid this Form of Proxy, duly completed, must be deposited with the Company's Registrars at Capita Registrars The Registry 34 Beckenham Road Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for the Meeting
- In the case of joint holders, only one signature is required
- In the case of a corporation this Form of Proxy must be executed under its common seal or signed on its behalf by an attorney or officer duly authorized
- Any alteration made to this Form or Proxy must be initialled
- Completion and return of a Form of Proxy will not preclude shareholders from attending and voting in person should they subsequently decide to do so
- Any shareholder entitled to attend and vote at the above Meeting may appoint one or more proxies of his/her own choice to attend and, on a poll, to vote instead of him/her A proxy need not be a shareholder of the Company A shareholder completing a Form of Proxy will not thereby be precluded from attending in person instead of by proxy

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