

Company Number 05448599

a leading Chinese producer of lead acid batteries

china shoto plc 2009 Annual Report

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Directors, Secretary and Advisers

Directors

Yang Shanji (Executive Director)
 Qian Shan'gao (Executive Director)
 Zhou Yuezhong (Executive Director)
 Zhou Ping (Executive Director)
 Zhou Weigang (Executive Director)
 Bernard Harry Asher (Non-Executive Director)
 Peter Maurice Crystal (Non-Executive Director)
 Li Shuang (Non-Executive Director)

Company Secretary
 Peter Maurice Crystal

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 London EC2A 2RS

Registered Number
 05448599

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Nominated Adviser and Broker
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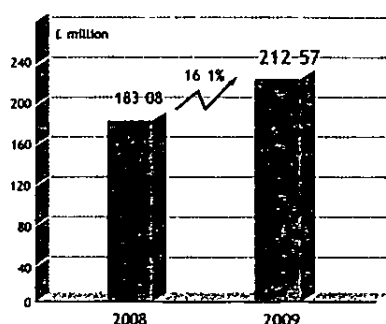
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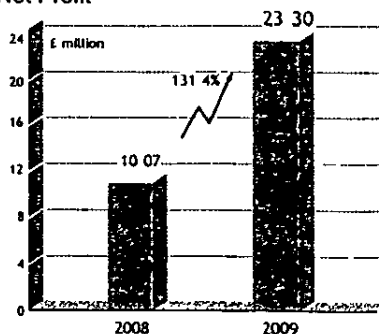
Highlights

- Revenue up 16.1% to £212.57 million (2008: £183.08 million)
- Pre tax profit up 117.1% to £25.07 million (2008: £11.55 million)
- Net profit up 131.4% to £23.30 million (excluding minority interests) (2008: £10.07 million)
- Diluted earnings per share up 128% to 98.34p (2008: 43.14p)
- Granted 11 patents, bringing the total number of patents held to 126 as at the period end
- Successful £1.82 million acquisition of battery recycling plant at January 2010
- Full-year dividend of 5 pence per share recommended by the Board

Revenue



Net Profit



Business Introduction

China Shoto plc (the "Company") and its subsidiaries (referred to as the 'Group') are mainly engaged in the production of back up batteries and power type batteries, the back up batteries used primarily by telecommunications operators, but also by customers in the power, railway, and power type batteries mainly used by electric bicycle manufacturer and retailing sectors. During the year ended 31 December, 2009, the Group remained the largest single supplier of batteries to China Unicom, China Mobile and China Telecom (China's three major telecom operators), and is the largest back up battery manufacturer in China.

Total revenue increased by 16.1% to £212.57 million in 2009 (2008: £183.08 million). Revenue from back up battery business in 2009 increased by 19.3% to £196.53 million (2008: £164.79 million).

Acquisition

In January 2010, the Group acquired a controlling equity interest in Rugao Tianpeng Metallurgy Co., Ltd. ("Rugao Tianpeng") for a total consideration of £1.82 million. Rugao Tianpeng is mainly engaged in battery recycling business and is located in Rugao City, Jiangsu Province, China, within easy reach of the Group's production facilities in Jiangyan.

Strategic Objective

The Company has become the largest back up battery producer in China. As a China Environment Friendly Enterprise, the Company intends to become a green energy solution provider through enhancing R&D and progressive development of its existing and new green energy storage products.

Products

- 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 conveniently located in Jiangyan, Jiangsu Province, two hours from Shanghai, giving convenient access to well-developed transportation networks.

The Group has 10 back up battery production lines and two power type battery production lines which are utilised according to market demand. The annual production capacity of the back up battery production lines is 3 million KVAH (1.0 KVAH is equivalent to one back up battery of 2V500AH). The annual production capacity of the power type battery production lines is 500,000 KVAH (0.12 KVAH is equivalent to one power type battery of 12V10AH).

Products are manufactured according to international and domestic industrial standards and comply with the network license requirements of major countries in Europe, America and South Asia. The Group has also met the international authentication standards of other countries such as Indonesia, Russia and Nigeria, and of the International Electrotechnical Commission.

Main clients



Research and Development

The Company's R&D Centre is mainly responsible for developing new types of GEL and AGM Battery, 12V 13AH Spiral Wound Battery and Super Capacitors, and for updating the technical development of existing products in all of those categories

Meanwhile, the Group's facilities have been inspected by the China Intellectual Property Bureau and approved as a National Class Intellectual Property Trial Unit, which will enhance market recognition of its independent research and innovation capability. It will also strongly support the Group's future application for status such as a High-New Technology Enterprise.

Sales and Market

Market sectors served include
Telecommunications, electric power, railways and electric bicycles

Key Customers

Back up battery business
China's three major telecoms operators remain our primary customers for back up batteries. Other major clients in this sector include ZTE Corporation and Huawei Technologies.

Power type battery business
During 2009, demand for power type batteries shifted away from the primary market (where customers include e-bike manufacturers) to the secondary market (where the customers were e-bike accessory distributors, repair shops, and retailers). The Group achieved new breakthroughs in provinces of Jiangsu, Shandong, Henan, Hebei, and Anhui, among others.

Sales and Service Network

The Group now has eighty nine domestic sales offices and five overseas offices in Duesseldorf, Dubai, Moscow, Singapore and New Delhi.

During 2009, with a slow-moving global economy, the Company focused on its existing objectives, to improve the quality of its products and services and reduce cost. Additionally, we have strengthened market exploration, increased operational effectiveness, continued integration processes and maintained cost control. The efforts of our staff and the loyalty of our customers have enabled us to achieve a pleasing set of results.

The dedication of the Company's senior management team has again been reflected in our strong performance and results. I would like to express my thanks to all of our customers and suppliers and commit to a continued effort to meet their needs and requirements.

The Company will continue to improve its social responsibility, recycling, energy-saving and emission-reduction programmes for the wider economic benefit of the community. The Company has acquired Rugao Tianpeng, augmenting the battery recycling qualifications required by the telecom operators. The Company remains fully committed to supporting environmental programs within China and elsewhere and to being a green energy provider.

In China, the Group remains the major supplier to nationwide units to the three biggest Chinese telecoms operators as well as to ZTE Corporation and Huawei Technologies. Overseas, the Group is continuing to implement its export strategy and is pleased to have signed framework agreements with Nokia Siemens Networks and Emerson Network Energy Co., Ltd amongst others. A strong relationship with leading telecom operators worldwide should increase our brand recognition and enable the Company to be well-placed for the future in a changing market environment.

Chairman's Statement

Results and Dividend

Revenue increased by 16.1% in 2009 to £212.57 million (2008 £183.08 million)

Operating profit increased by 85.9% to £26.34 million (2008 £14.17 million)

Net profit for the financial year attributable to equity holders of the parent increased by 131.4% to £23.30 million (2008 £10.07 million)

In our Interim Report published in September 2009, the Company undertook to carefully consider the distribution of a year-end dividend. I am delighted to announce that the Board recommends a full-year dividend of 5 pence per share. If approved by shareholders at the Annual General Meeting on 22 June 2010, the dividend will be paid on 30 June 2010 to shareholders on the register at the close of business on 18 June 2010, with the shares going ex-dividend on 16 June 2010. The Company continues to put shareholders' interests among the key considerations in its continued strategic development.

