a leading Chinese producer of lead acid batteries

China Shoto plc
2008 Annual Report

Business

China Shoto plc (the Group) is the largest Chinese producer of back up batteries. During 2008, Jiangsu Shuangdeng Group Co., Ltd (the JSG Co., Ltd) was awarded the "China Environment Friendly Enterprise" by the Ministry of Environmental Protection of PRC, and its subsidiary company Jiangsu Shuangdeng Power Supply Co., Ltd, was recognised as "National High Technology Enterprise" and successfully entered into a strategic cooperation agreement, "Green Action Program", with China Mobile.

Total revenue increased by 70% to £183.08 million in 2008 (2007: £107.50 million). Revenue from the back up battery business in 2008 increased by 111% to £164.79 million (2007: £78.02 million), and foreign sales revenue increased by 329% to £29.71 million (2007: £6.92 million)

Objectives

The Group has become the largest back up battery producer in China. As a China Environment Friendly Enterprise, the JSG Co., Ltd intends to become a green energy solution provider through enhancing R&D and progressing of the green energy storage product.

Product

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

Manufacturing

The Group's factories are well located in Jiangyan, two hours from Shanghai, giving access to convenient transportation networks.

Substantial modern manufacturing facilities, continuous technical improvement and filling up of production line vacancies have led to improved capacity. The Group has ten back up battery production lines and two PTB production lines which are utilised according to market demand. The Group appropriately shifted part of the PTB production lines to back up battery production during 2008. The annual production capacity of back up battery production lines is 2.7 million KVAH (1.0 KVAH is equivalent to one back up battery). The annual production capacity of PTB production lines is 500,000 KVAH (0.12 KVAH is equivalent to one PTB).

Products are manufactured according to international and domestic industrial standards and comply with the network confirmation requirement of major countries in Europe, America and South Asia. They have also been awarded the Certificate of Quality Inspection of the Anti-seismic Capability of Telecommunications Equipment, issued by the Ministry of Information and Industry of PRC in 2008.

Research and Development

The R&D Centre is mainly responsible for developing products of new type GEL Batteries and new type AGM Batteries, Spiral Wound Batteries and Super Capacitors, and for updating the technology development of existing products of GEL Batteries, AGM Batteries, PTB and Spiral Wound Batteries and Super-capacitors.

Sales and Marketing

Market sectors served include:

Telecommunications, electric power, railways and electric bicycles.

Key customers

Back up battery business:

China Mobile, China Unicom, China Telecom, China Netcom, China Tietong, which prior to rationalization of the sector last year were China's five major mobile telecom operators. (Restructuring has now left three major operators: China Mobile, China Unicom, China Telecom, all of which remain as clients). Other major clients include: ZTE Communication, Huawei Technology, India Indus Tower, India Reliance, and India Bharti.

PTB business:

Beijing Xinri Electric Vehicle Co., Ltd (Beijing Xinri), Shenzhen Shenling Car Co., Ltd (Shenzhen Shenling), Tianjin Taifeng Xiaoniao Electric Vehicle Co., Ltd (Tianjin Taifeng).

Sales and service network

The Group now has almost 80 domestic sales offices and five overseas offices in Frankfurt, Dubai, Moscow, Singapore, and New Delhi.

2008 was a turbulent year for the Chinese economy with the snow disaster in Southern China, Wenchuan, the 12 May Earthquake, sharp turbulent fluctuations in the international market price of raw material and energy, and the fast appreciation in RMB. As a consequence, Chinese economic policy has changed from the initial anti-inflation actions to steps required to sustain economic growth by the end of the year. Under such economic conditions, the Group, as the largest Chinese producer of back up batteries, has delivered excellent results which greatly exceeded market expectations, with revenue increasing by 70% to £183.08 million (2007: £107.50 million), net assets per share increasing 74% to £2.25 (2007: £1.29), diluted earnings per share increasing by 76% to 43.14p (2007: 24.45p). These excellent results fully reflect the effectiveness of the Group's annual operation strategy, market exploration orientation and risk control countermeasures.

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Revenue increased by 70% in 2008 to £183.08 million (2007: £107.50 million).

Operating profit increased by 66% to £14.17 million (2007: £8.53 million).

Net profit for the financial year attributable to equity holders of the parent increased by 79% to £10.07 million (2007: £5.62 million).

In the light of the strong overall performance of the business, the Board is pleased to recommend a final dividend of 3.5 pence per share. Following an interim dividend of 1.5 pence per share this brings the full year dividend for 2008 to 5 pence per share, which is in line with its stated dividend policy. The Dividend will be paid on 30 June 2009 to members on the register at the close of business on 19 June 2009. The ordinary shares will be marked ex-dividend on 17 June 2009.

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Against the background of a global *financial crisis, the Group* has substantially improved its cash flow through further strengthening its cash flow management and business risk controls. Net cash flows from operating activities in 2008 were £38.57 million (2007: outflow £3.11 million).

Business Progress

Revenue from the back up battery business grew by 111% to £164.79 million (2007: £78.02 million).

Foreign sales increased by 329% to £29.71 million (2007: £6.92 million).

Directorate Changes

There has been no change to the Board of Directors in the year ended 31st December 2008 and up to the date of signing of the annual report.

Social Responsibility

The Group has undertaken to operate to the highest ethical standards, and to contribute towards environmentally sustainable development through the appropriate use of recyclable of resources. The Group has continued to work towards the development of green energy storage products and energy saving and emission reduction programmes as a responsibility to give back to society, to reward society and to promote social development.

The Group is dedicated to delivering attractive returns to our *shareholders, and the return on year* end capital employed in 2008 reached 19.1%. We seek to maintain trust and keep harmonious relationships with partners such as customers and suppliers, to effect a win-win situation for everybody.

Environmental Standards

The Group passed the certification of ISO14001 environment management system and GB/T18001 vocation health and safety management, and its products passed CE Verification, UL Verification and EU RoHS test.

Outlook

Despite the global financial crisis continuing to worsen with international market demand continuing to shrink and the trend towards strong global deflation all of which might bring uncertainties for the Group's international business, I am confident that investments after the issue of 3G licences in China will bring new development opportunities for the Group.

As China's largest producer of back up batteries and a China *Environment* Friendly Enterprise, the Group intends to, ultimately, become a worldwide green energy solution provider. To that end, a new type of green energy storage product with high technology content is being developed.

Cao Guifa
Chairman
28 April 2009

The global financial crisis had its inevitable effects in China during 2008, exacerbated by natural disasters and sharp turbulent fluctuations in the international market price of raw materials and energy, and the rapid appreciation of the Renminbi. China Shoto, as a public listed company on AIM and the largest Chinese producer of back up batteries, has achieved excellent results which greatly exceeded market expectations. Revenues increased by 70% to £183.08 million (2007: £107.50 million), net profit (excluding minority interests) up 79% to £10.07 million (2007: £5.62 million) and foreign sales revenue increased by 329% to £29.71 million (2007: £6.92 million). These excellent results fully reflect the effectiveness of the Group's annual operational strategy, market exploration orientation and risk control measures.

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Market Overview

Business Segments

Back up battery
Revenue from back up battery sales in 2008 reached £164.79 million accounting for 90% of the Group's total revenue (2007: £78.02 million and 73 %).

PTB
Sales revenue of PTBs in 2008 reached £18.29 million accounting for 10% of the total revenue (2007: £29.48 million and 27%).

Geographical Segments

Domestic sales
Domestic sales revenue in 2008 rose to £153.37 million accounting for 84% of the Group revenue (2007: £106.39 million and 94%).

Foreign sales
Foreign sales revenue in 2008 rose to £29.71 million accounting for 16% of the Group total (2007: £6.92 million and 6%).

Market Sectors

With the rapid development of China's domestic telecom industry during 2008, the revenue from the sales of back up batteries increased by 111% to £164.79 million (2007: £78.02 million).

The Group shifted part of PTB production lines capacity so as to increase the output of back up battery to satisfy the fast development of the telecom industry. As a result, revenues from PTB decreased by 38% to £18.29 million in 2008 (2007: £29.48 million).

Key Customers

Back up Batteries
Sales to five major telecommunication operators accounted for 71% of the total back up battery revenue and increasing by 83% to £117.36 million, compared with £64.22 million in 2007. Sales to China Telecom and China Netcom increased 335% and 193% respectively year on year. Sales to India Indus Tower accounted for 36% of the total foreign sales.

PTB Business
The key customers of the PTB business are Beijing Xinri, Shenzhen Shenling, and Tianjin Tafeng which are all important domestic manufacturers. They accounted for 47.30%, 6.67 %, and 4.46 % of total PTB sales respectively.

Sales and Marketing

Back up battery
The Group successfully won the honour of 'Best Global Partner of ZTE Telecommunication' 2008-2009. The Group further increased OEM sales to ZTE and Huawei while continuing to maintain its high market shares in the three key domestic telecom operators, and greatly enlarged its order book with Indus Tower, Bharti, Tata and other Indian main telecom operators.

Leoch successfully served in the construction of the main venues for the Olympic Games. The Group also participated in China Mobile base station construction at an elevation of 6500 meters to support the Olympic Holy Fire Relay on Mount Everest.

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PTB
In 2008, the Group continued to manage its program of working with the distributors of well-known electric bicycle manufacturers and appointed experienced sales agents in many regions.

Technical Support and Fairs
The Group strengthened its communications with customers with improved technical support and perfect after-sale service.

The Group voluntarily took part in rescue action at the serious natural disasters which resulted from heavy snow in the south of China and the 12 May Earthquake in Wenchuan Sichuan Province, to support and serve telecommunication rush repairs in the disaster areas. The Group checked battery performance in Southern China key base stations to ensure safe power supply, and assisted with the telecommunication rescue work and base station rebuilding in the areas affected by the earthquake.

The Group also presented at the China Sourcing Fair in Dubai, the 2008 China International Information & Telecom Fair, the 8th China International Battery Technology Exchange Fair, the International Battery Fair (Indian Hyderabad), and the 19th International Communications and Information Technology Exhibition & Conference (Singapore).

Operating Overview

Product
Quality Control
The Group manufactures batteries according to IEC and German DIN standards, and ensures the highest quality controls, using advanced manufacturing equipment and production processes. In addition, the Group passed the re-examination to retain its ISO9001 Quality Management System Authentication. The Group has also been rated as a First Class Export Product Enterprise in Jiangsu by the Jiangsu Entry-Exit Inspection and Quarantine Bureau of the People's Republic of China.

