Company Number: 05448599

# China Shoto plc

## A Green Energy Solution Provider

## 2010 Annual Report and Accounts

# Contents

# Directors, Secretary and Advisers

| | |
|---|---|
| **Directors** | Yang Shanji (*Executive Director*)<br>Zhou Ping (*Executive Director*)<br>Qian Shangao (*Executive Director*)<br>Zhou Yuezhang (*Executive Director*)<br>Zhou Weigang (*Executive Director*)<br>Bernard Harry Asher (*Non-Executive Director*)<br>Peter Maurice Crystal (*Non-Executive Director*)<br>Li Shuang (*Non-Executive Director*) |
| **Company Secretary** | Peter Maurice Crystal |
| **Registered Office** | The Broadgate Tower<br>20 Primrose Street<br>London EC2A 2RS |
| **Registered Number** | 05448599 |
| **Auditor** | BDO LLP<br>Emerald House<br>East Street<br>Epsom<br>Surrey KT17 1HS |
| **Nominated Adviser and Broker** | Seymour Pierce Limited<br>20 Old Bailey<br>London EC4M 7EN |
| **Registrars** | Capita Registrars<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent BR3 4TU |
| **Solicitors** | Reed Smith LLP<br>The Broadgate Tower<br>20 Primrose Street<br>London EC2A 2RS |

# Highlights

- Group sales revenues decreased by 7 3 per cent to £196 95 mıllıon (2009 £212 57 mıllıon)
- Sales to Huaweı Technology and ZTE Corporatıon up 134.5 per cent to £35 79 mıllıon (2009 £15 26 mıllıon)
- Awarded Huaweı Technology Core Provıder status
- Completed two new productıon lınes
- Successfully granted 71 new patents, brıngıng the total number held to 197
- Net profit attrıbutable to equıty holders of the parent decreased by 33 9 per cent to £15 40 mıllıon (2009 £23 30 mıllıon)
- Full-year dıvıdend of 5 pence per share recommended by the Board
- Proposed de-lıstıng and tender offer of 380 pence per share representıng a premıum of 54 2 per cent to the closıng mıd-market share prıce on 29 March 2011

# Company Overview

### Business introduction

Chιna Shoto plc (the "Company") and ιts subsιdιanes (together the "Group") are maιnly engaged ιn the productιon of back-up batteries and power type batteries The back-up batteries are used prιmarily by telecommunιcatιons operators, but also by customers ιn the power, raιlway and other sectors The power type batteries are maιnly used by the electric bιcycle manufacturer and retaιl sectors During the year ended 31 December 2010, the Group maιntaιned ιts market share as a leadιng back-up battery supplιer to Chιna's three major telecom operators, Chιna Mobιle, Chιna Unιcom and Chιna Telecom and was awarded Huaweι Technology Core Supplιer Status

Total revenue decreased by 7 3 per cent to £196 95 mιllιon ιn 2010 (2009 £212 57 mιllιon) Revenue from the back-up battery busιness decreased by 15 8 per cent to £165 57 mιllιon (2009 £196 53 mιllιon) and the gross profit margιn decreased from 13 2 per cent ιn 2009 to 11 5 per cent ιn 2010 At the same tιme, revenue from the power type battery busιness ιncreased 95 5 per cent to £31 36 mιllιon (2009 £16 04 mιllιon) helpιng to narrow the negatιve profit margιn from -4 17 per cent ιn 2009 to -0 55 per cent ιn 2010

### Acquisition and disposal of subsidiaries

In January 2010, the Group acquιred a controllιng equιty ιnterest ιn Rugao Tιanpeng Metallurgy Co , Ltd (Rugao Tιanpeng) for a total consιderatιon of £1 82 mιllιon Rugao Tιanpeng ιs mainly engaged ιn battery recyclιng and ιs located ιn Rugao Cιty, Jιangsu Provιnce, Chιna, wιthιn easy reach of the Group's exιstιng productιon facιlιtιes ιn Jιangyan

The Company dιsposed of ιts shareholdιng ιn Yangzhou Zhenghe Power Supply Co , Ltd ιn December 2010 for a cash consιderatιon of RMB 4 mιllιon, yιeldιng a profit on dιsposal of RMB 820,000 agaιnst the original purchase price ιn 2006

### Strategic Objective

The Company has become the largest back-up battery producer ιn Chιna As a Chιna envιronment friendly enterprise, the Company ιntends to become a green energy storage products provιder through enhancιng ιts R&D effort and ιn partιcular, to progress the development of green energy storage products

### Products

- AGM VRLA Battery ("AGM Battery")
- GEL VRLA Battery ("GEL Battery")
- Flooded Lead Acιd Battery ("Flooded Battery") and
- Power Type Battery ("PTB")

### Manufacturing

The Group's factories are convenιently located ιn Jιangyan, Jιangsu Provιnce, two hours from Shanghaι, wιth easy access to well-developed transportatιon networks

The Group now has eιght back-up battery and two power type battery productιon lιnes ιncludιng two new lιnes buιlt ιn 2010 for 12V back up battery to satιsfy ιncreased market demand Key manufacturing equιpment ιncludes a TBS castιng machιne from the UK, and a concastιng system from USA, both desιgned for the productιon of Front Termιnal batteries and Spιral Wound batteries The desιgned annual capacιty for Front Termιnal batteries ιs 1 mιllιon KVAH (830,000 pcs), and 108,000 KVAH (180,000 pcs) for spιral wound batteries

Products are manufactured accordιng to ιnternatιonal and domestιc ιndustrial standards and comply wιth the network lιcense requιrements of major countries ιn Europe, America and South Asιa The Group has also met the international authentication standards of other countries such as Indonesia, Russia and Nigeria and of the International Electrotechnical Commission

**Research and development**

The Company established the Nanjing Shuangdeng Science & Technology Academy and Post Doctoral Research Workstation, a key laboratory for research into new power type batteries in Jiangsu Province It is also cooperating with more than 10 large domestic universities, including Nanjing Normal University and the China Academy of Science, in product development, technical innovation and talent training In addition, the Group has equipped itself with high-tech instruments from the UK, Germany and the USA so as to maximise the quality of its R&D and production

The Company's R&D centre is mainly responsible for developing new types of GEL, AGM and Spiral Wound batteries, as well as the technological development of all existing products

**Sales and Market**

Market sectors served include telecommunications, electrical power, railways and electric bicycle sectors

**Key Customers**

***Back-up battery business***

Domestic market China's three major telecom operators remain our key customers, with sales of £109 7 million (2009 £159 68 million), accounting for 66 3 per cent (2009 81 2 per cent ) of the total back-up battery business during the year Other major customers include ZTE Telecom and Huawei Technology, who awarded the Company "Huawei Technology Core Supplier Status" during the year Sales to these two customers increased to £35 79 million (2009 £15 26 million), accounting for 21 6 per cent (2009 7 8 per cent ) of total back-up battery revenue during the year

Foreign markets Back up battery sales to FAAM and Indus Tower Ltd totalled £2 03 million (2009 £4 54 million), accounting for 26 9 per cent (2009 47 1 per cent ) of total foreign sales