Operating Overview

Market Overview

Business segments

Back up batteries

Sales revenue from the back up battery business in 2009 increased 19.3% to £196.53 million accounting for 92.5% of the Company's revenue (2008 £164.79 million and 90%)

Power type batteries

Sales from the power type battery business in 2009 reached at £16.04 million accounting for 7.5% of the Company's revenues (2008 £18.29 million and 10%)

Geographical segments

Domestic sales

Domestic sales in 2009 rose to £202.93 million and accounted for 95.5% of the Company's total revenues (2008 £153.37 million and 84%)

Foreign sales

Foreign sales in 2009 were £9.64 million, and accounted for 4.5% of the total (2008 £29.71 million and 16%)

Key customers

Back up batteries

The year of 2009 was the third consecutive year in which the Group was the largest single supplier to China's three largest telecom operators and to ZTE Corporation and Huawei Technology. Sales to these customers accounted for 87% of total back up battery revenues. In December 2009, the Group signed a framework agreement with Nokia Siemens Networks, and during the year also has entered into business relationships with other overseas companies such as Indus Tower, Emerson, and General Electric.

Chairman's Statement (continued)

We are also pleased that our back up batteries will be used to provide power in many pavilions at the forthcoming Shanghai EXPO 2010 China. The use in China Mobile Pavilion, the Pacific United Nations Pavilion, and the International Organization United Pavilion, underscores the increasing brand recognition and popularity of our products.

Power type batteries

In 2009, the Company expanded and extended its distribution network and penetrated secondary markets and bolstered its sales teams. Revenues from the secondary market of power type batteries accounted for 61.2% of the total power type battery revenue (2008: 31.1%).

The Group strengthened its communications with customers through continued improvements to its technical support and after-sale services.

In 2009, the Group strengthened its presence at key international telecom fairs, such as the Singapore Asia Telecom Fair, the Mobile World Congress 2009 (Spain), the Brazil International Telecommunications Exhibition, the Middle East (Abu Dhabi) International Communications Exhibition, the Moscow International Telecom Equipment Exhibition, the Switzerland ITU World Telecom Fair, the Beijing International Telecom Fair and the 7th International Lead Acid Battery Fair/Technical Communication held in China in 2009.

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 technical development of existing GEL Batteries, AGM Batteries, Power Type Batteries and Spiral Wound Batteries and Super Capacitors.

Patents Granted

During the reporting period, the Group was granted 11 patents, bringing the total number of patents awarded by the China Intellectual Property Bureau to 126 in total, including 13 invention patents.

Directorate Changes

On 15 September 2009, Mr Cao Guifa resigned from the Board as Chairman, to be replaced by Mr Yang Shanji. Mr Qian Shangao was appointed as Executive Director on 15 October 2009.

Social Responsibility

As a National Environmentally Friendly Enterprise, we remain committed to commercial development in parallel with the Company's wider social responsibilities. Whilst balancing the requirements of our shareholders, staff, customers, suppliers and social and environmental demands, we are committed to pursuing value for the benefit of the whole community.

The Group has attained ISO14001 environment management system certification and GB/T18001 vocation health and safety management certification, and the Group's products have passed CE Verification, UL Verification and EU RoHS tests.

Outlook

China's major telecom operators invested heavily in 3G infrastructure construction during 2009 which fuelled a steady increase in demand for back up battery products. During 2010, they are expected to shift their investment priorities from infrastructure construction to product marketing and development. With less investment in domestic network construction, the total demand for back up battery products will reduce accordingly and this will bring new challenges as well as opportunities to the Group's business. However, with the recovery of the global economy, we are confident that the development of overseas markets, especially in developing countries, will create and drive new demand for products from Chinese equipment suppliers. In 2010 the Group will accelerate the development of its overseas distribution networks and strengthen its sales push into international markets to maintain its growth momentum whilst continuing to deliver value to our shareholders.

Finally I take this opportunity to express my appreciation to Mr Cao Guifa who contributed to the development of the Company while he was a Chairman of the Company. Also I would like to thank our Directors, management and staff for their dedication in achieving our established objectives, and all of our investors and customers for their continued support and trust in the Company.



Yang Shanji

Chairman
28 April 2010

Results

The Board regards the following measures as key performance indicators:

- Sales revenue increased by 16.1% to £212.57 million (2008: £183.08 million).
- Operating profit increased by 85.9% to £26.34 million (2008: £14.17 million).
- Pre-tax profit increased by 117.1% to £25.07 million (2008: £11.55 million).
- Net profit attributable to equity holders of the parent increased by 131.4% to £23.30 million (2008: £10.07 million).
- Diluted earnings per share from continuing operations in 2009 increased by 128% to 98.34p (2008: 43.14p).

Finance Director's Review

Income Tax

China Shoto plc

China Shoto plc is a non-resident company registered in England and Wales and only subject to UK corporation tax for any activities undertaken in the UK

The latest taxation laws of the People's Republic of China which came into effect on 1 January 2008, uniformly adjust the applicable income tax rate for both domestic capital and foreign capital enterprise to a rate of 25%. The Group and its significant subsidiary undertakings are subject to income tax at the following tax rates

Jiangsu Shuangdeng Group Co., Ltd ('JSG Co')

As a foreign enterprise, JSG Co enjoys a preferential policy of a five-year transition period between new and old enterprise income tax laws. No tax was payable in 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

From 2009 tax year, the full income tax rate of 25% has been applied

Jiangsu Best Power Supply Co., Ltd

The applicable income tax rate is 12.5% for the tax years 2009 and 2010. From the January of 2011, its applicable income tax rate will be 25%.

Jiangsu Shuangdeng Power Supply Co., Ltd ('JS Power')

The Company enjoys tax transitional preference for the years 2009 to 2010. Its applicable income tax rate is 20% for these years.

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, the applicable income tax rate will be 25%.

Yangzhou Zhenghe Power Supply Co., Ltd

The Company is entitled to 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 128% to 98.34p (2008 43.14p). The Board recommends a full year dividend for 2009 of 5 pence per share.

Shareholders' Equity

The share of equity of the Company attributable to shareholders of the parent increased by 37.5% to £72.22 million in 2009 (2008 £52.52 million). Retained earnings in the Company increased by 108.8% to £33.03 million (2008 £15.82 million).

Cash Flow

The Company focused on improving cash flow management, enabled the net cash flows from operating activities to be £27.02 million (2008 £38.57 million) against the background of the global economic crisis. Net cash flow for the year was equivalent to 115.2% of net profit.

Borrowing

In 2009 the Group entered into credit agreements with the Jiangyan branch of China Construction Bank, the Jiangyan branch of Agricultural Bank of China, the Jiangyan branch of Industrial and Commercial Bank of China, the Nanjing branch of China Minsheng Banking Corp. Ltd, the Jiangyan branch of Bank of China, the Jiangyan branch of Bank of Communications, and the Nanjing branch of China Merchants Bank. On 31 December 2009, the Company's short term bank borrowing stood at £28.3 million compared with £32.8 million as at 31 December 2008.

Cost management

The Group reduced manufacturing wastages through product technological innovation, enhanced cost estimates and control and more precise cost audits and management.