Manufacturing management
Product quality has been guaranteed by strict monitoring of manufacturing processes and detailed checks. Production capacity has also been increased through constant process improvement and filling up of production line vacancies.

Cost management
In 2008, the price of the main raw material, lead ingot, varied between RMB 7,969 Yuan per ton and RMB 19,201 Yuan per ton. The Group continued to maintain the price linkage scheme with telecom operators and OEM customers which effectively reduced its exposure to price fluctuations. Meanwhile, the Group lowered design costs through technology innovation, and reduced manufacturing costs through the implementation of measures to reduce waste and thereby use raw materials more effectively.

Research and Development

In 2008, the Group increased its R&D capacity to reflect the market demands, and accelerated the pace of commercialization of its new products, and made good progress on R&D and new projects for the development of future products.

Patents Granted

The Group now holds 115 patents, including 11 invention patents.

Back up battery

Gel Battery

The Group successfully developed 12V 110Ah and 12V 140Ah front-terminal gel batteries.

AGM Battery

The 12V65Ah, 12V100Ah, 12V150Ah front-terminal AGM batteries and series fifth 2VAGM VRLA batteries have been successfully developed.

Spiral Wound Battery

The 12V50Ah Spiral Wound Battery was successfully developed.

Power Type Battery

The Group successfully developed the 12V25Ah battery for light motor bikes.

Super Capacitor

A newly developed solar energy storage super capacitor for street lamps was successfully applied to the solar energy powered lighting in the Beijing Olympic Village.

Prospects

The Group intends to become a recognized green energy solution provider. Its high quality products and excellent service record have been fully demonstrated in domestic and overseas markets.

Notwithstanding the global financial crisis, the Group believes that its current plans to intensify marketing both domestically and internationally will increase revenues. The plan is to improve supply capability for existing clients and widen the customer base. Additionally, scientific and technological input in new product development and outsourcing for some products provide assurance of longer term growth.

The plans envisage a continuous improvement in finance and risk controls.

Success in the Group's performance will enable China Shoto to participate in the huge market opportunity provided by the PRC's Ministry of Industry and Information plan announced in January 2009 to invest within 3 years RMB 400 billion for 3G networks.

Yang Shanji

Chief Executive

28 April 2009

Results

The Board regard the following measures as key performance indicators:

Sales revenue increased by 70% to £183.08 million (2007: £107.50 million).

Operating profit increased by 66% to £14.17 million (2007: £8.53 million).

Pre-tax profit increased by 61% to £11.55 million (2007: £7.16 million).

Net profit attributable to equity holders of the parent increased by 79% to £10.07 million (2007: £5.62 million).

Diluted earnings per share from continuing operations in 2008 increased by 76% to 43.14p (2007: 24.45p).

Income Tax

China Shoto is a non-resident UK company, only subject to UK corporation tax for any activities undertaken in the UK.

The latest PRC taxation laws which came into effect on 1 January 2008 uniformly adjust the applicable income tax rate for both domestic capital and foreign capital enterprise to 25%. The Group and significant subsidiary undertakings are subject to income tax at the following tax rate:

Jiangsu Shuangdeng Group Co., Ltd
As a foreign enterprise, the JSG CO LTD enjoys a preferential policy of a five-year transition period between New and Old Enterprise income tax laws. It is free of tax in 2008 and 2009, and a half-relief tax rate of 12.5% will be applied from 2010 to 2012, the full applicable income tax rate will be 25% from 2013.

Jiangsu Fuste Power Supply Co., Ltd
In 2008, Jiangsu Fuste Power Supply enjoyed tax preference at a half-relief tax rate of 12.5%. From 2009, the full income tax rate of 25% will be applied.

Jiangsu Best Power Supply Co., Ltd
Jiangsu Best Power Supply's applicable income tax rate is 12.5% for the years 2008 to 2010. After the preferential period, its applicable income tax rate will be 25%.

Jiangsu Shuangdeng Power Supply Co., Ltd
Jiangsu Shuangdeng Power Supply was recognised as a "National High Technology Enterprise" in 2008, so it enjoys tax preference for the years 2008 to 2010. Its applicable income tax rate will be 15%.

Nanjing Shuangdeng Science and Technology Development Academy Co., Ltd
Since 2008 is the first profit-making year for the Academy, it is entitled to income tax exemption in 2008 and 2009 and a half relief of 12.5% tax rate will be imposed in 2010, 2011 and 2012. After the preferential period, its applicable income tax rate will be 25%.

Yangzhou Zhenghe Power Supply Co., Ltd
Yangzhou Zhenghe Power Supply Co., Ltd was entitled to tax exemption in 2007 and 2008, and a half relief of 12.5% for the years 2009 to 2011. Its applicable income tax will be 25% from 2012.

Earnings and Dividends

Diluted earnings per share increased 76% to 43.14p (2007: 24.45p). In light of the strong performance of the business, the Board recommends a final dividend for 2008 of 3.5 pence per share, which with the interim dividend of 1.5 pence per share, makes the dividend for whole year is 5 pence per share, which is in line with its stated dividend policy.

Shareholders' Equity

Equity of the Group attributable to shareholders of the parent increased by 75% to £52.52 million in 2008 (2007: £30.09 million). Retained earnings increased 62% to £15.82 million (2007: £9.73 million).

Cash Flows

Facing a global financial crisis, we made and implemented a timely cash flow management plan to further enhance the receivables management, and we strictly controlled financial risks. Adequate cash flow ensures the normal run of the Group's manufacture and operation. Net cash flows from operating activities in 2008 were £38.57 million, the net cash flow being equivalent to 383% of net profit.

Debtor Days

The average debt days reduced from 69 days in 2007 to 57 days in 2008, an improvement of 17%.

Borrowing

In 2008 the Group entered into credit agreements with Jiangyan Branch of Industrial and Commercial Bank of China, Jiangyan Branch of Agricultural Bank of China, Jiangyan Branch of China Construction Bank, and Jiangyan Branch of Bank of China, Jiangyan Branch of Bank of Communications. At 31 December 2008, the Group's short term bank borrowing is RMB 324.5 million compared with RMB 339.5 million as at 31 December 2007 (at 31 December 2008 £32.85 million and at 31 December 2007 £23.28 million).

Liquidity Risk

Liquidity risk arises from the Group's management of working capital.

The Group's policy as regards liquidity is to ensure sufficient cash resources are maintained to meet short-term liabilities. In 2008, the Group obtained a credit line of RMB 770 million from various financial institutions which increased by RMB 263 million, compared with 2007. Liquidity risk was greatly reduced by increasing facilities from the banks.

Foreign Exchange Risk

Approximately 16% of the Group's sales were denominated in USD in 2008. The Group's policy in regard to currency risk is to limit payment terms to immediate letters of credit or prepayment before transporting goods to clients, and exchange USD to RMB through banking instruments in time which effectively minimize the exchange fluctuation impact on the Group's results.

Foreign sales in 2008 were £29.71 million, increased by 329%, compared with £6.92 million in 2007. At 31 December 2008, the year-end exchange rate between RMB and Pound Sterling had appreciated by 32% to 9.8798 (2007: 14.5807). The latest report of the National Development and Reform Commission and State information Center of PRC shows that appreciation range of RMB will be 1% to 2% in 2009. We review and control foreign currency transaction and settlement risk regularly and take exchange rate movement as part of the pricing policy aiming at possible changes.

Interest Rate Risk

There is no significant interest rate risk for the Group, and the main interest rate risk is the rate of return on short term cash deposit and bank borrowings.

Zhou Weigang
Finance Director
28 April 2009

Cao Guifa
Executive Chairman

Cao Guifa became the chairman of the former holding company of what is now the China Shoto plc in 2002 and he is a substantial shareholder in the Company. Also he has become the Chairman of Shigo Asia AG since May 2008. 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.

Yang Shanji
Chief Executive

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 pioneers in the China battery industry, and is the Vice Director of both China Battery Industry Association and China Industrial Association of Power Sources. He has more than 27 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. He is also an expert with important contribution to the Provincial Government and candidate of "People of the Year of Green China" in 2008.

Zhou Yuezhang
Executive Director

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 19 years of management experience in the storage battery industry. Mr. Zhou holds a master's degree.

Zhou Ping
Executive Director

Zhou Ping holds a master's degree, a title of senior economist, and has been appointed as Chief Marketing Officer. He is an economist with 15 years' experience in the battery and industrial power supply sector, and works for China Shoto plc (Jiangsu Shuangdeng Group) within this period. He takes charge of market planning and sales management for the Group in recent ten years.

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Executive Director

Zhou Weigang, holds a master's degree, a title of senior economist and is an accountant. He has been appointed as Chief Finance Officer. He has 28 years' experience in senior accounting and corporate finance for Chinese industrial companies. He has served China Shoto for eleven years, most recently as the Group's financial controller in accounts, financial management and risk control for nine years. He was part of the team, which assisted in the listing of China Shoto on the AIM market in December 2005.

Li Shuang
Non-Executive Director

Li Shuang is a professor in the Central University of Finance and Economics. Professor Li acted 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 member of Accounting Society of China (ASC), and director and member of CICPA and China Audit Society, a member of Academic Committee of Audit Society. He is also a Non-Executive Director of two companies listed in China and an exterior supervisor of a listed company.

[illegible] Harry Asher
Non-Executive Director

Mr. Asher, who resides in London, was an Executive Director of HSBC Holdings from 1986 to 1998 and Chairman of HSBC Investment Bank. In 1998 Mr. Asher 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.

Peter Maurice Crystal
Non-Executive Director

Mr. Crystal is a Non-Executive Director. He is a solicitor and has over 30 years' experience advising Directors and companies whose shares are listed on the London Stock Exchange and AIM. Founder of law firm Memery Crystal, he specializes in matters relating to listed companies and advising on flotations, takeovers, mergers and all corporate finance activities. He is a graduate of Oxford and McGill Universities, a former Law Society Examiner, director of several companies and a speaker on corporate finance and corporate governance.

The Directors are pleased to submit the annual report and financial statements for the year ended 31 December 2008.

Principal Activities

The principal activity of China shoto plc 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.

Business Review

The Group has performed satisfactorily during the year and the trading performance materially exceeded expectations at the beginning of the year.

The Income Statement is set out on page 20 and shows revenue for the year of £183.08 million and profit for the year attributable to equity holders of the parent of £10.07 million.