***Power type battery***

Changsha Zhongxiang Electric Bicycle Co , Ltd, Jiangsu Xinri Electric Bicycle Co , Ltd, and Tianjin Taifeng Xiaoniao Electric Bicycle Co , Ltd were the top three customers for power type batteries, generating sales of £10 64 million (2009 £4 48million), and accounting for 33 9 per cent (2009 14 3 per cent ) of total power type battery business

**Sales and Service Network**

The Group now has 89 domestic sales offices and five overseas offices in Dusseldorf, Dubai, Moscow, Singapore and South Africa which opened in 2010

# Chairman's Statement

Against the backdrop of continuing complications both in China's domestic markets and internationally, marked in particular by a huge decrease in infrastructure construction spending by China's three telecom operators, 2010 proved to be a challenging year for China Shoto In spite of these difficulties, the Company implemented developments that we believe position us strongly to expand the business as we continue working to create value for our shareholders During the year, the Company successfully completed the acquisition of Rugao Tianpeng, providing us with a battery recycling operation that enables the Group to meet environmental criteria imposed by key customers We also continued working to maximise our existing technology advantages and customer relationships and focused our sales strategy to maintain market share and remain the largest back-up battery supplier to China's huge telecoms sector Further, our strong R&D capabilities resulted in the successful development of new battery types, providing opportunities into other domestic markets, such as the electric power, railway and bicycle sectors Considerable progress in our exploration of key customer potential has been made in overseas markets We have also continued working hard to control costs and evaluate more efficient production methods whilst maintaining overall production levels At the end of the year, the Company disposed of its entire shareholding in Yangzhou Zhenghe for a cash consideration of RMB 4 million, yielding a profit on disposal of RMB 820,000

**Results and Dividend**

Significant decreases in the central purchasing budgets of China's three telecom operators, higher lead prices, and wider global competition resulted in a significant decrease in Group sales compared with 2009 Revenue decreased 7 3 per cent to £196 95 million (2009 £212 57 million), whilst net profit attributable to equity holders of the parent decreased by 33 9 per cent to £15 40 million (2009 £23 30 million)

The Board is not recommending any increase in the full year dividend which will be maintained at 5 pence per share for the year ended 31 December 2010 If approved by shareholders at the Annual General Meeting on 26 April 2011 the dividend will be paid on 4 May 2011 to shareholders on the register at the close of business on 8 April 2011, with the shares going ex-dividend on 6 April 2011

**Operating Overview**

**Market Overview**

**Business segments**

***Back-up batteries***

Sales revenue from the back-up battery business in 2010 decreased 15 8 per cent to £165 57 million (2009 £196 53 million)

***Power type batteries***

Sales from the power type battery business in 2010 increased 95 5 per cent to £31 36 million (2009 £16 04 million)

**Geographical segments**

***Domestic sales***

Although the Company successfully increased its sales to ZTE and Huawei by 134 5 per cent to £35 79 million (2009 £15 26 million), domestic sales still decreased 6 6 per cent to £189 43 million (2009 £202 93 million) Sales to the Group's three key customers, China's telecom operators decreased 31 3 per cent to £109 7 million

***Foreign sales***

Foreign sales decreased 22 1 per cent to £7 52 million (2009 £9 64 million) mainly due to lower sales to our biggest overseas market, India, which cut imports from China following an increase in domestic Indian suppliers Sales to India alone decreased 78 per cent to £1 25 million (2009 £5 70 million) However, the Group is working to broaden its international presence, and successfully captured new sales in Korea, Russia, Malaysia and Brazil during 2010

### Key customers

***Back-up batteries***

Sales to China's three largest telecom operators decreased 31 3 per cent to £109 7 million (2009 £159 68 million), although the Group remains the largest single back-up battery supplier to China's three telecom operators Mitigating the affect of the revenue drop, sales to ZTE and Huawei Technology increased 134 5 per cent to £35 79 million (2009 £15 26 million)

During the year, the Group's back-up batteries were used successfully in the China Mobile Pavilion, the Pacific Pavilion, and the Joint Pavilion of International Organizations at the Shanghai EXPO 2010 This endorsement has improved the recognition of our brand in the key markets in which the Group operates

***Power type batteries***

Following the Company's market development activities over the past three years, sales of power type batteries improved significantly during 2010 Sales to the primary market (where customers include e-bike manufacturers) increased 114 8 per cent to £13 22 million (2009 £6 15 million), whilst sales to the secondary market (where the customers are e-bike accessory distributors, repair shops and retailers) increased 103 4 per cent to £18 14 million (2009 £8 87 million)

The Group continues to strengthen its communications with customers through improvements to its technical support and after-sale services

In 2010, the Group also strengthened its presence at key international telecom fairs, such as the Singapore Telecom Fair, the Brazil International Telecommunications Exhibition, the Russia Telecom Exhibition, the South Africa Telecom Exhibition, the China International Telecom Fair and the International Engineer Machine Exhibition, as well as increased media advertising and other marketing strategies

### Lead Acid Battery Recycling Project

In January 2010, the Company acquired Rugao Tianpeng, which now enables the Group to meet internally, the battery recycling requirements of its key customers Rugao Tianpeng mainly produces lead alloy as required by the Group The Group is now undertaking research on the selection of smelting equipment and technical demonstrations

### Research and Development

The R&D centre is responsible for developing new types of GEL, AGM and Spiral Wound batteries, and for the technical development of existing types of these batteries and of super capacitors New products developed in 2010 include a full series 12V front terminal 100AH with concasting technology, a 2V flat plate gel battery, a 12V front-terminal gel battery, and a 12V 100AH AGM specially designed for UPS

### Patents Granted

During 2010, the Group was granted 71 new patents, bringing the total number of patents awarded by the China Intellectual Property Bureau to 197, including 15 invention patents

### Directorate Changes

There were no changes to the Board of Directors in the year ended 31 December 2010 or up to the date of signing the annual report

### Social Responsibility

As a China environmentally friendly enterprise, we remain committed to commercial development in parallel with the Group's wider social responsibility 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 Further, the Group's products have passed CE Verification, UL Verification and EU RoHS tests

**Outlook**

As foreseen in the 2009 Annual Report, the Group's management faced severe commercial pressures and challenges in 2010 The year ahead will undoubtedly bring further uncertainties, in particular in relation to the

- reduced 7 per cent GDP target set in the Chinese Government's "12th Five Year Plan" (against average annual GDP growth of 11 2 per cent achieved during the period of the 11th Five Year Plan),
- commitment to energy saving and emission reduction made by the Chinese Government at the Copenhagen Climate Summit,
- focus on social and occupational health,
- increasing labour costs,
- government-imposed restraints on high energy consumption industries,
- continuing decline of infrastructure investment by the Chinese telecom industry,
- adjustments to China's finance and currency policy,
- anticipated global inflation, and
- further appreciation of the Chinese currency, the Renminbi (RMB)

All are expected to affect the Group's business and impact profit margins In the face of these challenges, the Group will continue to explore new opportunities in both the international and domestic markets The newly built production lines for front terminal and spiral wound batteries will contribute towards growing the business going forward The Group will also continue to focus on cost savings, ensuring tighter risk controls and maintaining environmental compliance in line with its objective of becoming a key green energy solution provider