Liquidity Risk

Liquidity risk arises from the Group's management of working capital. The Company has financed its operations primarily through a mix of short-term and long-term borrowings. The Liquidity risk was significantly reduced by increasing facilities from the banks.

Foreign Exchange Risk

Foreign sales in 2009 were £9.64 million, accounting for 4.5% of total revenue. These sales were all settled in US Dollars currency which showed only small fluctuations against the RMB currency during 2009.

The Company effectively reduced and controlled risks regarding export payment through the application of export credit insurance, letters of credit and advance payments, among other measures, alongside the application of effective financial instruments to reduce foreign exchange risks.

Interest Rate Risk

There is no significant interest rate risk for the Company 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 2010

Zhou Yuezhong
Executive Director

Zhou Yuezhong holds a Master's Degree and he is one of the founders of the JSG Co. From 1990 to 1995, he was the Deputy Director of the Jiangyan Factory. He joined as deputy General Manager when it was set up in 1995. He has been the Vice President of JSG Co since September 2003. Mr. Zhou has 20 years management experience in the lead acid battery industry.

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.

Zhou Weigang
Executive Director

Zhou Weigang, holds a Master's Degree, the title of Senior Economist and is an accountant. He has been appointed as Chief Finance Officer of the Company. In 2009, he was awarded with the title of "Provincial Advance Chief Financial Officer" by the Finance Office of Jiangsu Province, China. He has 29 years experience in senior accounting and corporate finance for Chinese industrial companies. He has served the Group for 12 years, most recently as the Group's financial controller in accounts, financial management and risk control for 10 years. He was part of the team which assisted in the listing of the Company on the AIM market in December 2005.

Zhou Ping
Executive Director

Zhou Ping holds a Master's Degree, the title of Senior Economist, and has been appointed as Chief Marketing Officer of the Company. He is an economist with 16 years' experience in the battery and industrial power supply sector, and works for the Group during this period. He is responsible for market planning and sales management for the Group.

Yang Shanji
Executive Chairman

Yang Shanji has a Master's Degree in Administration and the title of Senior Economist. He is the main founder and the largest shareholder of the Company. He is Chairman of the Board and CEO of the Company. Mr. Yang is one of the pioneers in the China battery industry, and is the Vice Director of both the China Battery Industry Association and China Industrial Association of Power Sources. He has more than 29 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 the National Model Labor in Light Industry and Top Ten Outstanding Men in the China Telecommunications Power Supply Industry on several occasions.

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.

Qian Shangao
Executive Director

Mr. Qian Shangao has a Master's Degree. He is a senior engineer, the title of Senior Economist, and is one of the founders of JSG Co. He worked as a plant supervisor in Jiangsu Taixian Electric Cooking Utensils Factory from February 1975 to March 1990. And from 1990 to 1995, he was the Deputy Director of the Jiangyan Sealed Storage Battery Factory (Jiangyan factory). He joined JS Power as Deputy General Manager when it was set up in 1995. Since September 2003 he has been Vice President of JSG Co.

Bernard 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 the 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.

The Directors are pleased to submit the annual report and financial statements for the year ended 31 December 2009

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 batteries.

Business Review

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

The Income Statement of the Company is set out on page 18 and shows revenue of £212.57 million for the year and profit attributable to equity holders of the parent of £23.30 million for the year.

Revenue has increased by 16.1%. Back up battery revenue was £196.53 million in 2009, which increased by 19.3% from £164.79 million in 2008. Further details of revenue by product segment are set out in note 26 to the accounts.

Given the similarity of the business and customers of Shuangdeng Power and JSG Co, in order to improve the comprehensive power of the Company, the Group merged the assets and business into JSG Co in November 2009.

The Group successfully signed a share transfer agreement in January 2010 for a total consideration of £1.82 million for the entire share capital of Rugao Tianpeng.

Further details of the Group's operations, performance and key performance indicators are set out in the Chairman's Statement and the Finance Director's Report on pages 4 to 9.

Principal Risks and Uncertainties

Turbulence in global financial markets and economies may adversely affect the battery industry, the demand for our products, operating results, financial condition and liquidity.

Market Risks

With the reduction of infrastructure investment by the major Chinese telecom operators in 2010, the domestic telecom market may experience increased levels of competition. This may generate some pressure on pricing and cost. Specifically it may result in a decrease of the sales price of the Company's products which may in turn bring down sales margins.

Acquisition Risk

In January 2010, we acquired the company Rugao Tianpeng. However, the acquisition could expose us to potential risks, including risks associated with the management of new operations, technologies and personnel.

Foreign Exchange Rate Risk

The Company's exports markets are exposed to fluctuating foreign exchange rate which may influence the Company's sales and profitability overseas. Other forms of financial risk are discussed further in note 23 to the financial statements.

Dividend

The Board recommends a full year dividend of 5 pence per share. If approved by shareholders at the Annual General Meeting on 22 June 2010, the dividend will be paid on 30 June 2010 to shareholders on the register at the close of business on 18 June 2010, with the shares going ex-dividend on 16 June 2010.

Substantial Shareholders

The Company has not been notified of any beneficial interests, other than those of the Directors, in 3% or more of the issued share capital of the Company.

Directorate Changes

On 15 September 2009, Mr Cao Guifa resigned from the Board as Chairman to be replaced by Mr Yang Shanji. Mr Qian Shangao was appointed as Executive Director of the Company on 15 October 2009.

Directors' Report

Employee Policy

As a China Environment Friendly Enterprise, we work to identify and minimise 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 and 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 and 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 vocational health and safety management and its products passed the CE Verification, UL Verification and EU RoHS test. Its subsidiary, JS Power, successfully signed a strategic cooperation agreement, the "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 our purchasing policies for 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, the Company will continue to operate as a going concern in the foreseeable future.

Financial Instrument

The Company has its own cash resource and foreign exchange account which is managed to reduce exchange rate risk from transactions not denominated in RMB. The Company has not undertaken any transactions in financial derivatives. For further information on financial instruments please see note 23 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 shareholders. Meetings with significant shareholders are arranged through our Nominated Advisor Seymour Pierce Limited, and take place after the Final and Interim Financial Statements are published. Such meetings may also take place after other significant announcements, if any, 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 Company's website www.chinashoto.com.

Annual General Meeting

The Annual General Meeting ("AGM") will be held on 22nd June, 2010 in London. Full details of the AGM and the resolutions to be put to the meeting are given in the notice of the AGM at pages 48 and 51 of this Annual Report.

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of BDO 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 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.



By order of the Board
Peter Maurice Crystal
Company Secretary

Corporate Governance

Introduction

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

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

The Board and its Committees

The Board

The Board comprises eight Directors, five of whom are Executive Directors and three of whom are Non-Executive directors. 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, in order to review trading performance, ensure adequate funding, set and monitor strategy, examine acquisition opportunities and capital expenditure projects, report 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 a year.

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 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 Qian Shangao. It meets at least once a year.

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 employment contracts 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 Company. Executive Directors together with key senior executives at the Company's level meet monthly to discuss sales and day-to-day operational matters. The subsidiary undertakings of the Group also hold monthly management meetings to summarize operating activities, as well as additional meetings on matters such as quality analysis and control, and financial cost analysis.