Revenue has increased by 70%. Back up battery revenue was £164.79 million during the year 2008, which increased by 111% compared with £78.02 million in 2007. Further details of revenue by product segment are given in note 28 to the accounts.

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, performance and key performance indicators are disclosed in the Chairman's statement, the Chief Executive's review and the Finance Director's review on pages 4 to 11.

Future Developments

The Directors believe that the Group's business will continue increasing in the foreseeable future. Sales revenue will increase though at a modest rate in 2009.

Principal Risks and Uncertainties

Market risks

We are faced with intense global market competition, growth from 3G investment construction is for a short period, international market competition with no obvious competitive advantages compared with other international enterprise high requirements in science and technology input and innovation, upstream and downstream industry facing a global financial crisis, impact the product price, cost and market demand potential for international trade protectionism. We will continue to supply more high quality product and provide effective services. We intend to be energy-saving, emission reduction and to improve environment protection through technology research and development.

The above factors all potentially affect the potential for the sale of our goods into various markets, as well as the price at which these can be sold. In addition, in the Group's exports markets there is increasing instability in world exchange rates affecting market potential and price. Other forms of financial risk are discussed further in note 25 to the financial statements.

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.

Dividend

The Board is pleased to recommend a final dividend of 3.5 pence per share, which with the already paid interim dividend of 1.5 pence per share, makes the total annual dividend for 2008 5 pence per share, which is in line with its stated dividend policy.

Substantial Shareholders

The Group has been notified of no beneficial interests, other than those of the Directors, in 3% or more of the issued capital of the Company.

Directorate Changes

There has been no change to the Board of Directors for the year ended 31 December 2008 and up to the date of signing of Annual Report.

Employee Policy

As China Environment Friendly Enterprise, we work to identify and minimize all health and safety risks in daily operations and in the production process. We also provide regular physical examination and occupational health and safety training for all employees. The Group also pays for endowment insurance, medical insurance, unemployment insurance, as well as providing a housing fund for all employees in line with relevant national regulations.

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

Environmental Policy
The Group passed the certification of ISO14001 and GB/T18001 vocation health and safety management, and its products passed the CE Verification, UL Verification and EU RoHS test. Its subsidiary, Jiangsu Shuangdeng Power Supply Co. Ltd., successfully signed a strategic cooperation agreement, "Green Action Program", with China Mobile. As a China Environment Friendly enterprise, environment protection is always integrated into planning by the Group which is demonstrated in purchasing of equipment and raw materials, recycling of waste residue and purification of waste water.

Creditor Payment Policy
The Group pays for the main raw material (lead ingot) by cash on delivery. The payment for other raw materials is by bank acceptance with six months' maturity.

Financing
The Group currently uses bank borrowings of one year's maturity to provide finance for working capital requirements. Given the trading performance and the strength of the Group's balance sheet, the Group will continue to operate as a going concern in the foreseeable future.

Financial Instrument
The Group has its own cash resource and foreign exchange account which is managed to reduce exchange rate risk from transactions not denominated in RMB. The Group has not undertaken any transactions in financial derivatives. For further information on financial instruments refer note 25 to the financial statements.

Communication with Shareholders and the Market
The annual report and financial statements and interim statements are the primary vehicles for communication with share holders. Meetings with significant shareholders are arranged through our Nominated Advisor, and 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 Group's broker are another means of communication with shareholders and the market. General information about the business is also available on the Group's website: www.chinashoto.com

Annual General Meeting
The annual general meeting (AGM) will be held on 16th June, 2009 in London. Full details of the resolutions to be put to the meeting are given in the notice of the AGM at pages 53-54 of this annual report.

Auditors
In accordance with Section 485 of the Companies Act 2006, 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 Group's auditors for the purposes of their audit and to establish that the auditors are aware of the information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

Articles of Association
The Group will submit a resolution adopting revised Articles of Association incorporating changes to reflect the Companies Act 2006 to the AGM.

Peter Crystal

By order of the Board
Peter Maurice Crystal
Company Secretary

Corporate Governance

Introduction
The Board of Directors is accountable to the Group'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. The Board believes this balance to be appropriate. The Board is responsible to shareholders for the proper management of the Group and it meets not less than four times a year, sometimes by telephone, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy, examining acquisition opportunities and capital expenditure projects, and reports to shareholders and to consider any major issues that arise.

Audit Committee
The Audit Committee, which is chaired by Li Shuang, comprises the three 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 Peter Maurice Crystal and includes Bernard Asher and Zhou Yuezhang. 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 are set by the entire Board.

Internal Control and Risk Management
The Board is responsible for establishing and maintaining the Group's system of internal control. 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.

In 2008 the Group introduced an ERP management system which provides a management platform for decision-making, programming, control and operating performance evaluation.

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.

The Board has established a sound risk evaluation and control system and ensures that directed measures be taken to manage such risks after identifying and evaluating them. In addition, the Directors take responsibility for monitoring changes in economic activity and the external environment, and communicate with members of the group internal and external auditors.

The Board and the Audit Committee have reviewed the effectiveness of the internal control system.

Budgetary process
Each year the Board approves the annual budget, and key risk areas are identified. Performance is monitored and relevant action is 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 Group, for safeguarding the assets of the Group, 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 are also required to prepare financial statements for the Group and the Company in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The Directors have chosen to prepare financial statement for the Group in accordance with 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. A fair presentation also requires the Directors to:

- 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 Group'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, suggest 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

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 2008. The targets were designed to ensure that the total remuneration varies in line with Group 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 2008 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 December 2008 and 31 December 2007	% 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
Zhou Ping	100,000	0.5%	£1.30	30 Nov 2005	Dec 2008-Dec 2015
Zhou Weigang	100,000	0.5%	£1.30	30 Nov 2005	Dec 2008-Dec 2015

None of the options were exercised during the year.

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.

Independent Auditors' Report

TO THE SHAREHOLDERS OF CHINA SHOTO PLC

We have audited the group and company financial statements (the "financial statements") of China Shoto plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and 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, or if we have not received all the information and explanations we require for our audit, as 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 Highlights Summary, the Chairman's Statement, the Chief Executive's Review, the Finance Director's Review, the Board of Directors' Profile, the Directors' Report, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatement 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 2008 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the parent company's affairs as at 31 December 2008; and
- 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
Chartered Accountants and Registered Auditors
Gatwick

28 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Revenue	3	**183,083**	107,497
Cost of sales		**(134,794)**	(82,376)
Gross profit		**48,289**	25,121
Other operating income	3	**382**	503
Distribution expenses		**(23,259)**	(11,131)
Administrative expenses		**(10,866)**	(5,869)
Other operating expenses		**(377)**	(96)
Profit from operations	4	**14,169**	8,528
Finance income	3	**194**	73
Finance costs	6	**(2,811)**	(1,445)
Profit before tax from continuing operations		**11,552**	7,156
Tax expense	8	**(1,258)**	(1,255)
Profit from continuing operations		**10,294**	5,901
Loss on discontinued operations, net of tax	7	-	(14)
Profit for the year		10,294	5,887
Attributable to:			
Equity holders of the parent		**10,070**	5,618
Minority interests		**224**	269
		10,294	5,887
Earnings per share for profit attributable to the equity holders of the parent during the year			
-Basic	10	**43.14p**	24.07p
-Diluted	10	**43.14p**	23.66p
Continuing operations			
-Basic	10	**43.14p**	24.87p
-Diluted	10	**43.14p**	24.45p

The accompanying notes on pages 29 to 52 form an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 £000	2007 £000
Assets			
Non-current assets			
Property, plant and equipment	11	**25,249**	15,590
Available-for-sale investment		-	137
Intangible assets	14	**3,123**	1,778
Deferred tax assets	22	**43**	92
		28,415	17,597
Current assets			
Inventories	15	**28,410**	19,426
Trade and other receivables	16	**36,056**	32,778
Short-term investments	17	**3,946**	1,290
Cash and cash equivalents	18	**50,797**	11,087
		119,209	64,581
Total assets		147,624	82,178
Liabilities			
Current liabilities			
Bank borrowings	19	**32,845**	23,284
Trade and other payables	20	**61,122**	27,817
Income tax payable		**164**	516
		94,131	51,617
Total liabilities		**94,131**	51,617
Equity			
Share capital	23	**2,334**	2,334
Share premium	24	**8,630**	8,630
Other reserves	24	**2,916**	2,916
Share option reserve	24	**977**	679
Statutory reserves	24	**9,252**	6,678
Retained earnings	24	**15,823**	9,727
Foreign currency translation reserve	24	**12,588**	(871)
Total equity attributable to equity holders of the parent		**52,520**	30,093
Minority interests		**973**	468
Total equity and liabilities		147,624	82,178

The financial statements were approved and authorized for issue by the Board of Directors on 28 April 2009 and signed on its behalf by:

Cao Guifa
Chairman

Yang Shanji
Chief Executive

The accompanying notes on pages 29 to 52 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders								Minority interests	Total
	Share capital	Share premium	Other reserves	Share option reserve	Statutory reserves	Retained earnings	Foreign currency translation reserve	Total		
	Note 23 £000	Note 24 £000	Note 24 £000	Note 24 £000	Note 24 £000	Note 24 £000	Note 24 £000	£000	£000	£000
Balance as at 1 January 2007	2,334	8,630	2,916	353	5,071	6,416	(2,272)	23,448	1,140	24,588
Profit for the financial year	-	-	-	-	-	5,618	-	5,618	269	5,887
Foreign currency translation	-	-	-	-	-	-	1,401	1,401	17	1,418
Total recognized income and expense								7,019		7,305
Disposal of subsidiary	-	-	-	-	-	-	-	-	(712)	(712)
Transfer to statutory reserves	-	-	-	-	1,607	(1,607)	-	-	-	-
Share based payment expense										
Employee share options	-	-	-	326	-	-	-	326	-	326
Dividends paid	-	-	-	-	-	(700)	-	(700)	-	(700)
Dividends announced to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	(246)	(246)
Balance as at 31 December 2007	2,334	8,630	2,916	679	6,678	9,727	(871)	30,093	468	30,561
Profit for the financial year	-	-	-	-	-	10,070	-	10,070	224	10,294
Foreign currency translation	-	-	-	-	-	-	13,459	13,459	281	13,740
Total recognized income and expense								23,529		24,034
Transfer to statutory reserves	-	-	-	-	2,574	(2,574)	-	-	-	-
Share based payment expense										
Employee share options	-	-	-	298	-	-	-	298	-	298
Dividends paid	-	-	-	-	-	(1,400)	-	(1,400)	-	(1,400)
Balance as at 31 December 2008	2,334	8,630	2,916	977	9,252	15,823	12,588	52,520	973	53,493

The accompanying notes on pages 29 to 52 form an integral part of the consolidated financial statements.