Following a challenging year for the Group, the Directors have conducted a detailed review of the Group's strategic options This review has included evaluating the benefits and disadvantages of the admission of the Company's shares to trading on AIM The Directors have concluded that it is in the best interests of the Company and shareholders as a whole for the admission of the Company's ordinary shares to trading on AIM be cancelled The Company has issued a circular to shareholders on 30 March 2011 which provides further details of the proposed cancellation of admission of the Company's ordinary shares to trading on AIM, a tender offer by Seymour Pierce Limited to purchase certain of the Company's Ordinary Shares as well as a Notice of Annual General Meeting

Following the cancellation of the Company's admission to trading on AIM, the Directors will consider various strategic options which may include a listing on the Hong Kong Stock Exchange, the Shanghai Stock Exchange or any other Stock Exchange It should be noted that there can be no certainty of another listing on any Stock Exchange

**Yang Shanji**
*Chairman*

30 March 2011

# Finance Director's Report

**Results**

The Board regards the following measures as key performance indicators

- Sales revenue decreased by 7 3 per cent to £196 95 million (2009 £212 57 million)
- Operating profit decreased by 25 8 per cent to £19 53 million (2009 £26 34 million)
- Pre-tax profit decreased by 26 3 per cent to £18 49 million (2009 £25 07 million)
- Gross profit margin decreased by 8 8 per cent to 23 1 per cent (2009 31 9 per cent ), which is mainly due to a decrease in sales prices
- Distribution expense decreased £14 22 million to £17 43 million (2009 £31 65 million), which is mainly due to the decrease of sales bonuses as a result of lower revenues and profits
- Net profit attributable to equity holders of the parent company, decreased by 33 9 per cent to £15 40 million (2009 £23 30 million)
- Diluted earnings per share from continuing operations in 2010 decreased by 34 6 per cent to 64 27p (2009 98 34 p)

**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 activities undertaken in the UK

According to the latest taxation laws of the Peoples' Republic of China, which came into effect on 1 January 2008, 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 the new and old enterprise income tax laws A half-relief tax rate of 12 5 per cent will be applied from 2010 to 2012, the full applicable income tax rate will be 25 per cent from 2013

***Jiangsu Fuste Power Supply Co., Ltd***

The full income tax rate of 25 per cent is applied according to the latest taxation laws of the Peoples' Republic of China

***Nanjing Shuangdeng Science and Technology Development Academy Co., Ltd***

A half relief tax rate of 12 5 per cent is applied from 2010 to 2012 From 2013, the applicable income tax rate will be 25 per cent

***Jiangsu Best Power Supply Co., Ltd***

The applicable income tax rate is 12 5 per cent according to the latest taxation laws of the Peoples' Republic of China Since 2011, the applicable income tax rate has been 25 per cent

***Rugao Tianpeng Mettallurgy Co., Ltd***

The applicable income tax rate is 25 per cent according to the latest taxation laws of the Peoples' Republic of China

**Earnings and Dividends**

Diluted earnings per share decreased 34 6 per cent to 64 27p (2009 98 34p)

The Board is not recommending any increase in the full year dividend, which will be maintained at 5 pence per share for the year ended 31 December 2010

**Shareholders' Equity**

The proportion of equity of the Company attributable to shareholders of the parent increased by 26 9 per cent to £91 64 million in 2010 (2009 £72 22 million) Retained earnings of the Group increased by 31 6 per cent to £43 47 million (2009 £33 03 million)

**Cash Flow**

The net cash inflows from operating activities is £5 98 million (2009 £14 36 million)

**Borrowing**

In 2010 the Group entered into credit facility 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 and the Jiangyan branch of Bank of China On 31 December 2010, the Group's short term bank borrowing stood at £35 40 million compared with £40 99 million as at 31 December 2009

**Cost management**

The Group reduced manufacturing waste 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 Group has financed its operations primarily through a mix of short-term and long-term borrowings Liquidity risk was significantly reduced by increasing the banking facilities available to the Group

**Foreign Exchange Risk**

Foreign sales in 2010 were £7 52 million (2009 £9 64 million), accounting for 3 8 per cent of total revenue (2009 4 5 per cent )

The Group 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 forward settlement method to reduce foreign exchange risks

**Interest Rate Risk**

With the adjustment of Chinese currency policy, anticipated interest rate increases in 2011 may affect purchasing costs and thus profitability The main interest rate risk is the rate of return on short term cash deposit and bank borrowings

**Zhou Weigang**
*Finance Director*

30 March 2011

## Board of Directors

**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 of China's 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 30 years of senior enterprise management experience and has a strong reputation in the battery industry Mr Yang is regularly recognised for his work in the industry, receiving titles such as National Model Worker, an honour that the Chinese Government grants to individuals who have provided significant contributions to the Chinese economy

**Zhou Ping,** *Executive Director*

Zhou Ping holds a Master's Degree, the title of Senior Economist and is the Chief Marketing Officer of the Company He is an economist with 17 years' experience in the battery and industrial power supply sector, spent entirely with the Group For the past 12 years he has been responsible for Group marketing and sales

**Qian Shangao,** *Executive Director*

Mr Qian Shangao has a Master's Degree He is a senior engineer, and holds the title of Senior Economist He 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 1990 Between 1990 and 1995, Mr Qian 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 and has been Vice President of JSG Co since 2003

**Zhou Yuezhang,** *Executive Director*

Zhou Yuezhang holds a Master's Degree and is one of the founders of JSG Co From 1990 to 1995, he was the Deputy Director of the Jiangyan Factory He joined JS Power as Deputy General Manager when it was set up in 1995 and has been the Vice President of JSG Co since 2003 Mr. Zhou has extensive experience in several management fields in the power supply industry

**Zhou Weigang,** *Executive Director*

Zhou Weigang, holds a Master's Degree, the title of Senior Economist and is an accountant He is the Chief Finance Officer of the Group He has been awarded the title "Provincial Advance Chief Financial Officer" by the Finance Office of Jiangsu Province, China Mr Zhou has 30 years' management experience in senior financial positions with Chinese industrial companies He has served the Group for 13 years, most recently as the Group's Financial Controller, with responsibility for risk control He was part of the team involved in the listing of the Company on the AIM market in December 2005

**Bernard Harry Asher,** *Non-Executive Director*

Mr Asher, who lives in London, was an Executive Director of HSBC Holdings from 1986 to 1998 and Chairman of HSBC Investments In 1997 Mr Asher became Non-Executive Vice Chairman of the Legal & General Group and Vice Chairman of the London School of Economics He has been a Non-Executive Director of Morgan Sindall, Seymour Pierce, Chairman of Liontrust Currently, Bernard Asher is a Director of Hansard Global, China Shoto and BMC Bank International

**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, following which he acted as an advisor to the organisation from 2002 to 2004 In 2010, he was selected as the "Senior Certified Public Accountant" He is currently a member of the Accounting Society of China (ASC), a Director and member of CICPA and China Audit Society, and a member of Academic Committee of Audit Society He is also a Non-Executive Director of two companies listed in China, and an External Supervisor of a listed company

**Peter Maurice Crystal,** *Non-Executive Director*

Mr Crystal 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 specialises in matters relating to listed companies and advising on flotations, takeovers, mergers and other corporate finance activities He is a graduate of Oxford and McGill Universities, a former Law Society Examiner, Director of several companies and a known speaker on corporate finance and corporate governance

# Directors' Report

The Directors are pleased to submit the annual report and financial statements for the year ended 31 December 2010