Identification of business risks

The Board is responsible for identifying the major business risks faced by the Group 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 Company 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 quarterly reporting to the Board of variances from the budget, updated forecasts for the year and information on the key risk areas.

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards ("IFRS's") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company'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 company's website is the responsibility of the directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Remuneration Report

Remuneration Policy

The aim of the Company's remuneration policy is to reward the performance of the employees and thereby enhance shareholder value. Remuneration of the Executives of the Company 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 long term basis.

At the time of the listing of the Company 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 Group and its subsidiaries. The Remuneration Committee can modify and draft the remuneration terms or, if appropriate, suggest changes and reports to the Board for approval.

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 Company.

Bonus awards

In addition to the 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 2009. The targets were designed to ensure that the total remuneration varies in line with company performance.

Benefits

Benefits for the Executive Directors include medical insurance and contribution by the Company to the State Pension Scheme (which is subject to stipulations of the State).

Non-Executive Directors

The fees of the Non-Executive Directors reflect the time that they are required to commit to their duties.

Remuneration

The remuneration of the Directors for the year ended 31 December 2009 is set out in note 5 to Financial Statements.

Share Options

The share options of the following Directors that had interests in options to subscribe for ordinary shares are set out below:

Name	As at 31 December 2009 and 31 December 2008	% of Issued Capital	Exercise price	Date of grant	Exercise period
Yang Shanji	500,000	2.14%	£1.30	30 Nov 2005	Dec 2008-Dec 2015
Qian Shangao	100,000	0.5%	£1.30	30 Nov 2005	Dec 2008-Dec 2015
Zhou Yuezhong	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

Mr Cao Guifa cancelled his right to exercise his 300,000 options during the year ended 31 December 2009.

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 Auditor's Report

TO THE MEMBERS OF CHINA SHOTO PLC

We have audited the financial statements of China Shoto plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company statements of changes in equity and the consolidated and company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the highlights summary, company overview, chairman's statement, finance director's report, board of director's profile, directors' report, corporate governance statement and remuneration report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



James Roberts (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick
United Kingdom
28 April 2010
BDO LLP is a limited liability partnership registered in
England and Wales (with registered number OC305127)

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Revenue	3	212,569	183,083
Cost of sales		(144,547)	(134,794)
Gross profit		68,022	48,289
Other operating income	3	4,540	382
Distribution expenses		(31,653)	(23,259)
Administrative expenses		(11,766)	(10,866)
Other operating expenses		(2,804)	(377)
Profit from operations	4	26,339	14,169
Finance income	3	440	194
Finance costs	6	(1,705)	(2,811)
Profit before tax		25,074	11,552
Tax expense	7	(1,610)	(1,258)
Profit after tax		23,464	10,294
Attributable to			
Owners of the parent		23,304	10,070
Non-controlling interests		160	224
		23,464	10,294
Earnings per share for profit attributable to the equity shareholders of the parent during the year			
-Basic	9	99.83p	43.14p
-Diluted	9	98.34p	43.14p
		2009 £000	2008 £000
Profit for the year		23,464	10,294
Other comprehensive income			
Exchange differences on translating foreign operations		(2,855)	13,740
Total comprehensive income for the year		20,609	24,034
Total comprehensive income attributable to			
Owners of the parent		20,521	23,529
Non-controlling interest		88	505
		20,609	24,034

The accompanying notes on pages 23 to 47 form an integral part of the consolidated financial statements

Consolidated Balance Sheet

As at 31 December 2009
Company Number 05448599

	Notes	Group 2009 £000	Company 2009 £000	Group 2008 £000	Company 2008 £000
Assets					
Non-current assets					
Property plant and equipment	10	26,791	-	25,249	-
Intangible assets	12	2,565	-	3,123	-
Deferred tax assets	20	198	-	43	-
Investment in subsidiary undertaking		-	20,977	-	20,977
Due from related parties	19	-	11,238	-	12,620
		29,554	32,215	28,415	33,597
Current assets					
Inventories	13	36,875	-	28,410	-
Trade and other receivables	14	47,079	-	36,056	-
Short-term investments	15	5,685	-	3,946	-
Cash and cash equivalents	16	63,995	254	50,797	197
		153,634	254	119,209	197
Total assets		183,188	32,469	147,624	33,794
Liabilities					
Current liabilities					
Bank borrowings	17	28,329	-	32,845	-
Trade and other payables	18	72,173	52	61,122	52
Income tax payable		60	-	164	-
		100,562	52	94,131	52
Non-current liabilities					
Bank borrowings	17	1,366	-	-	-
Long term payable-Payroll		7,775	-	-	-
Deferred income		455	-	-	-
Due to related parties	19	-	369	-	2,945
		9,596	369	-	2,945
Total liabilities		110,158	421	94,131	2,997
Capital and reserves					
Share capital	21	2,334	2,334	2,334	2,334
Share premium	22	8,630	8,630	8,630	8,630
Other reserves	22	2,916	18,462	2,916	18,462
Share option reserve	22	977	977	977	977
Statutory reserves	22	14,529	-	9,252	-
Retained earnings	22	33,033	1,645	15,823	394
Foreign currency translation reserve	22	9,805	-	12,588	-
Total equity attributable to equity holders		72,224	32,048	52,520	30,797
Non-controlling interests		806	-	973	-
Total equity and liabilities		183,188	32,469	147,624	33,794

The financial statements were approved and authorised for issue by the Board of Directors on 28 April 2010 and signed on its behalf by



Yang Shanji
Chief Executive

The accompanying notes on pages 23 to 47 form an integral part of the consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2009

Group

Attributable to equity holders

	Share capital Note 21 £000	Share premium Note 22 £000	Other reserves Note 22 £000	Share option reserve Note 22 £000	Statutory reserves Note 22 £000	Retained earnings Note 22 £000	Foreign currency translation reserve Note 22 £000	Total £000	Non controlling interests £000	Total £000
Balance as at 1 January 2008	2,334	8,630	2,916	679	6,678	9,727	(871)	30,093	468	30,561
Total comprehensive income	-	-	-	-	-	10,070	13,459	23,529	505	24,034
Transfer to statutory reserve	-	-	-	-	2,574	(2,574)	-	-	-	-
Employee share options	-	-	-	298	-	-	-	298	-	298
Dividends paid (note 8)	-	-	-	-	-	(1,400)	-	(1,400)	-	(1,400)
Balance as at 1 January 2009	2,334	8,630	2,916	977	9,252	15,823	12,588	52,520	973	53,493
Total comprehensive income	-	-	-	-	-	23,304	(2,783)	20,521	88	20,609
Transfer to statutory reserves	-	-	-	-	5,277	(5,277)	-	-	-	-
Dividends paid (note 8)	-	-	-	-	-	(817)	-	(817)	(255)	(1,072)
Balance as at 31 December 2009	2,334	8,630	2,916	977	14,529	33,033	9,805	72,224	806	73,030

Statement of changes in equity

For the year ended 31 December 2009

Company

	Share Capital £000	Share Premium £000	Other Reserves £000	Share option Reserve £000	Retained Earnings £000	Total £000
Balance as at 1 January 2008	2,334	8,630	18,462	679	34	30,139
Total comprehensive income for the year	-	-	-	-	1,760	1,760
Employee share options	-	-	-	298	-	298
Dividends paid	-	-	-	-	(1,400)	(1,400)
Balance as at 1 January 2009	2,334	8,630	18,462	977	394	30,797
Total comprehensive income	-	-	-	-	2,068	2,068
Dividends paid	-	-	-	-	(817)	(817)
Balance as at 31 December 2009	2,334	8,630	18,462	977	1,645	32,048