Consolidated Cash Flow Statements

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Cash flows from operating activities			
Profit before tax from continuing operations		**11,552**	7,156
Profit before tax from discontinued operations	7	-	351
Profit before tax		**11,552**	7,507
Adjustments for:			
Amortisation of intangible assets	14	**53**	50
Depreciation of property, plant and equipment	11	**1,557**	1,137
Losses on disposal of property, plant and equipment		**36**	42
Gain on disposal of available-for-sale investments		**(10)**	-
Impairment loss on loans and receivables	4	**224**	295
Share based payment expense	27	**298**	326
Financial income	3	**(194)**	(88)
Financial expense	6	**2,811**	1,460
Cash flow from operating activities before changes of working capital and provisions		**16,327**	10,729
Working capital changes:			
Decrease/(Increase) in:			
Inventories		**208**	(8,997)
Trade and other receivables		**8,848**	(13,027)
Increase in:			
Trade and other payables		**14,845**	9,157
Cash generated from/(used in) operations		**40,228**	(2,138)
Income tax paid		**(1,661)**	(976)
Net cash flows from operating activities		**38,567**	(3,114)
Cash flows from investing activities			
Financial income	3	**194**	88
Purchase of land use right		**(450)**	(422)
Purchase of property, plant and equipment		**(3,971)**	(3,627)
Funds placed on deposit		**(1,622)**	(283)
Disposal of a subsidiary undertaking, net of cash	13	-	(361)
Disposal of available-for-sale		**170**	-
Proceeds from disposal of property, plant and equipment		**126**	307
Dividend from former subsidiary (declared before and received after disposal)		-	175
Cash flows used in investing activities		**(5,553)**	(4,123)
Cash flows from financing activities			
Increase in bank borrowings		**50,354**	37,853
Decrease in bank borrowings		**(51,560)**	(27,864)
Interest paid	6	**(2,811)**	(1,460)
Dividends paid	9	**(1,400)**	(700)
Cash flows from financing activities		**(5,417)**	7,829
Net increase in cash and cash equivalents		**27,597**	592
Cash and cash equivalents at beginning of year		**11,087**	9,937
Foreign exchange differences		**12,113**	558
Cash and cash equivalents at end of year	18	50,797	11,087

The accompanying notes on pages 29 to 52 form an integral part of the consolidated financial statements.

Company Balance Sheet

As at 31 December 2008

Assets	Notes	2008 £000	2007 £000 Restated*
Non-current assets			
Investment in subsidiary undertakings	12	**20,977**	20,679
Due from related parties	21	**12,620**	10,620
		33,597	31,299
Current assets			
Cash and cash equivalents	18	**197**	185
		197	185
Total assets		33,794	31,48[illegible]
Liabilities			
Current liabilities			
Other payables	20	**52**	21
		52	21
Non-current liabilities			
Due to related parties	21	**2,945**	1,324
Total liabilities		**2,997**	1,345
Equity			
Share capital	23	**2,334**	2,334
Share premium	24	**8,630**	8,630
Share option reserve	24	**977**	679
Other reserve	24	**18,462**	18,462
Retained earnings	24	**394**	34
Total equity		30,797	[illegible]
Total equity and liabilities		33,794	[illegible]

The financial statements were approved and authorised for issue by the Board of Directors on 28 April 2009 and signed on its behalf by:

Cao Guifa
Chairman

Yang Shanji
Chief Executive

-Restated-refer note 21.

The accompanying notes on pages 29 to 52 form an integral part of the consolidated financial statements.

Company Statement of Changes in Equity

For the period ended 31 December 2008

	Share capital Note 23 £000	Share premium Note 24 £000	Share option reserve Note 24 £000	Other reserves Note 24 £000	Retained earnings Note 24 £000	Total £000
Balance as at 1 January 2007	2,334	8,630	353	18,462	875	30,654
Net loss for the financial period and total recognized income and expense	-	-	-	-	(141)	(141)
Share based payment expense - Employee share options	-	-	326	-	-	326
Dividends paid to external shareholders	-	-	-	-	(700)	(700)
Balance as at 31 December 2007	2,334	8,630	679	18,462	34	30,139
Net profit for the financial period and total recognized income and expense	-	-	-	-	1,760	1,760
Share based payment expense - Employee share options	-	-	298	-	-	298
Dividends paid to external shareholders	-	-	-	-	(1,400)	(1,400)
Balance as at 31 December 2008	2,334	8,630	977	18,462	394	30,797

Company Cash Flow Statement

For the period ended 31 December 2008

	Notes	2008 £000	2007 £000
Cash flows from operating activities			
Profit/(loss) before income tax		**1,760**	(141)
Investment income from subsidiary		**(2,000)**	-
Financial income		**(6)**	(1)
Cash used by operations loss before working capital changes		**(246)**	(142)
Working capital changes:			
Increase in:			
Other payable	20	**31**	955
Amounts due to subsidiary undertakings	21	**1,621**	-
Net cash from operating activities		**1,406**	813
Cash flows from investing activities			
Financial income		**6**	1
Net cash flows from investing activities		**6**	1
Cash flows from financing activities			
Dividends paid to external shareholders	9	**(1,400)**	(700)
Cash flow from financing activities		**(1,400)**	(700)
Net increase in cash and cash equivalents		**12**	114
Cash and cash equivalents at beginning of year		**185**	71
Cash and cash equivalents at end of year	18	**197**	1[illegible]

The accompanying notes on pages 29 to 52 form an integral part of the consolidated financial statements.

Notes to the Financial Statements

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.

The Group financial statements consolidate those of the company and its subsidiaries (together referred to as the Group). The parent company financial statements present information about the company as a separate entity and not about its group. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 14.

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.

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 profit after tax £1,760,000 (2007: a loss of £141,000), which is dealt with in the financial statements of the Company.

Standards effective but not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has decided not to adopt early and are not expected to have a material impact on the Group's accounts. There are:

- Amended to IFRS7, Improving Disclosures about Financial Instruments (Effective for annual periods beginning on 1 January 2009).

- IFRIC 17 Distributions of Non-cash Assets to Owners (Effective for annual periods beginning on 1 July 2009).

- IFRIC 18 Transfer of Assets from Customers (Transfers of assets from customers received on or after 1 July 2009).

- IFRS 8 Operating Segments (Effective for annual periods beginning on 1 January 2009).

- Improvements to IFRSs (Effective for annual periods beginning on 1 January 2009).

- Revised IFRS 1 First-time Adoption of International Financial Reporting Standards (Effective for annual periods beginning on 1 January 2009).

- Revised IFRS 3 Business Combinations (Effective for annual periods beginning on 1 July 2009).

- Amendment to IAS 23 Borrowing Costs (Effective for annual periods beginning on 1 January 2009).

- Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (Effective for annual periods beginning on 1 January 2009).

- Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation (Effective for annual periods beginning on 1 January 2009).

- Amendments to IAS 27 Consolidated and Separate Financial Statements (Effective for annual periods beginning on 1 July 2009).

2 Accounting policies (continued)

Standards effective but no yet adopted (continued)

- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation (Effective for annual periods beginning on 1 January 2009).

- Amendments to IAS 39 and IFRS 7: Reclassification of Financial Instruments (Effective for annual periods beginning on 1 July 2008).

- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a subsidiary, jointly-controlled entity or associate (Effective for annual periods beginning on 1 January 2009).

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items (Effective for annual periods beginning on 1 July 2009).

- IFRIC 13 Customer Loyalty Programmes (Effective for annual periods beginning on 1 July 2008).

- IFRIC 15 Agreements for the Construction of Real Estate (Effective for annual periods beginning on 1 January 2009).

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (Effective for annual periods beginning on 1 October 2008).

Estimates and assumptions

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Useful lives and depreciation of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods. Details of the estimated useful lives are shown in the policy note for depreciation. While the estimated useful life of an asset is determined on acquisition, using best estimates, both residual values and estimated useful lives are monitored on an annual basis. More details including carrying values are included in Note 11.

b) Inventory

The company reviews the net realisable value of, and demand for, its inventory on a quarterly basis to provide assurance that recorded inventory is stated at the lower of cost or net realisable value. Factors that could impact estimated demand and selling prices include the timing and success of future technological innovations, competitor actions, supplier prices and economic trends. Changes of the expected net realizable value of inventory could potentially result in the reduction of the profit for the year. The Group has not needed to provide for slow moving and obsolete stock as amounts were negligible.

c) Allowance for doubtful trade receivables

The Group makes sales on credit. A proportion of the outstanding credit sales may prove uncollectible in due course. An estimate is made of the uncollectible portion of accounts receivables using a percentage based on the ageing profile of the amounts outstanding. Historically the Group has not born losses exceeding 1% of gross book value of trade and other receivables but has increased its allowance for doubtful trade receivables during this period to reflect tightening economic and monetary conditions in the World and in China, in particular.

There is a degree of uncertainty as to actions the Group is able to undertake to enforce collection of doubtful debts, which may impact the eventual recoverable amounts. Accordingly, the Directors have assessed their best estimate of the recoverability of such debts as nil. More details of the allowance for doubtful trade and other receivables is provided in Note 16.

2 Accounting policies (continued)

Estimates and assumptions (continued)

d) Income taxes

The group is subject to income tax in several jurisdictions within the People's Republic of China and significant judgment is required in determining the provision for income taxes. The carrying amount of the group's income tax payable at 31 December 2008 was £164,000 (2007: £516,000). The company believes that its tax liabilities are adequate for all of its years of operations based on the assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events.

During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the company recognises tax liabilities based on best estimates of whether additional taxes and interest may be due.

Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the Board of Directors.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the China Shoto plc and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All inter-group balances, transactions, income, expenses, profits and losses resulting from inter-group transactions that are recognized as assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus cost directly attributable to the acquisition. Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities represents goodwill. The goodwill is accounted for in accordance with the accounting policy for goodwill stated below.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. These are presented in the consolidated balance sheet within equity, separately from the parent shareholder's equity, and are separately disclosed in the consolidated income statement.

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.

2 Accounting policies (continued)

Foreign currencies

The functional currency of the subsidiary undertakings is Renminbi ('RMB'), and the 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 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 consolidated results are presented in Sterling reflecting the Company's UK quotation and investor base. 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 foreign currency translation reserve within equity.