## Principal Activities

The principal activity of China Shoto plc is that of 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 Group has performed satisfactorily during the year and the trading performance achieved the budget established at the beginning of the year

The Income Statement of the Group shows revenue of £196 95 million and profit attributable to equity holders of the parent of £15 40 million for the year ended 31 December 2010

Total Group revenue decreased by 7 3 per cent compared with 2009 Back-up battery revenue decreased by 15 8 per cent to £165 57 million in 2010 (2009 £196 53 million) Further details of revenue by product type are set out in note 26 to the accounts

The Group signed a share transfer agreement in January 2010 for total consideration of £1 82 million for the entire share capital of Rugao Tianpeng The company mainly produces lead alloy as required by other companies of the Group

In December 2010, the Group disposed its total shareholding of 51 per cent in Yangzhou Zhenghe Power Co , Ltd for a cash consideration of RMB 4 million which represented a profit on disposal of RMB 820,000

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

## Principal Risks and Uncertainties

The acquisition of Rugao Tianpeng in 2010 could expose the Group to potential risks, including risks associated with the management of new operations, technologies and personnel The Company will recruit a related expert management team and technician to control the risk

The Company's exports markets are exposed to fluctuating foreign exchange rates, and any appreciation of RMB may influence the Company's foreign sales and profitability overseas Other forms of financial risk are discussed further in note 23 to the financial statements The Company will consider the use of financial instruments to manage any material exposure to foreign currency

With the adjustment of Chinese currency policy, anticipated interest rate increases during 2011 may affect financing costs and thus profitability The Company will pay close attention to the trend of Chinese currency policy, enhance management on trade receivables, increase the trade receivable velocity and improve the capital utilization efficiency to control finance cost

The Chinese Government's increased requirements on environmental protection measures expose the Company to greater pressure on energy conservation and emission controls, associated vocational health and increase of labour costs The Company will increase input in environmental facility, R&D and commercialization progress of green environmental product, promote the industry to control this pressure caused by such cost increase

## Dividend

The Board is not recommending any increase in the full year dividend, which will be maintained at 5 pence per share for the year ended 31 December 2010 If approved by shareholders at the Annual General Meeting on 26 April 2011 the dividend will be paid on 4 May 2011 to shareholders on the register at the close of business on 8 April 2011, with the shares going ex-dividend on 6 April 2011

**Substantial Shareholders**

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

**Directorate Changes**

There were no changes to the Board of Directors in the year ended 31 December 2010 and up to the date of signing of the annual report

**Employee Policy**

As a China environment friendly enterprise, we seek to identify and minimise all health and safety risks in daily operations and in the production process We also provide regular physical examinations and occupational health and safety training for all employees The Group also pays for endowment, medical, and unemployment insurance, as well as providing a housing fund for all employees in accordance with relevant national regulations

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

**Environmental Policy**

The Group passed the certification of ISO14001 and GB/T18001 vocation health and safety management, and its products passed the CE Verification, UL Verification and EU RoHS test Its subsidiary, 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 the Group's strategies which are 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 The number of average days purchases of the Group represented by trade creditors at 31 December was 62 days (2009 45 days)

**Financing**

The Group currently uses bank borrowings of one year's maturity to provide finance for working capital requirements Given the trading performance, the Directors expect the Group to continue to operate as a going concern for the foreseeable future

**Financial Instruments**

The Group has its own cash resource and foreign exchange account which is managed to reduce exchange rate risk from transactions not denominated in RMB The Group has not undertaken any transactions in financial derivatives For further information on financial instruments 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 and Broker, 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

Research 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 of the Company ("AGM") will be held on 26 April 2011 in London Full details of the AGM and the resolutions to be put to the AGM will be distributed in a separate circular to shareholders accompanying this Annual Report

**Auditors**

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 other 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 arrangement 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 summarise 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 Dırectors are responsıble for preparıng the annual report and the financıal statements ın accordance wıth applıcable law and regulatıons

Company law requıres the dırectors to prepare financıal statements for each financıal year Under that law the dırectors have elected to prepare the group and company financıal statements in accordance wıth Internatıonal Fınancıal Reportıng Standards ("IFRS"s) as adopted by the European Unıon Under company law, the dırectors must not approve the financıal statements unless they are satısfied that they gıve a true and faır vıew of the state of affaırs of the group and company and of the profit or loss of the group for that perıod The dırectors are also requıred to prepare financıal statements ın accordance wıth the rules of the London Stock Exchange for companıes tradıng securıtıes on the Alternatıve Investment Market

In preparıng these financıal statements, the Dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make judgments and accountıng estımates that are reasonable and prudent,
- state whether they have been prepared ın accordance wıth IFRSs as adopted by the European Unıon, subject to any materıal departures dısclosed and explaıned ın the financıal statements,
- prepare the financıal statements on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the company wıll contınue ın busıness

The Dırectors are responsıble for keepıng adequate accountıng records that are suffıcıent to show and explaın the Company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and enable them to ensure that the financıal statements comply wıth the requırements of the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

**Website publication**

The dırectors are responsıble for ensurıng the annual report and the financıal statements are made avaılable on a websıte Fınancıal statements are publıshed on the Company's websıte ın accordance wıth legıslatıon ın the Unıted Kıngdom governıng the preparatıon and dıssemınatıon of financıal statements, whıch may vary from legıslatıon ın other jurısdıctıons The maıntenance and ıntegrıty of the Company's websıte ıs the responsıbılıty of the Dırectors The Dırectors' responsıbılıty also extends to the ongoıng ıntegrıty of the financıal statements contaıned thereın

# 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 Executive 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 2010 Detailed information can refer to Note 5 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 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 2010 is set out in note 5 to the Financial Statements

## Share Options

The followıng Dırectors had ınterests ın optıons to subscrıbe for ordınary shares of the Company as set out below

| *Name* | *As at 31 December 2010 and 31 December 2009* | *% of Issued Capıtal* | *Exercıse prıce* | *Date of grant* | *Exercıse perıod* |
|---|---|---|---|---|---|
| Yang Shanjı | 500,000 | 2 14% | £1 30 | 30 November 2005 | December 2008–December 2015 |
| Zhou Pıng | 100,000 | 0 5% | £1 30 | 30 November 2005 | December 2008–December 2015 |
| Qıan Shangao | 100,000 | 0 5% | £1 30 | 30 November 2005 | December 2008–December 2015 |
| Zhou Yuezhang | 200,000 | 0 86% | £1 30 | 30 November 2005 | December 2008–December 2015 |
| Zhou Weıgang | 100,000 | 0 5% | £1 30 | 30 November 2005 | December 2008–December 2015 |

## Contracts of Service

The servıce agreements wıth each of the Executıve Dırectors are termınable on 12 months' notıce by eıther party

The Non-Executıve dırectors all have letters of appoıntment wıth an ınıtıal fixed term of 12 months The appoıntment may be termınated at any tıme thereafter by sıx months' wrıtten notıce

# 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 2010 which comprise the consolidated income statement, the consolidated and company balance sheet, 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 and express an opinion on 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**

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private cfm

**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 2010 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 directors' 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

BDO LLP.