The accompanying notes on pages 23 to 47 form an integral part of the consolidated financial statements

Consolidated cash flow statements

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Cash flows from operating activities			
Profit before tax from continuing operations		25,074	11,552
Adjustments for			
Amortisation of intangible assets	12	79	53
Depreciation of property, plant and equipment	10	1,947	1,557
Losses on disposal of property, plant and equipment		558	36
Gain on disposal of available-for-sale investments		-	(10)
Impairment loss on loans and receivables	4	763	224
Impairment on inventory		93	-
Share based payment expense	25	-	298
Financial income	3	(440)	(194)
Financial expense	6	1,705	2,811
Cash flow from operating activities before changes of working capital and provisions		29,779	16,327
Working capital changes			
Decrease/(Increase) in			
Inventories		(8,559)	208
Trade and other receivables		(12,831)	8,848
Trade and other payables		20,530	14,845
Cash generated from operations		28,919	40,228
Income tax paid		(1,895)	(1,661)
Net cash flows from operating activities		27,024	38,567
Cash flows from investing activities			
Financial income	3	440	194
Purchase of land use right		-	(450)
Purchase of property, plant and equipment		(7,461)	(3,971)
Funds placed on deposit		(1,739)	(1,622)
Disposal of available-for-sale		-	170
Proceeds from disposal of property, plant and equipment and land use right		1,490	126
Cash flows used in investing activities		(7,270)	(5,553)
Cash flows from financing activities			
Increase in bank borrowings		49,875	50,354
Decrease in bank borrowings		(49,768)	(51,560)
Interest paid	6	(1,705)	(2,811)
Dividends paid	8	(1,072)	(1,400)
Cash flows from financing activities		(2,670)	(5,417)
Net increase in cash and cash equivalents		17,084	27,597
Cash and cash equivalents at beginning of year		50,797	11,087
Foreign exchange differences		(3,886)	12,113
Cash and cash equivalents at end of year	16	63,995	50,797

The accompanying notes on pages 23 to 47 form an integral part of the consolidated financial statements

Company cash flow statement

For the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Cash flows from operating activities			
Profit before income tax		2,068	1,760
Investment income from subsidiary		(2,332)	(2,000)
Financial income		-	(6)
Cash used by operations before working capital changes		(266)	(246)
Working capital changes			
Increase in			
Other payable	18	-	31
Amounts due to subsidiary undertakings	19	1,140	1,621
Net cash from operating activities		874	1,406
Cash flows from investing activities			
Financial income		-	6
Net cash flows from investing activities		-	6
Cash flows from financing activities			
Dividends paid to external shareholders	8	(817)	(1,400)
Cash flow from financing activities		(817)	(1,400)
Net increase in cash and cash equivalents		57	12
Cash and cash equivalents at beginning of year		197	185
Cash and cash equivalents at end of year	16	254	197

The accompanying notes on pages 23 to 47 form an integral part of the consolidated financial statements

Notes to the Financial Statements

Notes to the Financial Statements

For the year ended 31 December 2009

1 General information

China Shoto plc is a company incorporated in the United Kingdom on 10 May 2005. 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 pages 12-13.

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 2006 applicable to companies preparing financial statements under IFRS.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its income statement in these financial statements. The Group profit for the year includes profit after tax £2,068,000 (2008: £1,760,000) 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 2010 or later periods which the group has decided not to adopt early and are not expected to have a material impact on the group's accounts. These are:

Name	Date of issue
Improvements to IFRSs (2009)	16 April 2009
Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	18 June 2009
Additional Exemptions for First-time Adopters (Amendments to IFRS 1)	23 July 2009
Classification of Rights Issues (Amendment to IAS 32)	8 October 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	26 November 2009
Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards	28 January 2010
Revised IAS 24 Related Party Disclosures	4 November 2009
Amendments to IFRIC 14 IAS 19 - Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	26 November 2009
IFRS 9 Financial Instruments	12 November 2009

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.

2 Accounting policies (continued)

Estimates and assumptions (continued)

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.

c) Allowance for doubtful trade receivables

The Group makes sales on credit. A proportion of the outstanding credit sales may prove uncollectable 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, and also individually confirmed according to the customers' accrual credit conditions. 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 monetary policy 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 15.

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 2009 was £60,000 (2008: £164,000). 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.

2 Accounting policies (continued)

Principles of consolidation (continued)

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.

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 recognised 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 recognised in the consolidated income statement over the period necessary to match it on a 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. The Group does not incur any interest costs that qualify for capitalization under IAS 23 'Borrowing costs'.

2 Accounting policies (continued)

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.

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 using 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.

2 Accounting policies (continued)

Intangible assets

a) 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.

b) 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.

c) 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 amortisation and any accumulated impairment losses.

Intangible assets are amortised 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 amortisation period and amortisation method for intangible assets are reviewed at least at each financial year-end.

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

Trademark & Patents	10 years
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Investment in subsidiary undertakings

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

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.

2 Accounting policies (continued)

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 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.

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 repayable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Equity instruments are recorded net of direct issue costs.

2 Accounting policies (continued)

Research and development expenditure

Research costs are expensed as incurred. Development expenditure on an individual project is recognised 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 2009 £000	Group 2008 £000
Revenue		
Sale of goods	212,569	183,083
Other operating income		
Waste disposal and sale of by-products	1,403	-
Government grant income	1,879	244
Rental income	160	-
Material sale	143	-
Penalty income	360	-
Electricity income from third parties	402	-
Other	193	138
	4,540	382
Finance income		
Interest income	440	194
Total income	217,549	183,659

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 2009 £000	Group 2008 £000
After charging / (crediting)		
Cost of inventories recognized as an expense	144,547	134,794
Auditors' remuneration		
- audit of Group accounts	33	39
- audit of individual accounts of subsidiary undertakings	51	52
- non-audit services - Tax	11	22
- General advice	47	6
Amortisation of intangible assets	79	53
Depreciation of property, plant and equipment	1,947	1,557
Loss on disposal of property, plant and equipment	558	36
Impairment loss on loans and receivables	763	224
Research and development expenditure	717	1,305
Foreign exchange gains	(9)	(96)
Inventory written down to net realizable value	93	-
Employee share options	-	298

5 Information regarding directors and employees

	2009 Number	2008 Number
Average number of employees of the Group		
Management and administration	171	211
Sales	311	321
Manufacturing	2,069	2,087
	2,551	2,619

	2009 £000	2008 £000
The aggregate payroll costs of these employees were as follows		
Wages and salaries	20,770	19,216
Social security costs	940	934
	21,640	20,150
Share-based payment expense (see note 25)	-	298
	21,640	20,448

Directors' remuneration were as follows

	2009 Salary £000	2009 Benefits £000	2009 Bonus £000	2009 Total emoluments £000	2008 Total emoluments £000
Yang Shanji	30	-	619	649	429
Zhou Yuezhang	20	1	173	194	153
Zhou Weigang	20	1	173	194	153
Zhou Ping	20	1	154	175	153
Qian Shangao	20	1	175	196	-
Li Shuang	15	-	-	15	10
Bernard Asher	15	-	-	15	10
Peter Maurice Crystal	15	-	-	15	10
Cao Guifa	30	-	47	77	84
Total	185	4	1,341	1,530	1,002