Revenue recognition

Revenue from the sale of goods is recognised upon significant risks and rewards of ownership of the goods being transferred to the customer, which coincides with acceptance of the goods sold and the quality inspection by clients, being a contractual requirement of the Group's customers.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognized in the consolidated income statement over the period necessary to match it on systematic basis to the costs that it is intended to compensate. Where a grant relates to an asset, it is included in deferred income and amortized to the consolidated income statement in equal annual installments over the expected useful life of the relevant asset.

Employee benefits

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

Borrowings costs

Borrowing costs are expensed as incurred.

Share-based payments

Where equity settled share options are awarded to employees for services provided in respect of the flotation, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The fair value of the award is recognised over the vesting period as an increase in the cost of investment in the subsidiary in the company balance sheet. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received.

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 substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is provided using balance sheet 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 substantively 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.

2 Accounting policies (continued)

Dividends
Equity dividends are recognised when they become legally payable. In respect of interim dividends to equity shareholders, this is when they are paid. In respect of final dividends to equity shareholders, this is when they are approved by the annual shareholders' meeting. The Company will recognise investment income when the subsidiaries' dividend is approved by their shareholders' meetings.

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.

Intangible assets
Land use rights

Land use rights arise when the Bureau of the Land and Resources of People's Republic of China grants the group rights to develop, use and operate land during a limited period of time. Land use rights are measured initially at cost and subsequently amortised on a straight-line basis over the life of the asset. The life of the land use right is taken to 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.

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.

Other intangible assets

The cost of intangible assets acquired in a business combination is their value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized through administrative expenses on a straight-line basis over their estimated useful economic lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and amortization method for intangible assets are reviewed at least at each financial year-end.

The estimated useful economic lives of the Group's intangible assets are as follows:

Trade mark & Patents	10 years

Investment in subsidiary undertakings
Investments in subsidiaries are stated at cost less provision for impairment.

2 Accounting policies (continued)

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 fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less costs to sell. 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. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity. Unless otherwise stated, book value of financial assets is not materially different from their fair values.

a) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provision is recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being made based on past experience after analysis of the ageing of receivable.

For trade receivables such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that trade receivables will not be collectable, the gross carrying value of the assets is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables, amounts due from related parties, short-term investment and cash and cash equivalents in the balance sheet.

The short-term investments are bank deposits with original maturities of more than three months but within a financial year. The short-term investments are to the security for export sales or notes payables with an initial maturity of more than three months. The short-term investments are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents comprise 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.

b) Available-for-sale investment

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise principally the group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities as well as corporate bonds. They are carried at fair value with changes in fair value recognised directly in a separate component of equity (available-for-sale reserve) other than exchange differences, which are recognised in profit or loss. Where there is a significant or prolonged decline in the fair value of an available for sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously charged to equity, is recognised in the income statement. Purchases and sales of available for sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available-for-sale reserve associated with that asset is removed from equity and recognised in the income statement. Interest on corporate bonds classified as available for sale is calculated using the effective interest method and is recognised in finance income in the income statement.

2 Accounting policies (continued)

Financial liabilities and equity

The Group classifies its financial liabilities into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Financial liabilities of the Group include trade and other payables, amounts due to related parties and bank borrowings.

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and prepayable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Unless otherwise stated, book value of financial liabilities is not materially different from their fair values.

Equity instruments are recorded net of direct issue costs.

Research and development expenditure

Research costs are expensed as incurred. Development expenditure on an individual project is recognized as an asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention and availability of resource to complete the asset, the ability to measure reliably the expenditure during development, and whether the asset will generate future economic benefits.

If development expenditure cannot be distinguished from the research phase of an internal project to create an intangible asset, the research and development expenditure of internal projects is recognised in the income statement as incurred.

Following initial recognition, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

No costs in the current or prior period meet the criteria required for capitalisation.

3 Revenue

	Group 2008 £000	Group 2007 £000
Revenue		
Sale of goods	**183,083**	107,497
Other operating income		
Waste disposal and sale of by-products	-	35
Government grant income	**244**	394
Other	**138**	74
	382	503
Finance income		
Interest income	**194**	73
Total income	183,659	108,073

Government grant income is a direct subsidy which is received by the Group from the finance bureau and other government departments.

4 Profit from operations

	Group 2008 £000	Group 2007 £000
After charging / (crediting):		
Cost of inventories recognized as expense	**134,794**	82,376
Auditors' remuneration		
- audit of Group accounts	**39**	30
- audit of individual accounts of subsidiary undertakings	**52**	54
- non-audit services - Tax	**22**	12
- Corporate finance	**-**	1
- General advice	**6**	1
Amortisation of intangible assets	**53**	39
Depreciation of property, plant and equipment	**1,557**	1,122
Loss on disposal of property, plant and equipment	**36**	41
Impairment loss on loans and receivables	**224**	295
Research and development expenditure	**1,305**	34
Foreign exchange gains	**(96)**	(56)
Share based payment expense:		
Employee share options	**298**	326

5 Information regarding Directors and employees

	2008 Number	2007 Number
Average number of employees of the Group		
Management and administration	**325**	352
Sales	**254**	283
Manufacturing	**2,128**	2,087
	2,707	2,722

£40,000 (2007: Nil) was paid to employees directly by China Shoto plc.

	2008 £000	2007 £000
The aggregate payroll costs of these employees ware as follows:		
Wages and salaries	**9,418**	5,273
Social security costs	**194**	126
Retirement benefits	**566**	279
	10,178	5,678
Share-based payment expense (see note 27)	**298**	326
	10,476	6,004

5 Information regarding Directors and employees(continued)

Directors remuneration was as follows:

	2008 Salary £000	2008 Benefits £000	2008 Bonus £000	2008 Total emoluments £000	2007 Total emoluments £000
Cao Guifa	30	-	54	84	69
Yang Shanji	30	-	399	429	313
Zhou Yuezhang	20	1	132	153	127
Zhou Weigang	20	1	132	153	130
Zhou Ping	20	1	132	153	139
Wang Zhaobin	-	-	-	-	118
Zhu Shiping	-	-	-	-	26
David Thomas	-	-	-	-	10
Li Shuang	10	-	-	10	10
Bernard Asher	10	-	-	10	10
Peter Maurice Crystal	10	-	-	10	5
Total	150	3	849	1,002	957

	2008 £000	2007 £000
Emoluments	**1,002**	957
Share-based payment expense (see note 27)	**242**	237
	1,244	1,194

There were no payments for short-term employees' benefits, post-employment benefits, other long-term benefits and termination benefits in respect of Directors.

6 Finance costs

	Group 2008 £000	Group 2007 £000
Interest expense on bank and other loans	**2,811**	1,445

7 Discontinued operations

On 7 November 2007 the Group disposed of Beijing Full Three Dimension Engineering Co. Ltd (hereinafter referred to as FTD), which is a 51% owned subsidiary of the Group and carried out all of the Group's turbine manufacturing operation.

The results of the turbine manufacturing operation were as follows:

	Period ended 30 October 2007 £000
Revenue from construction contracts	5,817
Cost of sales	(5,047)
Gross profit	770
Other operating income	182
Distribution expenses	(90)
Administrative expenses	(511)
Profit from operations	351
Finance income	15
Finance costs	(15)
Profit before tax	351
Tax expense	1
Profit for the period	352
Loss from selling discontinued operation	(366)
Loss on discontinued operation, net of tax	(14)

The cash flow statement included the following amounts relating to turbine manufacture operating:

	Period ended 30 October 2007 £000
Operating activities	(229)
Investment activities	(1)
Financial activities	-
Net cash used in discontinued operations	(230)

A loss of £366,000 arose on the disposal of FTD, being the proceeds of disposal less the amount of the subsidiary's net assets and attributable goodwill (See Note 13). No tax change or credit arose from the transaction.

8 Income tax

	Group 2008 £000	Group 2007 £000
Income tax expense is as follows:		
Current income tax	**1,335**	1,324
Deferred income tax:		
Origination and reversal of temporary differences	**(77)**	(57)
Previously recognised deferred tax liability written off in the year	-	(12)
	(77)	(69)
	1,258	1,255

8 Income tax (continued)

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax applied to profits for the year are as follows:

	Group 2008 £000	Group 2007 £000
Profit before tax	11,552	7,156
Expected tax charge based on the standard tax rate of individual group companies	3,752	1,729
Effect of reduction in tax rate	(2,927)	(726)
Tax effect of non-deductible expenses	438	276
Difference in tax rate of tax rate relief	(5)	(13)
Double tax relief applied on sale of discontinued operation	-	(11)
	1,258	1,255

The Company and 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 28% (2007: 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 two years commencing from its first profit-making year of operation and to a 50% relief from PRC income tax for another three years thereafter. In accordance with the latest PRC taxation laws which came into effect on 1 January 2008, its standard applicable tax rate is 25%. Enterprises who once enjoyed a preference on taxation exemption or relief on certain period such as "exemption from tax in the first two years and half of the tax in the next three years" or "exemption from tax in the first five years and half of the tax in the next five years", will apply the original taxation law and administration law regulation as well as the preferential system and preferential term till the end of the period regulated in the relevant regulation after the implementation of the new taxation. However, those who haven't enjoyed the taxation preferential because of no profit-making will account for it from 2008. Since 2008 is the company's first profit-making year, it is free from income tax in 2008 and 2009, and a half tax rate of 12.5% will be imposed in 2010, 2011 and 2012. So the actual tax rate is nil in 2008.

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. 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 (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. Its applicable tax rate is 25% according to the latest taxation laws which came into effect in 1 January 2008. So the actual tax rate of Jiangsu Fuste Power Supply Co. Ltd and Jiangsu Best Power Supply Co. Ltd is 12.5% in 2008.

Jiangsu Shuangdeng Power Supply Co., Ltd

After the latest PRC taxation laws came into effect in 1 January 2008, Jiangsu Shuangdeng Power Supply Co. Ltd has received the latest identification of 'National High-tech Enterprise' on 9 December 2008. So the company is still entitled to a 15% PRC income tax rate because it is ' National High-tech Enterprise' in accordance with PRC tax regulations. So the actual income tax rate is 15% in 2008.

Shuangdeng Science and Technology Development Academy Co., Ltd

In 2006 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.