Kevin Cook (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Epsom
United Kingdom

30 March 2011

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 2010

| | Notes | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **For the year ended 31 December 2010** | | | |
| **Revenue** | 3 | 196,948 | 212,569 |
| Cost of sales | | (151,424) | (144,547) |
| **Gross profit** | | 45,524 | 68,022 |
| Other operating income | 3 | 7,301 | 4,540 |
| Distribution expenses | | (17,436) | (31,653) |
| Administrative expenses | | (10,305) | (11,766) |
| Other operating expenses | | (5,551) | (2,804) |
| **Profit from operations** | 4 | 19,533 | 26,339 |
| Finance income | 3 | 497 | 440 |
| Finance costs | 6 | (1,541) | (1,705) |
| **Profit before tax** | | 18,489 | 25,074 |
| Tax expense | 7 | (3,199) | (1,610) |
| **Profit for the year** | | 15,290 | 23,464 |
| **Other comprehensive income** | | | |
| Exchange differences on translating foreign operations | | 5,182 | (2,855) |
| **Total comprehensive income for the year** | | 20,472 | 20,609 |
| **Profit for the year attributable to:** | | | |
| **Owners of the parent** | | 15,398 | 23,304 |
| Non-controlling interests | | (108) | 160 |
| | | 15,290 | 23,464 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the parent | | 20,580 | 20,521 |
| Non-controlling interest | | (108) | 88 |
| | | 20,472 | 20,609 |
| **Earnings per share for profit attributable to the equity shareholders of the parent during the year** | | | |
| – Basic | 9 | 65 96p | 99 83p |
| – Diluted | 9 | 64 27p | 98 34p |

**Consolidated Balance Sheet**
As at 31 December 2010
Company Number 05448599

| | Notes | *Group 2010 £000* | *Company 2010 £000* | *Group 2009 £000* | *Company 2009 £000* |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | 35,009 | – | 26,791 | – |
| Intangible assets | 12 | 2,957 | – | 2,565 | – |
| Long term deferred expenses | | 482 | – | – | – |
| Deferred tax assets | 20 | 301 | – | 198 | – |
| Investment in subsidiary undertaking | 11 | – | 20,977 | – | 20,977 |
| Due from related companies | 19 | – | 9,939 | – | 11,238 |
| | | 38,749 | 30,916 | 29,554 | 32,215 |
| **Current assets** | | | | | |
| Inventories | 13 | 49,459 | – | 36,875 | – |
| Trade and other receivables | 14 | 54,830 | – | 47,079 | – |
| Short-term investments | 15 | 3,249 | – | 5,685 | – |
| Cash and cash equivalents | 16 | 56,156 | 69 | 63,995 | 254 |
| | | 163,694 | 69 | 153,634 | 254 |
| **Total assets** | | 202,443 | 30,985 | 183,188 | 32,469 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Bank borrowings | 17 | 35,400 | – | 40,991 | – |
| Trade and other payables | 18 | 67,614 | – | 59,511 | 52 |
| Income tax payable | | 1,094 | – | 60 | – |
| | | 104,108 | – | 100,562 | 52 |
| **Non-current liabilities** | | | | | |
| Bank borrowings | 17 | 1,468 | – | 1,366 | – |
| Long term payable-Payroll | | 4,752 | – | 7,775 | – |
| Deferred income | | 478 | – | 455 | – |
| Due to related companies | 19 | – | 369 | – | 369 |
| | | 6,698 | 369 | 9,596 | 369 |
| **Total liabilities** | | 110,806 | 369 | 110,158 | 421 |
| **Capital and reserves** | | | | | |
| Share capital | | 2,334 | 2,334 | 2,334 | 2,334 |
| Share premium | | 8,630 | 8,630 | 8,630 | 8,630 |
| Other reserve | | 2,916 | 18,462 | 2,916 | 18,462 |
| Share option reserve | | 977 | 977 | 977 | 977 |
| Statutory reserves | | 18,322 | – | 14,529 | – |
| Retained earnings | | 43,471 | 213 | 33,033 | 1,645 |
| Foreign currency translation reserve | | 14,987 | – | 9,805 | – |
| **Total equity attributable to equity holders** | | 91,637 | 30,616 | 72,224 | 32,048 |
| Non-controlling interests | | – | – | 806 | – |
| **Total equity and liabilities** | | 202,443 | 30,985 | 183,188 | 32,469 |

The financial statements were approved and authorised for issue by the Board of Directors on 30 March 2011 and signed on its behalf by

**Shanji Yang**
*Chief Executive*

The accompanying notes 1 to 30 form an integral part of the consolidated financial statements

## Consolidated statement of changes in equity
For the year ended 31 December 2010

| | *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* |
| **Group** | | | | | | | | | | |
| 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 1 January 2010 | 2,334 | 8,630 | 2,916 | 977 | 14,529 | 33 033 | 9,805 | 72,224 | 806 | 73,030 |
| Total comprehensive income | – | – | – | – | – | 15 398 | 5 182 | 20,580 | (108) | 20,472 |
| Transfer to statutory reserves | – | – | – | – | 3,793 | (3 793) | – | – | – | – |
| Dividends paid (note 8) | – | – | – | – | – | (1 167) | – | (1,167) | (175) | (1,342) |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | (523) | (523) |
| Balance as at 31 December 2010 | 2,334 | 8,630 | 2,916 | 977 | 18 322 | 43,471 | 14,987 | 91,637 | – | 91,637 |

The accompanying notes 1 to 30 form an integral part of the consolidated financial statements

## Statement of changes in equity
For the year ended 31 December 2010

| | *Share capital £000* | *Share premium £000* | *Other reserves £000* | *Share option reserve £000* | *Retained earnings £000* | *Total £000* |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| 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 1 January 2010 | 2,334 | 8,630 | 18,462 | 977 | 1,645 | 32,048 |
| Total comprehensive income | – | – | – | – | (265) | (265) |
| Dividends paid | – | – | – | – | (1,167) | (1,167) |
| Balance as at 31 December 2010 | 2,334 | 8,630 | 18,462 | 977 | 213 | 30,616 |

The accompanying notes 1 to 30 form an integral part of the consolidated financial statements