	2009 £000	2008 £000
Emoluments	1,530	1,002
Share-based payment expense (see note 25)	-	242
	1,530	1,244

There were no payments for post-employment benefits other long-term benefits and termination benefits in respect of directors

6 Finance costs

	Group 2009 £000	Group 2008 £000
Interest expense on bank and other loans	1,705	2,811

7 Income tax

	Group 2009 £000	Group 2008 £000
Income tax expense is as follows		
Prior year under provision	299	-
Current income tax	1,492	1,335
Total current tax	1,791	1,335
Deferred income tax		
Origination and reversal of temporary differences	(181)	(77)
	1,610	1,258

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 2009 £000	Group 2008 £000
Profit before tax	25,074	11,552
Expected tax charge based on the standard tax rate of individual group companies	6,763	3,752
Effect of reduction in tax rate	(5,189)	(2,927)
Tax effect of non-deductible expenses and non-taxable revenue	(263)	438
Difference in tax rate of tax rate relief	-	(5)
Adjustment for under provision in prior year	299	-
	1,610	1,258

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% (2008 28%) 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 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 2009.

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 on 1 January 2008. So the actual tax rate of Jiangsu Fuste Power Supply Co Ltd is 25% and Jiangsu Best Power Supply Co Ltd is 12.5% in 2009.

Jiangsu Shuangdeng Power Supply Co Ltd

According to the latest PRC taxation laws which came into effect on 1 January 2008, the actual income tax rate is 20% in 2009.

7 Income tax (continued)

Nanjing Shuangdeng Science and Technology Development Academy Co Ltd

In 2005 the company re-registered 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 2009.

Yangzhou Zhenghe Power Supply Co Ltd

The company is a production enterprise and in accordance with the PRC tax legislation applicable to foreign investment enterprises the company is entitled to exemptions from PRC income tax for the two years commencing from its first profit-making year of operation (2007 for Yangzhou Zhenghe 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 on 1 January 2008. The period from 2009 to 2011 is for half-relief, so its applicable tax rate is 12.5%. From 2012, its applicable tax rate is 25%.

8 Dividends

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Dividends paid	817	1,400	817	1,400

China Shoto plc declared an annual dividend of 3.5p per ordinary share amounting to £817,031 on 28 April 2009 which was approved by the shareholders on 16 June 2009.

China Shoto plc declared an annual dividend of 4.5p per ordinary share amounting to £1,050,000 on 22 April 2008 which was approved by the shareholders on 22 May 2008 and declared an interim dividend of 1.5p per ordinary share amounting to £350,000 on 18 September 2008.

9 Earnings per share from continuing operations

Earnings for the purpose of basic and diluted earnings per share are the net profit for the financial year attributable to equity holders of the parent of £23,304,000 (2008: £10,070,000).

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

	Group 2009 £000	Group 2008 £000
Profit attributable to equity holders of the parent	23,304	10,070

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

	Group 2009	Group 2008
Number of ordinary shares		
Weighted average number of ordinary shares - basic	23,343,770	23,343,770
Dilutive effect of share options	353,832	-
Weighted average number of ordinary shares - diluted	23,697,602	23,343,770

10 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 2008	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 adjustment	4,594	5,107	180	712	381	10,974
At 31 December 2008	14,626	15,622	543	2,252	1,850	34,893
Additions	1,763	441	119	1,327	3,805	7,455
Transferred in	3,565	1,269	-	-	(4,834)	-
Disposals	(741)	(1,395)	(51)	(133)	(2)	(2,322)
Exchange adjustments	(1,393)	(1,150)	(52)	(148)	(192)	(2,935)
At 31 December 2009	17,820	14,787	559	3,298	627	37,091
Accumulated depreciation						
At 1 January 2008	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
Charge for the period	328	1,133	82	404	-	1,947
Disposals	(197)	(695)	(33)	(45)	-	(970)
Exchange adjustments	(82)	(98)	(22)	(119)	-	(321)
At 31 December 2009	1,870	6,649	275	1,506	-	10,300
Net book value						
At 1 January 2008	8,097	6,574	247	671	1	15,590
At 31 December 2008	12,805	9,313	295	986	1,850	25,249
At 31 December 2009	15,950	8,138	284	1,792	627	26,791

Assets pledged as security

At as 31 December 2009, building and machinery with carrying amount of £4,283,413 (2008: £8,758,000) are subjected to a first charge to secure the Group's bank borrowings.

According to Government Document Number 304(2007) of Nanjing Jiangnin District, the company signed with Nanjing Jiangnin Economic & Technological Development Company. The property with net value of £380,560 and an area of 4,498.36 square meters was exchanged. The area of the property after exchange is 4,994 square meters. The surplus area is measured at £3,000 per square meters. Due to the Government's procedures, the company did not get land use right certificate and property ownership certificate in time as the agreement confirmed. It is estimated that the company can get them in June 2010.

11 Investment in subsidiary undertakings

	Company 2009 £000	Company 2008 £000
Cost		
At the beginning of the financial year	20,977	20,679
Addition from share-based payment to employees of subsidiaries	-	298
At the end of the financial year	20,977	20,977

12 Intangible assets

	Group Land use rights £000	Group Trademark £000	Group Total £000
Cost			
At 1 January 2008	1,894	20	1,914
Additions	450	-	450
Exchange adjustments	1,018	10	1,028
At 1 January 2009	3,362	30	3,392
Additions	6	-	6
Disposal	(240)	(28)	(268)
Exchange adjustments	(302)	(2)	(304)
At 31 December 2009	2,826	-	2,826
Accumulated amortization			
At 1 January 2008	131	5	136
Amortisation for the financial year	51	2	53
Exchange adjustments	76	4	80
At 1 January 2009	258	11	269
Amortisation for the financial year	76	3	79
Disposal	(46)	(13)	(59)
Exchange adjustments	(27)	(1)	(28)
At 31 December 2009	261	-	261
Net book value			
At 31 December 2008	3,104	19	3,123
At 31 December 2009	2,565	-	2,565

The Group's land use rights have a remaining amortization period of between 36 and 48 years

Because of the construction of Nanjing South Railway Station, the company signed an agreement with Nanjing Jiangnin Economic & Technological Development Company according to Government Document Number 304(2007) of Nanjing Jiangnin District. The land with net value of £203,994 and an area of 12374.28 square meters was transferred at £43.77 per square meters. The Company achieved land transfer income of £337,597.

Assets pledged as security

As at 31 December 2009, land use rights with a carrying amount of £1,242,879 (2008: £2,371,000) are subject to a first charge to secure the Group's bank borrowings.