In accordance with the latest PRC taxation laws which came into effect on 1 January 2008, its standard applicable tax rate is 25%. Enterprises who once enjoyed a preference on taxation exemption or relief on certain periods such as "exemption from tax in the first two years and half of the tax in the next three years" or "exemption from tax in the first five years and half of the tax in the next five years", will apply the original taxation law and administration law regulation as well as the preferential system and preferential term till the end of the period regulated in the relevant regulation after the implementation of the new taxation. However, those who haven't enjoyed the taxation preferential because of no profit-making will account for it from 2008. Since 2008 is the company's first profit-making year, it is free from income tax in 2008 and 2009, and a half tax rate of 12.5% will be imposed in 2010, 2011 and 2012. So the actual tax rate is nil in 2008.

e tax (continued)

Zhenghe Power Supp.y C· .td

›any is a production enterprise and in accordance with the PRC tax legislation applicable to foreign investment enterprises the is entitled to exemptions from PRC income tax for the two years commencing from its first profit-making year of operation (2007 :hou Zhenghe Power Supply Co., Ltd) and for another three years thereafter they are entitled to a 50% relief from PRC income ›plicable tax rate is 25% according to the latest taxation laws which came into effect in 1 January 2008. So the actual income ; nil in 2008.

lends

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
; paid	**1,400**	700	**1,400**	700

›to plc declared an annual dividend of 4.5p per ordinary share amounting to £1,050,000 on 22 April 2008 which was approved ›reholders on 22 May 2008 and declared an interim dividend of 1.5 pence per ordinary share amounting to £350,000 on 18 ›r 2008. China Shoto plc declared a dividend of 3 pence per ordinary share amounting to £700,000 on 26 April 2007 and the vas approved by the shareholders on 12 June 2007.

ıings per share from continuing operations

'or the purpose of basic and diluted earnings per share are the net profit for the financial year attributable to equity holders of : of £10,070,000 (2007: £5,618,000).

from continuing operations for the financial year attributable to equity holders of the parent is as follows:

	Group 2008 £000	Group 2007 £000
›utable to equity holders of the parent	**10,070**	5,618
scontinued operation, net of tax	-	14
terest of discontinued operation	-	173
continuing operations attributable to equity holders of the parent	10,070	5,80[illegible]

ted average number of ordinary shares used in the calculation of earnings per share from continuing operations has been ; follows:

	Group 2008	Group 2007
ordinary shares		
average number of ordinary shares - basic	23,343,770	23,343,770
ect of share options	-	400,985
average number of ordinary shares - diluted	23,343,770	23,744,7[illegible]

share options have not been included in the calculation of diluted EPS in 2008 because the exercise price of share option is ı Group average market price of ordinary shares and they are antidilutive. The existence of these share options could dilute future.

11 Property

Group

Cost
At 1 January 200
Additions
Reclassifications
Disposals
Disposal of a subs
Exchange adjustm
At 31 December 2
Additions
Reclassifications
Disposals
Exchange adjustme
At 31 December 20
Accumulated deprec
At 1 January 2007
Reclassifications
Charge for the perio
Disposals
Disposal of a subsidi
Exchange adjustment
At 31 December 2007
Reclassifications
Charge for the period
Disposals
Exchange adjustments
At 31 December 2008
Net book value
At 1 January 2007
At 31 December 2007
At 31 December 2008

Assets pledged as se
At as 31 December 2008
to secure the Group's ba

12 Investment in su

Cost:
At the beginning of the fina
Addition from share-based
At the end of the financial ye

11 Property, plant and equipment

Group	Buildings £000	Machinery £000	Motor vehicles £000	Office equipment £000	Construction in progress £000	Total £000
Cost						
At 1 January 2007	6,588	8,055	381	1,322	25	16,371
Additions	930	1,469	86	190	1,313	3,988
Reclassifications	1,248	14	-	53	(1,315)	-
Disposals	(81)	(291)	(51)	(57)	(22)	(502)
Disposal of a subsidiary	-	-	(69)	(55)	-	(124)
Exchange adjustments	426	462	18	73	-	979
At 31 December 2007	9,111	9,709	365	1,526	1	20,712
Additions	353	676	27	361	2,119	3,536
Reclassifications	589	295	(15)	(264)	(605)	-
Disposals	(21)	(165)	(14)	(83)	(46)	(329)
Exchange adjustments	4,594	5,107	180	712	381	10,974
At 31 December 2008	14,626	15,622	543	2,252	1,850	34,893
Accumulated depreciation						
At 1 January 2007	871	2,258	68	765	-	3,962
Reclassifications	(8)	20	18	(30)	-	-
Charge for the period	159	765	66	147	-	1,137
Disposals	(54)	(55)	(19)	(28)	-	(156)
Disposal of a subsidiary	-	-	(21)	(40)	-	(61)
Exchange adjustments	46	147	6	41	-	240
At 31 December 2007	1,014	3,135	118	855	-	5,122
Reclassifications	-	113	(8)	(105)	-	-
Charge for the period	240	1,103	69	145	-	1,557
Disposals	-	(73)	(9)	(48)	-	(130)
Exchange adjustments	567	2,031	78	419	-	3,095
At 31 December 2008	1,821	6,309	248	1,266	-	9,644
Net book value						
At 1 January 2007	5,717	5,797	313	557	25	12,409
At 31 December 2007	8,097	6,574	247	671	1	15,590
At 31 December 2008	12,805	9,313	295	986	1,850	25,249

Assets pledged as security

At as 31 December 2008, Building and machinery with carrying amount of £8,758,000 (2007: £5,526,000) are subjected to a first charge to secure the Group's bank borrowings.

12 Investment in subsidiary undertakings

Cost:	Company 2008 £000	Company 2007 £000
At the beginning of the financial year	**20,679**	20,353
Addition from share-based payment to employees of subsidiaries	**298**	326
At the end of the financial year	20,977	20,679

13 Disposal of a subsidiary undertaking

As referred to in Note 7, on 7 November 2007 the Group signed a contract to dispose of Beijing Full Three Dimension Engineering Co. Ltd (FTD) which was a 51% owned subsidiary undertaking. The disposal consideration was fully settled in cash. The net assets of FTD as of the date of disposal were as follows:

	7 November 2007 £000
Property, plant and equipment	64
Inventories	566
Trade receivables	3,979
Bank balances and cash	879
Deferred tax liability	(7)
Trade payables	(4,023)
Minority interest	(712)
Attributable goodwill	138
	884
Loss on disposal	(366)
Total consideration	518
Satisfied by:	
Cash	518
Net cash inflow arising on disposal:	
Cash consideration	518
Bank balances and cash disposed of	(879)
	(361)

14 Intangible assets

Cost	Group Land use rights £000	Group Trademark £000	Group Patent £000	Group Goodwill £000	Group Total £000
At 1 January 2007	1,449	19	26	138	1,632
Disposal of a subsidiary	-	-	(26)	(138)	(164)
Additions	356	-	-	-	356
Exchange adjustments	89	1	-	-	90
At 31 December 2007	1,894	20	-	-	1,914
Additions	450	-	-	-	450
Exchange adjustments	1,018	10	-	-	1,028
At 31 December 2008	3,362	30	-	-	3,392
Accumulated amortization:					
At 1 January 2007	88	3	13	-	104
Amortisation for the financial year	37	2	11	-	50
Disposal of a subsidiary	-	-	(24)	-	(24)
Exchange adjustments	6	-	-	-	6
At 31 December 2007	131	5	-	-	136
Amortisation for the financial year	51	2	-	-	53
Exchange adjustments	76	4	-	-	80
At 31 December 2008	258	11	-	-	269
Net book value:					
At 1 January 2007	1,361	16	13	138	1,528
At 31 December 2007	1,763	15	-	-	1,778
At 31 December 2008	3,104	19	-	-	3,12[illegible]

The Group's land use rights have a remaining amortization period of between 37 and 49 years.

14 Intangible assets (continued)

Assets pledged as security

At as 31 December 2008, land use rights with a carrying amount of £2,371,000 (2007: £1,431,000) are subject to a first charge to secure the Group's bank borrowings.

15 Inventories

	Group 2008 £000	Group 2007 £000
Raw materials	**3,939**	1,292
Work in progress	**4,376**	6,356
Finished goods	**20,095**	11,778
	28,410	19,426

16 Trade and other receivables

	Group 2008 £000	Group 2007 £000
Trade receivables	**32,010**	23,727
Notes receivable	**1,015**	1,011
Other receivables	**837**	2,837
Total financial assets other than short term investments and cash and cash equivalents classified as loans and receivables	**33,862**	27,575
Advances to suppliers	**2,191**	5,200
Prepayments	**3**	3
	36,056	32,778

Loans and receivables shown above are stated net of an allowance for doubtful receivables, the movements on this account being summarized below:

	Group 2008 £000	Group 2007 £000
Balance at beginning of financial year	**452**	229
Disposal of subsidiary undertaking	-	(30)
Allowance for the financial year	**224**	295
Receivable written off during the year as uncollectible	-	(63)
Exchange adjustments	**272**	21
	948	452

The allowance account for doubtful receivables includes an amount of £nil (2007: £12,000) in respect of related parties.
Trade receivables are generally on 90 day terms. The ageing analysis of loans and other receivables which are past due, but not impaired is as follows:

	Group 2008 £000	Group 2007 £000
1-90 days overdue	**5,992**	4,559
91-270 days overdue	**7,781**	1,744
271-630 days overdue	**1,623**	692
631-990 days overdue	**47**	27
	15,443	7,022

Loans and receivables that are neither past due nor impaired amount to £18,419,000 (2007: £20,553,000). The credit quality of these receivables is considered to be satisfactory.

17 Short term investments

Cost:	Group 2008 £000	Group 2007 £000
Deposits with an initial maturity of more than 3 months		
- Deposits secured for notes payable	**3,834**	1,186
- Deposits for export sale	**112**	90
- Others	-	14
	3,946	1,290

18 Cash and cash equivalents

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Cash	**36,085**	9,778	**197**	185
Deposits-secured for Notes Payables with an initial maturity of 3 months	**14,712**	1,309	-	-
	50,797	11,087	197	185

Cash earns interest at fixed rate of between 0.36% and 0.72% in 2008 (2007: 0.72% and 0.81%).

19 Bank borrowings

	Group 2008 £000	Group 2007 £000
Short-term bank borrowings	**32,845**	23,284

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 (notes 11 and 14), guaranteed by Jiangyan Guoxin guaranty Co., Ltd or secured by Jiangsu Taida Textile Co., Ltd. The Group has no defaults and breaches of principal or interest on bank borrowings.