**Consolidated cash flow statements**
For the year ended 31 December 2010

| | Notes | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax from continuing operations | | 18,489 | 25,074 |
| **Adjustments for:** | | | |
| Amortisation of intangible assets | 12 | 81 | 79 |
| Depreciation of property, plant and equipment | 10 | 2,285 | 1,947 |
| Loss on disposal of property, plant and equipment | 4 | 202 | 558 |
| Impairment loss on loans and receivables | 4 | 387 | 763 |
| Impairment on inventories | 4 | 232 | 93 |
| Financial income | 3 | (497) | (440) |
| Financial expense | 6 | 1,541 | 1,705 |
| Loss on disposal of a subsidiary | 4 | 430 | – |
| Cash flow from operating activities before changes of working capital and provisions | | 23,150 | 29,779 |
| Working capital changes | | | |
| Increase in inventories | | (12,816) | (8,559) |
| Increase in trade and other receivables | | (7,183) | (12,831) |
| Increase in trade and other payables | | 5,079 | 7,868 |
| Cash generated from operations | | 8,230 | 16,257 |
| Income tax paid | | (2,254) | (1,895) |
| **Net cash flows from operating activities** | | 5,976 | 14,362 |
| Cash flows from investing activities | | | |
| Financial income | 3 | 497 | 440 |
| Purchase of property, plant and equipment | | (8,278) | (7,461) |
| Long term deferred expenses | | (482) | – |
| Additions of intangibles | | (93) | – |
| Funds placed on deposit | | 2,436 | (1,739) |
| Acquisition of a subsidiary | 28 | (765) | – |
| Proceeds from disposal of property, plant and equipment and land use right | | – | 1,490 |
| Proceed from disposal of a subsidiary | 29 | 383 | – |
| **Cash flows used in investing activities** | | (6,302) | (7,270) |
| Cash flows from financing activities | | | |
| Increase in bank borrowings | | 97,424 | 62,537 |
| Decrease in bank borrowings | | (102,912) | (49,768) |
| Interest paid | 6 | (1,541) | (1,705) |
| Dividends paid | 8 | (1,342) | (1,072) |
| **Cash flows (used in)/generated from financing activities** | | (8,371) | 9,992 |
| **Net (increase)/decrease in cash and cash equivalents** | | (8,697) | 17,084 |
| Cash and cash equivalents at beginning of year | | 63,995 | 50,797 |
| Foreign exchange differences | | 858 | (3,886) |
| **Cash and cash equivalents at end of year** | 16 | 56,156 | 63,995 |

The accompanying notes 1 to 30 form an integral part of the consolidated financial statements

**Company cash flow statement**
For the year ended 31 December 2010

| | Notes | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before income tax | | (265) | 2,068 |
| Investment income from subsidiary | | – | (2,334) |
| Cash used by operations before working capital changes | | (265) | (266) |
| Working capital changes | | | |
| Decrease in amounts due from subsidiary undertakings | 19 | 1,299 | 1,140 |
| Decrease in trade and other payables | | (52) | – |
| Net cash from operating activities | | 982 | 874 |
| **Cash flows from financing activities** | | | |
| Dividends paid to external shareholders | 8 | (1,167) | (817) |
| Cash flow from financing activities | | (1,167) | (817) |
| Net (decrease)/increase in cash and cash equivalents | | (185) | 57 |
| Cash and cash equivalents at beginning of year | | 254 | 197 |
| Cash and cash equivalents at end of year | 16 | 69 | 254 |

The accompanying notes 1 to 30 form an integral part of the consolidated financial statement

**Notes to the Financial Statements**
For the year ended 31 December 2010

## 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 above, 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

## 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 Company loss for the year is £265,000 (2009 profit £2,068,000), 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 2011 or later periods and which the group has decided not to adopt early and are not expected to have a material impact on the group's accounts These are

| *Name* | *Effective date* |
|---|---|
| Revised IAS 24 Related Party Disclosures | 1 January 2011 |
| Amendments to IFRIC 14 IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 1 January 2011 |
| Improvements to IFRSs (2010) | 1 January 2011 |
| Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) | 1 July 2011 |
| Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) | 1 July 2011 |
| Deferred Tax Recovery of Underlying Assets (Amendments to IAS 12) | 1 January 2012 |
| IFRS 9 Financial Instruments | 1 January 2013 |

***Estimates and assumptions***

The Group makes certain estimates and assumptions regarding the future Estimates and judgments 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 Notes 10 and 12

(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 and 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 realisable value of inventory could potentially result in an increase or reduction in 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 per cent 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 are provided in Note 14

(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 2010 was £1,094,000 (2009 £60,000) The company believes that its provision for 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 per cent 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 recognised 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 For acquisitions prior to 1 January 2010, cost directly related to the acquisition were included as part of the cost of an acquisition, thereafter cost directly attributable have been expensed 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

Non-controlling interests represent the portion of 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 the share of profit or loss is 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 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***

As sales and purchases are denominated primarily in RMB and receipts from operations are usually retained in RMB, the functional currency of the subsidiary undertakings is Renminbi ("RMB") 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 of subsidiaries 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

Bonuses for staff are accrued when the Group has an obligation to settle the liability for staff's past performance at the financial year end The bonus accrual is stated at the present value of the discounted cash flows based upon the expected timing of bonus payments

### *Borrowings costs*

The Group does not incur any interest costs that qualify for capitalization under IAS 23 'Borrowing costs', and are therefore expensed as incurred

### *Share-based payments*

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

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

### *Income tax*

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

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

Deferred tax is provided using the 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 tax 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 at the annual shareholders' meeting The Company will recognise investment income when the subsidiaries' dividend is approved by their shareholders' meetings

**Notes to the Financial Statements (continued)**

***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

***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 be the length of time for which the right has been granted (42 to 50 years) The carrying values of land use rights are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable

(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 |

***Investment in subsidiary undertakings***

Investments in subsidiaries are stated at cost less provision for impairment

## Notes to the Financial Statements (continued)

### *Impairment of assets*

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

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use Fair value 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 for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised Reversals of impairment losses are recognised in the income statement

### *Inventories*

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

### *Financial assets*

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

(a) *Loans and receivables*

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

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

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

## Notes to the Financial Statements (continued)

### *Financial liabilities and equity*

The Group classifies its financial liabilities into one of the categories discussed below

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

### *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 2010 £000* | *Group 2009 £000* |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 196,948 | 212,569 |
| **Other operating income** | | |
| Waste disposal and sale of by-products | 1,546 | 1,403 |
| Government grant income | 1,569 | 1,879 |
| Rental Income | 128 | 160 |
| Material sale | 3,417 | 143 |
| Penalty income | 57 | 360 |
| Electricity income from third parties | 374 | 402 |
| Others | 210 | 193 |
| | 7,301 | 4,540 |
| **Finance income** | | |
| Interest income | 497 | 440 |
| **Total income** | 204,746 | 217,549 |

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 2010 £000* | *Group 2009 £000* |
|---|---|---|
| **Profit from operations is arrived at after charging/(crediting):** | | |
| Cost of inventories recognized as an expense | 151,424 | 144,547 |
| Auditors' remuneration | | |
| – audit of Group accounts | 49 | 33 |
| – audit of individual accounts of subsidiary undertakings | 59 | 51 |
| Amortisation of intangible assets | 81 | 79 |
| Depreciation of property, plant and equipment | 2,285 | 1,947 |
| Loss on disposal of property, plant and equipment | 202 | 558 |
| Loss on disposal of subsidiary | 430 | – |
| Allowance for doubtful receivables | 387 | 763 |
| Research and development expenditure | 1,237 | 717 |
| Foreign exchange gains | (18) | (9) |
| Inventory written down to net realizable value | 232 | 93 |

## 5. Information regarding directors and employees

| | *2010 Number* | *2009 Number* |
|---|---|---|
| **Average number of employees of the Group** | | |
| Management and administration | 133 | 171 |
| Sales | 328 | 311 |
| Manufacturing | 1,696 | 2,069 |
| **Total** | 2,157 | 2,551 |

**The aggregate payroll costs of these employees were as follows:**

| | *2010 £000* | *2009 £000* |
|---|---|---|
| Wages and salaries | 10,388 | 20,700 |
| Social security costs | 283 | 693 |
| Pension costs | 263 | 247 |
| | 10,934 | 21,640 |