13 Inventories

	Group 2009 £000	Group 2008 £000
Raw materials	7,211	3,939
Work in progress	5,635	4,376
Finished goods	24,029	20,095
	36,875	28,410

14 Trade and other receivables

	Group 2009 £000	Group 2008 £000
Trade receivables	40,880	32,010
Notes receivable	3,978	1,015
Other receivables	1,006	837
Total financial assets other than short term investments and cash and cash equivalents classified as loans and receivables	45,864	33,862
Advances to suppliers	964	2,191
Prepayments	251	3
	47,079	36,056

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

	Group 2009 £000	Group 2008 £000
Balance at beginning of financial year	948	452
Disposal of subsidiary undertaking	-	-
Allowance for the financial year	763	224
Receivable written off during the year as uncollectable	-	-
Exchange adjustments	(113)	272
	1,598	948

The allowance account for doubtful receivables includes an amount of £nil (2008: £nil) 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 2009 £000	Group 2008 £000
1-90 days overdue	9,108	5,992
91-270 days overdue	10,902	7,781
271-630 days overdue	2,523	1,623
631-990 days overdue	130	47
	22,663	15,443

Loans and receivables that are neither past due nor impaired amount to £23,201,000 (2008: £18,419,000). The credit quality of these receivables is considered to be satisfactory. Included in 91-270 days overdue are debtors' retentions of £2.7 million.

15 Short term investments

	Group 2009 £000	Group 2008 £000
Cost		
Deposits with an initial maturity of more than 3 months	285	-
-Deposits secured for notes payable	5,400	3,834
-Deposits for export sale	-	112
	5,685	3,946

16 Cash and cash equivalents

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Cash	41,508	36,085	254	197
Deposits-secured for Notes Payables with an initial maturity of 3 months or less	22,487	14,712	-	-
	63,995	50,797	254	197

Cash earns interest at a fixed rate of between 0.15% and 1.17% in 2009 (2008: 0.36% and 0.72%)

17 Bank borrowings

	Group 2009 £000	Group 2008 £000
Short-term bank borrowings	28,329	32,845
Long-term borrowings	1,366	-
	29,695	32,845

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 13), guaranteed by the Group company internally. The Group has no defaults and breaches of principal or interest on bank borrowings.

Bank borrowings have an average maturity of 6 months from the end of the financial year (2008: 7 months) and an interest rate ranging from 0.3% to 4.86% (2008: 4.86% to 7.84%). The weighted average interest rate is 2.58% (2008: 7.07%).

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

18 Trade and other payables

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Trade payables	17,640	15,777	-	-
Notes payable	27,413	15,157	-	-
Staff costs payable	9,692	6,796	-	-
Amount due to employees	5,250	3,318	-	-
Due to related parties	100	38	-	-
Other payables	10,544	14,817	52	52
Total other financial liabilities excluding bank borrowings	70,639	55,903	52	52
Advances from customers	1,181	1,643	-	-
Other tax payable	353	3,576	-	-
	72,173	61,122	52	52

Including bank borrowings, the Group's total other financial liabilities amounts to £108,774,000 (2008: £88,748,000)

19 Related parties

The group companies set out in note 24 the directors and the following related parties have been identified

Related parties	Relationship
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	Significant influence by the Chief Executive

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

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Due from subsidiary undertakings - Non-trade	-	-	11,238	12,620
Due to related parties				
-due to Chief Executive Shanji Yang	41	2	-	-
-due to the directors	59	12	-	-
-due to other shareholders	-	24	-	-
Due to subsidiary undertakings - Non-trade	-	-	369	2,945
	100	38	369	2,945

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

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Sale of goods				
Shenyang Shuangdeng Sci-tech Development Co Ltd	-	2,288	-	-
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	118	73	-	-
	118	2,361	-	-
Other operating income				
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	237	147	-	-
	237	147	-	-
Purchases				
Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd	83	192	-	-
	83	192	-	-
Declared dividend				
Leadstar Enterprises Limited	-	-	2,334	2,000
	-	-	2,334	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 55.36% of the issued share capital of China Shoto plc at 31 December 2009 (2008: 47.06%).

20 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

	Group 2009 £000	Group 2008 £000
Deferred tax assets		
At beginning of the financial year	43	92
Transfer to/(from) income statement	181	(77)
Difference in tax rate of tax rate relief	-	5
Exchange differences	(26)	23
At end of the financial year	198	43

21 Share capital

	2009 £000	2008 £000
Authorised		
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

22 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

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. In accordance with companies legislations, the difference between the fair value of Leadstar Enterprises Limited's net assets on acquisition and the nominal value of the ordinary shares issued by the Company on consolidation also have 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

The share option reserve represents the cumulative share based payment charge for options issued by the Group.

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.

22 Reserves (continued)

Statutory reserves (continued)

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.

23 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 14). Available-for-sale asset, all financial assets and liabilities are carried at amortised cost.

General objective, 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.

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 debt is collected outside the credit period interest is charged.

Management reviews all debtors for impairment and are comfortable that unprovided debts are fully recoverable. Quantitative disclosures of the credit risk in relation to trade and other receivables are disclosed in note 14.

23 Financial instruments (continued)

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 customer to pay interest on 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 2009 £000	Group 2008 £000
Repayable within 1 month	22,104	19,992
Repayable within 2-3 months	50,864	19,183
Repayable within 4- 6months	16,511	32,674
Repayable 7-12 months	8,821	12,691
Repayable over 1 year	9,810	4,208
Total	108,110	88,748

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 5% of the Group's sales are denominated in USD.

If the exchange rate 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 2009 £000	Group 2008 £000
Financial assets		
Renminbi	45,392	35,303
US Dollar	1,654	593
Other	33	160
	47,079	36,056

A 10% strengthening of the RMB against the USD would result in reported group profit being £853,000 lower. Conversely, a 10% weakening of the RMB against the USD would result in reported group profit being £853,000 higher.

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

23 Financial instruments (continued)

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 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 2009, the price of the main raw material, lead ingot, changed between a month average price RMB 11,985 and RMB 15,938. 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

The book value and fair value of all the Group's and companies financial assets and liabilities are the same.

24 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 2009
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 Trnity 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 indirectly.

25 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.

	2009 Number of Options	2008 Number of Options	Exercise Price(£)
Outstanding at the beginning of the period	1,480,000	1,480,000	1.30
Lapsed during the period	300,000	-	1.30
Outstanding at the end of the period	1,180,000	1,480,000	1.30
Exercisable at the end of the period	1,180,000	1,480,000	1.30

25 Share-based payments (continued)

The Group recognised total expenses of £nil (2008 £298 000) related to equity-settled share-based payment transaction during the year. All options had vested at 31 December 2008.

26 Segment information

The Group's report segments reflect the internal reporting format provided to the Chief Operating Decision maker and are as follows:

- The Power Type Batteries segment is comprised of power-aided bicycle batteries. This segment contributes 8% (2008 10%) to Group turnover.
- The Back Up Batteries segment includes Valve Regulated Flooded and Gel batteries. This segment contributes 92% (2008 90%) to Group turnover.

Measurement of operating segment profit or loss, assets and liabilities

The accounting policies of the operating segments are the same as those described in the summary of significant policies.

The Group evaluates performance on operating segment profit or loss from operations before tax not including non-recurring losses, such as restructuring costs and goodwill impairment, and also excluding the effects of share based payments.

Inter-segment sales are priced along the same lines as sales to external customers, with an appropriate discount being applied to encourage use of group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior period.

Segment assets exclude tax assets and assets used primarily for corporate purposes. Segment liabilities exclude tax liabilities and defined benefit liabilities. Even though loans and borrowings arise from finance activities rather than operating activities, they are allocated to the segments based on relevant factors (e.g. funding requirements). Details are provided in the reconciliation from segment assets and liabilities to the group position.