Short-term bank borrowings have an average maturity of 7 months from the end of the financial year (2007: 6 months) and an interest rate ranging from 4.86% to 7.84% (2007: 6.12% to 7.65%). The weighted average interest rate is 7.07% (2007: 6.88%).

The Group did not breach any of its covenants and did not default on payments of interest and principal on its short-term borrowings.

20 Trade and other payables

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Trade payables	**15,777**	13,750	-	-
Notes payable	**15,157**	4,029	-	-
Staff costs payable	**6,796**	2,810	-	-
Amount due to employees	**3,318**	993	-	-
Due to related parties	**26**	-	**2,945**	1,324
Other payables	**14,829**	4,204	**52**	21
Total other financial liabilities excluding bank borrowings	**55,903**	25,786	**2,997**	1,345
Advances from customers	**1,643**	518	-	-
Other tax payable	**3,576**	1,513	-	-
	61,122	27,817	2,997	[illegible]

Including bank borrowings, the Group's total other financial liabilities amounts to £88,748,000 (2007: £49,070,000).

21 Related parties

The group companies set out in note 26, the Directors and the following related parties have been identified:

Related parties	Relationship
Shenyang Shuangdeng Sci-tech Development Co., Ltd	Significant influence by the Chief Executive
Jiangsu Shuangdeng Electric Appliance and Cable Co., Ltd	Significant influence by the Chief Executive

Shenyang Shuangdeng Sci-tech Development Co., Ltd closed on 19 December 2008.

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

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Due from related parties-trade				
- Shenyang Shuangdeng Sci-tech Development Co. Ltd	-	1,299	-	-
Due from related parties - Non-trade				
- due to the Director, Zhou Yuezhang	**12**	-	-	-
Due from subsidiary undertakings - Non-trade	-	-	12,620	10,620
Less: Allowance for due from related parties	-	(12)	-	-
	12	1,287	12,620	10,620
Due to related parties - Non-trade				
- due to Chief Executive Shanji Yang	**2**	-	-	-
- due to other shareholders	**24**	-	-	-
Due to subsidiary undertakings - Non-trade	-	-	2,945	1,324
	26	-	2,945	1,324

Amounts due from/to subsidiary undertakings have been restated to non-current as they are previously classified as current.

Significant transactions during the financial years with related parties, all of which were negotiated at arms' length, were as follows:

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Sale of goods:				
Shenyang Shuangdeng Sci-tech Development Co. Ltd	**2,288**	2,253	-	-
Jiangsu Shuangdeng Electric Appliance and Cable Co. Ltd	**73**	-	-	-
	2,361	2,253	-	-
Other operating income:				
Jiangsu Shuangdeng Electric Appliance and Cable Co. Ltd	**147**	81	-	-
	147	81	-	-
Purchases:				
Jiangsu Shuangdeng Electric Appliance and Cable Co. Ltd	**192**	171	-	-
	192	171	-	-
Declared dividend				
Leadstar Enterprises Limited	-	-	**2,000**	-
	-	-	2,000	-

Amounts due to the Company from subsidiary undertakings represent net proceeds from the listing on AIM, which have been advanced to the trading subsidiaries to invest in new plant and working capital. Amounts due to subsidiary undertakings represent costs paid on the Company's behalf by its 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 2008 (2007: 47.06%).

22 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using a respective companies' tax rate. The movements in deferred tax assets and liabilities during the period are shown below:

Deferred tax assets	Group 2008 £000	Group 2007 £000
At beginning of the financial year	**92**	31
Transfer (from)/to income statement	**(77)**	57
Difference in tax rate of tax rate relief	**5**	-
Exchange differences	**23**	4
At end of the financial year	**43**	92

Deferred tax liabilities	Group 2008 £000	Group 2007 £000
At beginning of the financial year	-	21
Disposal of a subsidiary undertaking	-	(9)
Transfer to income statement	-	(12)
At end of the financial year	-	-

23 Share capital

Authorised	2008 £000	2007 £000
100,000,000 Ordinary shares of 10p each	**10,000**	10,000
Allotted, called up and fully paid:		
23,343,770 Ordinary shares of 10p each	**2,334**	2,334

24 Reserves

Share premium account

Share premium represents the amount subscribed for shares in excess of the nominal value less expenses incurred on the issue of shares.

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.

Share option reserve

In accordance with IFRIC 11, IFR2-Group and Treasury Share Transactions, share-based payments to employees of subsidiaries is accounted for as equity-settled in the consolidated financial statements of the parent, the subsidiary shall measure the services received from its employees in accordance with the requirements applicable to equity-settled share-based payment transactions, recognized in equity as a contribution from the parent.

24 Reserves (continued)

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 and the results of overseas operations into pounds sterling.

25 Financial instruments

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. The parent company has neither significant financial instruments nor significant exposure to such risks.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:
- Trade and other receivables
- Short term investment
- Cash and cash equivalents
- Trade and other payables
- Bank borrowings

All financial assets are designated as loans and receivables (note 16). In the prior year the group also had an investment in an available for sale financial asset which was sold during the period. With the exception of this available for sale asset, all financial assets and liabilities are carried at amortised cost

General objectives, policies and procedures
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's Finance Director.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

a) Credit Risk
Credit risk arises principally from the Group's trade and other receivables.

25 Financial instruments (continued)

The carrying amount of financial assets represents the group's maximum exposure to credit risk. A significant proportion of the group's credit risk relates to trade and receivables. The Group distinguishes its clients by two kinds of credit line. One is 100% credit and the other is nil credit. The Group controls the credit risk from the clients of nil credit through prepayment before goods are transferred to them. The Group also receives a monthly sale and gathering report detailing all customers. In this report if the gathering is collected within or without the credit period an interest income or expense is accrued to all the sellers who take charge of selling operation.

Managements review all debtors for impairment and are comfortable that all un-provided debts are fully recoverable.

Quantitative discloses of the credit risk in relation to trade and other receivables are disclosed in note 16.

b) Liquidity Risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy as regards liquidity is to ensure sufficient cash resources are maintained to meet short-term liabilities. To achieve this aim, the group improved receivables turnover ratios by requiring the sellers to pay interest on customers' overdue balances. The Group also seeks to reduce liquidity risk by obtaining high credit ratings from banks in order to get ease of access to finance when required. The Group has no defaults or breaches on its financial liabilities.

A maturity analysis of liabilities, including bank borrowings and interest is given below:

	Group 2008 £000	Group 2007 £000
Repayable within 1 month	**19,992**	14,359
Repayable within 2-3 months	**19,183**	11,323
Repayable within 4-6months	**32,674**	10,105
Repayable 7-12 months	**12,691**	10,733
Repayable over 1 year	**4,208**	2,550
Total	88,748	49,070

c) Market Risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) and price of lead ingot (price risk). The policy for each of these risks is discussed below:

d) Currency Risk

The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency with cash generated from their own operations in that currency.

The Group has transaction currency exposures. Such exposure arises from sales by an operating unit in currencies other than its functional currency. Approximately 16% of the Group's sales are denominated in USD. The Group's policy as it relates to currency risk is to limit payment terms to immediate letters of credit or prepayment before transporting goods to clients.

If the exchange rate on uncovered exposures were to move significantly between the year end and date of payment or receipt there could be an impact on the Group's net income. As all financial assets and liabilities are short term in nature, this risk is not considered to be substantial.

An analysis by currency of the group's financial assets is below:

	Group 2008 £000	Group 2007 £000
Financial assets		
Renminbi	**35,303**	31,931
US Dollar	**593**	847
Other	**160**	-
	36,056	32,778

25 Financial instruments (continued)

A 10% strengthening of the RMB against the $US would result in reported group profit being £59,000 lower. Conversely, a 10% weakening of the RMB against the $US would result in reported group profit being £59,000 higher.

The group prepares its consolidated financial statements in sterling and therefore the group's results and net asset position are exposed to retranslation risk as a result of movements in the RMB sterling exchange rate.

e) 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. Other than the bank deposits and borrowings, the Group has no other significant interest-bearing assets and liabilities. The Group's policy is to secure all to its borrowings at fixed borrowing rates and is therefore only exposed to fair value interest rate risk. Similarly all deposits earn interest at a fixed rate.

f) Price risk

The Group's balance sheet and income statement is exposed to the price of lead ingot, the main raw material used by the Group in its production process. In 2008, the price of the main raw material, lead ingot, changed between a month average price RMB 7,969 and RMB 19,201, which led to increased cost pressure. The Group initiated negotiations with the telecommunications operators and its OEM Customers, resulting in a linkage to the price of lead, which effectively alleviated pressure arising from the increase in the raw material price by passing it on to the customer, by agreement. The Group does not hedge the price of lead ingot.

Capital management

The Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings. In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. The group has historically considered a mix of debt and equity funding as the most appropriate form of capital for the group.

Fair values

A comparison of the book and fair value of the group's financial instruments is as follows:

	Book value 2008 £000	Fair value 2007 £000	Book Value 2008 £000	Fair value 2007 £000
Loans and receivables				
Trade receivables	**32,010**	**32,010**	23,727	23,727
Notes receivable	**1,015**	**1,015**	1,011	1,011
Other receivables	**837**	**837**	2,837	2,837
Short-term investments	**3,946**	**3,946**	1,290	1,290
Cash and cash equivalents	**50,797**	**50,797**	11,087	11,087
	88,605	88,605	39,952	39,952
Available for sale investments	-	-	137	137
Other financial liabilities				
Trade payables	**15,777**	**15,777**	13,750	13,750
Notes payable	**15,157**	**15,157**	4,029	4,029
Staff costs payable	**6,796**	**6,796**	2,810	2,810
Amount due to employees	**3,318**	**3,318**	993	993
Due to related parties	**26**	**26**	-	-
Other payables	**14,829**	**14,829**	4,204	4,204
Bank borrowings	**32,845**	**32,845**	23,284	23,284
	88,748	88,748	49,076	49,076

The fair values of loans and receivables has been arrived at are based on cash flows discounted using a rate based on the credit rating of those counterparties. The discount rate applied was in the range of 4.86% to 7.84% (2007: 6.12% to 7.47%).

The fair values of other financial liabilities have been arrived at by discounting cash flows at a fair rate of interest for the group. The discount rate applied was in the range of 4.86% to 7.84% (2007: 6.12% to 7.47%).