**Directors' remuneration was as follows:**

| | *2010 Salary £000* | *2010 Welfare £000* | *2010 Bonus £000* | *2010 Total emoluments £000* | *2009 Total emoluments £000* |
|---|---|---|---|---|---|
| Yang Shanji | 30 | – | 423 | 453 | 649 |
| Zhou Yuezhang | 20 | 1 | 134 | 155 | 194 |
| Zhou Weigang | 20 | 1 | 172 | 193 | 194 |
| Zhou Ping | 20 | 1 | 148 | 169 | 175 |
| Qian Shangao | 20 | 1 | 175 | 196 | 196 |
| Li Shuang | 15 | – | – | 15 | 15 |
| Bernard Asher | 15 | – | – | 15 | 15 |
| Peter Maurice Crystal | 15 | – | – | 15 | 15 |
| Cao Guifa | – | – | – | – | 77 |
| Total | 155 | 4 | 1,052 | 1,211 | 1,530 |

**Notes to the Financial Statements (continued)**

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

## 6. Finance costs

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| Interest expense on bank and other loans | 1,541 | 1,705 |

## 7. Income tax

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| **Income tax expense is as follows:** | | |
| Prior year under provision | 75 | 299 |
| Current income tax | 3,211 | 1,492 |
| Total current tax | 3,286 | 1,791 |
| Deferred income tax | | |
| Origination and reversal of temporary differences | (87) | (181) |
| | 3,199 | 1,610 |

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 2010 £000* | *Group 2009 £000* |
|---|---|---|
| **Profit before tax** | 18,489 | 25,074 |
| Expected tax charge based on the standard tax rate of individual group companies | 5,255 | 6,763 |
| Effect of reduction in tax rate | (2,084) | (5,189) |
| Tax effect of non-deductible expenses and non-taxable revenue | (44) | (263) |
| Difference in tax rate of tax rate relief | (3) | – |
| Adjustment for under provision in prior year | 75 | 299 |
| | 3,199 | 1,610 |

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 per cent (2009 28 per cent ) 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 per cent relief from PRC income tax for another three years thereafter

## Notes to the Financial Statements (continued)

In accordance with the latest PRC taxation laws which came into effect on 1 January 2008, its standard applicable tax rate is 25 per cent 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 per cent will be imposed in 2010, 2011 and 2012

### *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 per cent relief from PRC income tax Its applicable tax rate is 25 per cent 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 per cent and Jiangsu Best Power Supply Co Ltd is 12 5 per cent in 2010

### *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 per cent 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 per cent 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 per cent will be imposed in 2010, 2011 and 2012

### *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 per cent relief from PRC income tax Its applicable tax rate is 25 per cent 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 per cent From 2012, its applicable tax rate is 25 per cent

### *Rugao Tianpeng Metallurgy Co.Ltd*

The company is a production enterprise and in accordance with the PRC tax legislation applicable for domestic enterprises, its applicable tax rate in 2010 is 25 per cent

## Notes to the Financial Statements (continued)

### 8. Dividends

| | *Group 2010 £000* | *Group 2009 £000* | *Company 2010 £000* | *Company 2009 £000* |
|---|---|---|---|---|
| Dividends paid | 1,167 | 817 | 1,167 | 817 |

China Shoto plc declared an annual dividend of 5p per ordinary share amounting to £1,167,188 50 on 28 April 2010, which was approved by the shareholders on the AGM on 22 June 2010 and was paid on 30 June 2010

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

### 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 £15,398,000 (2009 £23,304,000)

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

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| Profit attributable to equity holders of the parent | 15,398 | 23,304 |

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

| | *Group 2010* | *Group 2009* |
|---|---|---|
| **Number of ordinary shares** | | |
| Weighted average number of ordinary shares – basic | 23,343,770 | 23,343,770 |
| Dilutive effect of share options | 614,623 | 353,832 |
| Weighted average number of ordinary shares – diluted | 23,958,393 | 23,697,602 |

### 10. Property, plant and equipment

| *Group* | *Buildings £000* | *Machinery £000* | *Motor Vehicle £000* | *Office Equipment £000* | *Construction in progress £000* | *Total £000* |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2009 | 14,626 | 15,622 | 543 | 2,252 | 1,850 | 34,893 |
| Additions | 1,763 | 441 | 119 | 1,327 | 3,805 | 7,455 |
| Reallocation | 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 |

| Group | Buildings £000 | Machinery £000 | Motor Vehicle £000 | Office Equipment £000 | Construction in progress £000 | Total £000 |
|---|---|---|---|---|---|---|
| Additions | 199 | 2,150 | 38 | 211 | 5,413 | 8,011 |
| Reallocation | 1,216 | 400 | – | 379 | (1,995) | – |
| Acquired on acquisition of subsidiary – Tianpeng | 1,380 | 708 | 27 | 5 | – | 2,120 |
| Disposals | (233) | (1,559) | (15) | (114) | (14) | (1,935) |
| Other transfer | – | – | – | – | (174) | (174) |
| Disposal of subsidiary-Zhenghe | (541) | (266) | – | (9) | – | (816) |
| Exchange adjustments | 1,373 | 1,134 | 41 | 255 | 123 | 2,926 |
| At 31 December 2010 | 21,214 | 17,354 | 650 | 4,025 | 3,980 | 47,223 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2009 | 1,821 | 6,309 | 248 | 1,266 | – | 9,644 |
| Charge for the year | 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 |
| Acquired on acquisition of subsidiary – Tianpeng | 108 | 194 | 8 | 3 | | 313 |
| Charge for the year | 474 | 1,311 | 96 | 404 | – | 2,285 |
| Disposals | (97) | (953) | (3) | (112) | – | (1,165) |
| Disposal of subsidiary-Zhenghe | (156) | (151) | – | (5) | – | (312) |
| Exchange adjustments | 147 | 504 | 23 | 119 | – | 793 |
| At 31 December 2010 | 2,346 | 7,554 | 399 | 1,915 | – | 12,214 |
| **Net book value** | | | | | | |
| At 1 January 2009 | 12,805 | 9,313 | 295 | 986 | 1,850 | 25,249 |
| At 31 December 2009 | 15,950 | 8,138 | 284 | 1,792 | 627 | 26,791 |
| At 31 December 2010 | 18,868 | 9,800 | 251 | 2,110 | 3,980 | 35,009 |

***Assets pledged as security***

As at 31 December 2010, building and machinery with a carrying amount of £7,312,350 (2009 £4,283,413) are subjected to a first charge to secure the Group's bank borrowings

## 11. Investment in subsidiary undertakings

| | Company 2010 £000 | Company 2009 £000 |
|---|---|---|
| Cost | | |
| At the beginning and end of the financial year | 20,977 | 20,977 |
| | 20,977 | 20,977 |