	Back up batteries		PTB		Eliminations		Continuing operations	
	2009	2008	2009	2008	2009	2008	2009	2008
	£000	£000	£000	£000	£000	£000	£000	£000
Revenue								
Sales to external customers	196,531	164,794	16,038	18,289	-	-	212,569	183,083
Inter-segment sales	-	-	9,676	22,718	(9,676)	(22,718)	-	-
Total revenue	196,531	164,794	25,714	41,007	(9,676)	(22,718)	212,569	183,083
Results								
Segment profit	26,011	11,499	(669)	337	-	-	25,342	11,836
Unallocated corporate expenses							(268)	(284)
Profit from operations before taxation							25,074	11,552
Income taxation							(1,610)	(1,258)
Profit for the year							23,464	10,294

Notes to the Financial Statements (continued)

26 Segment reports (continued)

	Back up batteries		PTB		Eliminations		Consolidated	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Assets and liabilities								
Segment assets	169,119	161,319	10,835	3,837	-	(22,646)	179,954	142,510
Unallocated assets							3,234	5,114
Total assets							183,188	147,624
Segment liabilities	104,141	103,617	5,454	-	-	(19,746)	109,595	83,871
Unallocated liabilities							563	10,260
Total liabilities							110,158	94,131
Other segment information								
Finance income	440	194	-	-	-	-	440	194
Finance costs	1,705	2,811	-	-	-	-	1,705	2,811
Capital expenditure								
Property, plant and equipment	7,417	3,434	38	102	-	-	7,455	3,536
Intangible assets	6	450	-	-	-	-	6	450
Depreciation and amortization	1,782	1,432	244	178	-	-	2,026	1,610

Geographical segments

	India		Singapore		Other		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Export sales to	5,704	25,969	1,032	-	2,908	3,745	9,644	29,714

All export sales originate from the Back up batteries segment

27 Construction commitments

Construction commitments as at 31 December 2009 but not recognized in the financial statements is £3,422,068 (2008 £1,850,000)

28 Post balance sheet event

The Company signed a share ownership acquisition contract with Jiangsu Tianpeng Lead Oxide Co., Ltd and Jiangsu Tianpeng Chemical Industry Co., Ltd regarding acquisition of Rugao Tianpeng Metallurgy Co., Ltd (hereafter referred to as "Tianpeng Metallurgy") on 19 December 2009. The total consideration is £1,820,000. The company has paid £182,000 on 28 December, 2009 and £1,275,300 in January 2010, and the balance £362,700 will be paid during July 2010. The Company had acquired substantial control of Tianpeng Metallurgy on the 22 January 2010. The total assets and liabilities as at 31 December 2009 were £1,973,278 and £1,252,700, respectively.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the fifth Annual General Meeting of China Shoto plc will be held on 8th Floor 131 Finsbury Pavement London EC2A 1NT at 10am on 22nd June 2010 to transact the following resolutions. Resolutions 1-5 will be proposed as ordinary resolutions and resolutions 6-7 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 2009 together with the Directors' Report and the Auditors' Report on those financial statements
- 2 To re-appoint BDO LLP as Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company at which financial statements are laid and to authorise the Directors to fix their remuneration
- 3 To declare a full year dividend of 5 pence per ordinary share
- 4 To reappoint Peter Maurice Crystal who retires by rotation as a Non-Executive Director
- 5 To reappoint Zhou Yuezhong who retires by rotation as an Executive Director

Special Business

- 6 That for the purposes of Section 551 of the Companies Act 2006 (the 'Act') the Directors be and they are generally and unconditionally authorised to exercise all the powers of the Company to allot shares, grant rights to subscribe for or to convert any securities into shares in the Company, in substitution of all previous authorities conferred on the Directors in accordance with Section 80 of the Companies Act 1985 up to a maximum number of 5 million shares having an aggregate nominal value of £500,000 to such persons and at such times and on such terms as the Directors think proper, provided that this authority shall 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 2011 unless and to the extent that such authority is renewed or extended prior to such date, save that the Company may make an offer or agreement before the expiry of this authority which would or might require shares to be allotted after such expiry and the Directors may allot shares pursuant to such an offer or agreement as if the authority conferred hereby had not expired
- 7 That, subject to the passing of resolution 6 above, the Directors are empowered, in substitution for all existing authorities and pursuant to Sections 570 and 573 of the Act to allot shares, grant rights to subscribe for or to convert any securities into shares in the Company for cash as if Section 561(1) of the Act did not apply to any such allotment of shares, grant rights to subscribe for or to convert any securities into shares in the Company provided that this power shall be limited to the allotment of equity securities as follows
 - a) the allotment of equity securities in connection with any issue by way of rights issue 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 a maximum number of 5 million shares having an aggregate nominal value 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 2011, save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to such an offer or agreement


By Order of the Board
Peter Maurice Crystal
Company Secretary
28 April 2010

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

NOTES

In addition to the noted set out below 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 on 20th June 2010 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 20th June 2010 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 the Company's 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 Zhou Yuezhong and Peter Crystal, 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 Allotment of Shares

Under Section 551 of the Companies Act 2006 (the "Act"), the Directors of the Company may only allot shares if authorised to do so. The articles of association give a general authority to allot shares, 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 shares 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 annual general meeting of the Company to be held in 2011.

Resolution 7 Waiver of Pre-emption Rights

In the case of a new allotment of shares or convertible securities for cash, Section 561 of the Act grants pre-emption rights to existing shareholders. However, the directors may be given the power under Sections 570 and 573 of the Act to disapply generally the provisions of Section 561. Accordingly, the Directors consider that it is in the best interests of the Company for the existing authority granted by shareholders at the 2009 annual general meeting 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 annual general meeting of the Company to be held in 2011.

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.

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 Company to be held at 8th Floor, 131 Finsbury Pavement, London, EC2A 1NT on 22nd June 2010 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 2009, together with the Directors' Report and the Auditors' Report on those Financial Statements		
2 To re-appoint BDO LLP as Auditors		
3 To declare a full year dividend of 5 pence per ordinary share		
4 To reappoint Peter Maurice Crystal who retires by rotation as a Non-Executive Director		
5 To reappoint Zhou Yuezhong who retires by rotation as an Executive Director		
6 To authorise the Directors to allot relevant securities in the Company pursuant to section 551 of the Companies Act 2006		
7 To disapply the provisions of section 561 of the Companies Act 2006 in respect of the allotment of equity securities in the Company		

Signature(s) _____ Date _____ 2010

NOTES

- 1 To be valid, this Form of Proxy, duly completed, must be deposited with the Company's Registrars at, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time appointed for the Meeting
- 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 officer or duly authorized agent
- 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. If a shareholder appoints more than one proxy, he/she shall specify the number of shares in respect of which each proxy is entitled to exercise the relevant votes and shall ensure that no proxy is appointed to exercise the votes which any other proxy has been appointed by that shareholder to exercise. 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
- 7 The appointment of a proxy shall be deemed to have the right to demand or join in demanding a poll but shall not confer any further right to speak at the meeting, except with the permission of the Chairman of the meeting



china shoto plc
2009 Annual Report

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