26 Group companies

The companies comprising the Group are as follows:

Name of the companies	Place and date of incorporation	Principal activities	Proportion (%) of ownership interest at 31 December 2008
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 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 Best Power Supply Co., Ltd	China, 13 January 2006	Manufacturing and sales power-aided bicycle batteries	100%
Glory Trinity Engineering Ltd	Hong Kong, China, 26 February 2003	Investment holding	100%
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.

27 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 exercised in 2006 and the remaining 120,000 options lapsed in December 2007.

All the options were granted at the placing price of £1.30 per share.

	2008 Number of Options	2007 Number of Options	Exercise Price(£)
Outstanding at the beginning of the period	**1,480,000**	1,600,000	1.30
Granted during the period	-	-	1.30
Lapsed during the period	-	(120,000)	1.30
Outstanding at the end of the period	**1,480,000**	1,480,000	1.30
Exercisable at the end of the period	**1,480,000**	1,480,000	1.30

27 Share-based payments (continued)

The Group recognised total expenses of £298,000 (2007: £326,000) related to equity-settled share-based payment transaction during the year.

28 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.

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 2008 and 2007.

	Back up Batteries		PTB		Eliminations		Continuing operations		Turbine		Total	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Revenue:												
Sales to external customers	164,794	78,018	18,289	29,479	-	-	183,083	107,497	-	5,817	183,083	113,314
Inter-segment sales	-	-	22,718	5,814	(22,718)	(5,814)	-	-	-	-	-	-
Total revenue	164,794	78,018	41,007	35,293	(22,718)	(5,814)	183,083	107,497		5,817	183,083	113,314
Results:												
Segment profit	11,499	7,535	337	1,149	-	-	11,836	8,684	-	351	11,836	9,035
Unallocated corporate expenses							(284)	(1,528)	-	-	(284)	(1,528)
Profit from operations before taxation							11,552	7,156	-	351	11,552	7,507
Income taxation							(1,258)	(1,255)	-	1	(1,258)	(1,254)
Loss from selling discontinued operation							-	-	-	(366)	-	(366)
Profit for the year							10,294	5,901		(14)	10,294	5,887

28 Segment reports (continued)

	Back up Batteries		PTB		Turbine		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Assets and liabilites:	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Segment assets	161,319	60,591	3,837	2,122	-	-	(22,646)	(11,621)	142,510	51,092
Unallocated assets									5,114	31,086
Total assets									147,624	82,178
Segment liabilities	103,617	42,792	-	-	-	-	(19,746)	(22,036)	83,871	20,756
Unallocated liabilities									10,260	30,861
Total liabilites									94,131	51,617
Other segment information:										
Capital expenditure:										
Property, plant and equipment	3,434	3,388	102	599	-	1	-	-	3,536	3,988
Intangible assets	450	-	-	356	-	-	-	-	450	356
Depreciation and amortization	1,432	915	178	256	-	16	-	-	1,610	1,187

Geographical segments

	Domestic sales		Export sales		Elimination		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000	£000	£000
Segment sales	153,369	106,394	29,714	6,920	-	-	183,083	113,314

All export sales originate from the Back up Batteries segment.

29 Construction commitment

Construction commitments as at 31 December 2008 but not recognized in the financial statements is £1,850,000 (2007: nil).

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of China Shoto plc will be held on 8th Floor, 131 Finsbury Pavement London EC2A 1NT at 10am on 16 June 2009 to transact the following resolutions. Resolutions 1-5 will be proposed as ordinary resolutions and resolutions 6-8 will be proposed as special resolutions:

Ordinary Business

1. To receive and adopt the Group's annual report and financial statements for the financial year ended 31 December 2008, 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 Group at which financial statements are laid and to authorise the Directors to fix their remuneration.
3. To declare a final dividend of 3.5 pence per share, plus the already paid interim dividend 1.5 pence per share, thus the year dividend for 2008 will be 5 pence per share.
4. To reappoint Li Shuang who retires by rotation as a Non-Executive Director.
5. To reappoint Yang Shanji who retires by rotation as an Executive Director.

Special Business

6. To adopt new Articles of Association in substitution for and to the exclusion of the existing Articles of Association in the form presented to the meeting.
7. 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 2010 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.
8. That, subject to the passing of Resolution 7 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) (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 2010, 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.

Peter Crystal

By Order of the Board
Peter Maurice Crystal
Company Secretary
28 April 2009

Registered Office:
The Broadgate Tower,
20 Primrose Street,
London EC2A 2RS

NOTES

In addition to the notes set out below an explanation of certain of the resolutions is set out in Appendix 1.

1. 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.

2. 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.

3. 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 on14 June 2009 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 14 June 2009 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. The register of interests of Directors and their families in the Company's shares and copies of all Directors' service contracts and copies of any letter of appointments, as appropriate as well as copies of the Company's existing Articles of Association and its proposed new Articles of Association 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 and will be available for inspection at the place of the AGM and at least 15 minutes prior to and during the meeting.

Appendix 1 - Explanation of certain resolutions

Resolutions 4 and 5: Election of Directors
Both Yang Shanji and Li Shuang, who retire by rotation in accordance with Article 80 of the Company's articles of association, being eligible to do so, have confirmed their intention to seek re-election by the shareholders at the meeting as an Executive Director and Non-Executive Director respectively.

Resolution 6: Adoption of new Articles of Association
It is proposed in Resolution 6 to adopt new articles of association (the 'New Articles') in order to update the Company's existing articles of association (the 'Existing Articles'), primarily to take account of changes in English Company law brought about by the Companies Act 2006.

The principal changes introduced in the New Articles are summarised in Appendix 2. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006, have not been noted in Appendix 2.

Resolution 7: Allotment of Shares
Under Section 80 of the Companies Act 1985 (the '1985 Act'), the Directors of the Company may only allot relevant securities if authorised to do so. The articles of association give a general authority to allot relevant securities, but that authority is subject to renewal by shareholders each year. This resolution proposes that the Directors' authority be renewed, giving the power to allot relevant securities up to an aggregate nominal value of £500,000, which is equal to approximately 21% of the issued share capital of the Company as at the date of this Notice. This authority shall expire (unless previously renewed or revoked by the Company in general meeting) on the day falling 15 months after the date of the passing of the resolution or, if earlier at the conclusion of the AGM of the Company to be held in 2010.

Resolution 8: Waiver of Pre-emption Rights
In the case of a new allotment of shares or convertible securities for cash, Section 89 of the 1985 Act grants pre-emption rights to existing shareholders. However, the authority of shareholders, which may be given under Section 95 of the 1985 Act, to disapply generally the provisions of Section 89, may also be obtained. Accordingly, the Directors consider that it is in the best interests of the Company for the existing Section 95 authority granted by shareholders at the 2008 AGM of the Company to be renewed for a period expiring (unless previously renewed or revoked by the Company in general meeting) on the day falling 15 months after the date of the passing of the resolution or, if earlier at the conclusion of the AGM of the Company to be held in 2010.

Recommendation
The Directors recommend that you vote in favour of all of these resolutions, as they intend to do in respect of their own shares. The Directors consider that the resolutions are in the best interests of the Company and its shareholders as a whole.

Appendix 2 - Explanatory note of principal changes to the Company's Articles of Association

1 **Articles which duplicate statutory provisions**
Provisions in the Current Articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below, together with certain other proposed changes.

2 **Form of resolutions**
The Current Articles contain provisions that certain actions to be taken require an extraordinary resolution. Such provisions are being amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006. These provisions have, therefore, been amended in the New Articles to state that a special resolution is required instead.

3 **Variation of class rights (Article 11)**
The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions have, therefore, been removed in the New Articles.

4 **Convening extraordinary and annual general meetings (Article 50)**
The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular, an extraordinary general meeting to consider a special resolution can now be convened on 14 days' notice, whereas previously 21 days' notice was required. The New Articles reflect this change.

5 **Votes of members (Articles 75 and 76)**
Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas, under the Current Articles, proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles cannot provide that they should be received more than 48 hours before the meeting or, in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed, provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all of these new provisions.

6 **Conflicts of interest (Articles 110-114)**
The Companies Act 2006 sets out Directors' general duties, which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty. The New Articles give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

7 **Records to be kept (Article 145)**
The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

8 **Electronic and web communications (Article 151)**
Provisions of the Companies Act 2006, which came into force in January 2007, enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him/her by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

9 **Distribution of assets otherwise than in cash (Article 159-160 - in Current Articles)**
The Current Articles contain provisions dealing with the distribution of assets in kind in the event of the Company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision about the powers of liquidators is a matter for insolvency law rather than the articles and that the Insolvency Act 1986 confers powers on the liquidator which would enable it to do what is envisaged by the Current Articles.

10 **Provision for employees on cessation of business (Article 163)**
The Companies Act 2006 provides that the powers of the Directors to make provision for a person employed or formerly employed by a company in connection with the cessation or transfer to any person of the whole or part of the undertaking of a company, may be exercised by the Directors or by a company in general meeting. However, if the power is to be exercised by the Directors, the articles of association must include a provision to this effect. The New Articles provide that the Directors may exercise this power.

11 **Directors' indemnities and loans to fund expenditure (Article 161/Article 160 in Current Articles)**
The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify Directors and to fund expenditure incurred in connection with certain actions against Directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

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 8th Floor, 131 Finsbury Pavement London EC2A 1NT on 16 June 2009 at 10am and at any adjournment of the meeting.

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 and adopt the Company's annual report and financial statements for the financial year ended 31 December 2008, together with the Directors' Report and the Auditors' Report on those financial statements.		
2. To re-appoint BDO Stoy Hayward LLP as Auditors.		
3. To declare a final dividend of 3.5 pence per share, plus the already paid interim dividend 1.5 pence per share, thus the year dividend for 2008 will be 5 pence per share.		
4. To reappoint Li Shuang who retires by rotation as a Non-Executive Director.		
5. To reappoint Yang Shanji who retires by rotation as an Executive Director.		
6. To adopt new Articles of Association in accordance with Company Act 2006.		
7. To authorise the Directors to allot relevant securities in the Company pursuant to section 80 of the Companies Act 1985.		
8. 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______________________ 2009

NOTES

1 To be valid, this Form of Proxy, duly completed, must be deposited with the Company's Registrars at, Capita Registras, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for the Meeting.

2 In the case of joint holders, only one signature is required.

3 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.

4 Any alteration made to this Form or Proxy must be initialed.

5 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. However the shareholder's proxy appointment will be terminated.

6 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. However the shareholder's proxy appointment will be terminated.

china shoto plc
2008 Annual Report

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