## Notes to the Financial Statements (continued)

### 12. Intangible assets

| | Group Land use rights £000 | Group Others £000 | Group Trade mark £000 | Group Total £000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2009 | 3,273 | 89 | 30 | 3,392 |
| Disposal of subsidiaries | (240) | – | – | (240) |
| Additions | 6 | – | – | 6 |
| Exchange adjustments | (322) | (9) | (1) | (332) |
| At 31 December 2009 | 2,717 | 80 | 29 | 2,826 |
| Acquired on acquisition of subsidiary – Tianpeng | 203 | – | – | 203 |
| Additions | – | 93 | – | 93 |
| Exchange adjustments | 206 | 8 | 1 | 215 |
| **At 31 December 2010** | 3,126 | 181 | 30 | 3,337 |
| **Accumulated amortization:** | | | | |
| At 1 January 2009 | 255 | 3 | 11 | 269 |
| Disposal of subsidiaries | (56) | – | – | (56) |
| Amortisation for the financial year | 57 | 14 | 3 | 74 |
| Exchange adjustments | (25) | (1) | – | (26) |
| **At 31 December 2009** | 231 | 16 | 14 | 261 |
| Acquired on acquisition of subsidiary – Tianpeng | 16 | – | – | 16 |
| Amortisation for the financial year | 63 | 15 | 3 | 81 |
| Exchange adjustments | 19 | 2 | 1 | 22 |
| **At 31 December 2010** | 329 | 33 | 18 | 380 |
| Net book value | | | | |
| At 31 December 2009 | 2,486 | 64 | 15 | 2,565 |
| **At 31 December 2010** | 2,797 | 148 | 12 | 2,957 |

The Group's land use rights have a remaining amortization period of between 35 and 47 years

***Assets pledged as security***

As at 31 December 2010, land use rights with a carrying amount of £1,757,516 (2009 £1,242,879) are subject to a first charge to secure the Group's bank borrowings

### 13. Inventories

| | Group 2010 £000 | Group 2009 £000 |
|---|---|---|
| Raw materials | 13,971 | 7,211 |
| Work in progress | 7,417 | 5,635 |
| Finished goods | 28,071 | 24,029 |
| | 49,459 | 36,875 |

Notes to the Financial Statements (continued)

## 14. Trade and other receivables

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| Trade receivables | 45,068 | 40,880 |
| Notes receivable | 4,200 | 3,978 |
| Other receivables | 3,322 | 1,006 |
| Total financial assets other than short term investments and cash and cash equivalents classified as loans and receivables | 52,590 | 45,864 |
| Advances to suppliers | 2,207 | 964 |
| Prepayments | 33 | 251 |
| | 54,830 | 47,079 |

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

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| Balance at beginning of financial year | 1,598 | 948 |
| Disposal of a subsidiary undertaking | (220) | – |
| Allowance for the financial year | 387 | 763 |
| Receivable written off during the year as uncollectable | (56) | – |
| Exchange adjustments | 120 | (113) |
| | 1,829 | 1,598 |

The allowance account for doubtful receivables includes an amount of £nil (2009 £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 impaired is as follows

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| 1-90 days overdue | 5,978 | 9,108 |
| 91-270 days overdue | 8,047 | 10,902 |
| 271-630 days overdue | 4,703 | 2,523 |
| 631-990 days overdue | 139 | 130 |
| Over 990 days overdue | – | – |
| | 18,867 | 22,663 |

Loans and receivables that are neither past due nor impaired amount to £33,723,806 (2009 £23,201,000) The credit quality of these receivables is considered to be satisfactory

## Notes to the Financial Statements (continued)

### 15. Short term investments

| | Group 2010 £000 | Group 2009 £000 |
|---|---|---|
| **Cost:** | | |
| Deposits with an initial maturity of more than 3 months | | |
| – Deposits secured for notes payable | 2,763 | 285 |
| – Deposits for export sale | 466 | 5,400 |
| – Deposits secured for environment | 20 | – |
| | 3,249 | 5,685 |

### 16. Cash and cash equivalents

| | Group 2010 £000 | Company 2010 £000 | Group 2009 £000 | Company 2009 £000 |
|---|---|---|---|---|
| Cash | 50,588 | 69 | 41,508 | 254 |
| Deposits-secured for Notes Payables with an initial maturity of 3 months or less | 5,568 | – | 22,487 | – |
| | 56,156 | 69 | 63,995 | 254 |

Cash earns interest at a fixed rate of between 0 36 per cent and 1 17 per cent in 2010 (2009 0 15 per cent and 1 17 per cent )

### 17. Bank borrowings

| | Group 2010 £000 | Group 2009 £000 |
|---|---|---|
| Short-term bank borrowings | 35,400 | 40,991 |
| Long-term borrowings | 1,468 | 1,366 |
| | 36,868 | 42,357 |

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 10 and 12) The Group has no defaults and breaches of principal or interest on bank borrowings

Short-term bank borrowings have an average maturity of 6 months from the end of the financial year (2009 6 months) The maturity of long term borrowings is November 27th 2012 Bank borrowings incur interest rates ranging from 0 3 per cent to 5 6 per cent (2009 0 3 per cent to 4 86 per cent ) The weighted average interest rate is 3 18 per cent (2009 2 58 per cent )

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

## Notes to the Financial Statements (continued)

### 18. Trade and other payables

| | *Group 2010 £000* | *Group 2009 £000* | *Company 2010 £000* | *Company 2009 £000* |
|---|---|---|---|---|
| Trade payables | 25,809 | 17,640 | – | – |
| Notes payable | 9,902 | 14,751 | – | – |
| Staff costs payable | 6,927 | 9,692 | – | – |
| Amount due to employees | 7,867 | 5,250 | – | – |
| Due to related parties | 1 | 100 | – | – |
| Other payables | 14,606 | 10,544 | – | 52 |
| Total other financial liabilities excluding bank borrowings | 65,112 | 57,977 | – | 52 |
| Advances from customers | 2,258 | 1,181 | – | – |
| Other tax payable | 244 | 353 | – | – |
| | 67,614 | 59,511 | – | 52 |

Including bank borrowings, the Group's total other financial liabilities amounts to £107,210,000 (2009 £108,774,000)

### 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 2010 £000* | *Group 2009 £000* | *Company 2010 £000* | *Company 2009 £000* |
|---|---|---|---|---|
| Due from subsidiary undertakings – Non-trade | – | – | 9,939 | 11,238 |
| Due from related parties | | | | |
| – due from Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd | 94 | – | – | – |
| | 94 | – | 9,939 | 11,238 |
| Due to related parties | | | | |
| – due to Chief Executive Shanji Yang | – | 41 | – | – |
| – due to the directors | – | 59 | – | – |
| – due to Jiangsu Shuangdeng Electric Appliance and Cable Co Ltd | 1 | – | – | – |
| Due to subsidiary undertakings – Non-trade | – | – | 369 | 369 |
| | 1 | 100 | 369 | 369 |

**Notes to the Financial Statements (continued)**

Sıgnıficant transactıons durıng the financıal years wıth related partıes, all of whıch were negotıated at arms' length, were as follows

| | *Group 2010 £000* | *Group 2009 £000* | *Company 2010 £000* | *Company 2009 £000* |
|---|---|---|---|---|
| **Sale of goods:** | | | | |
| Jıangsu Shuangdeng Electrıc Applıance and Cable Co Ltd | 1 | 118 | – | – |
| | 1 | 118 | – | – |
| **Other operating income:** | | | | |
| Jıangsu Shuangdeng Electrıc Applıance and Cable Co Ltd | 257 | 237 | – | – |
| | 257 | 237 | – | – |
| **Purchases:** | | | | |
| Jıangsu Shuangdeng Electrıc Applıance and Cable Co Ltd | 493 | 83 | – | – |
| | 493 | 83 | – | – |
| **Declared dıvidend** | | | | |
| Leadstar Enterprıses Lımıted | – | – | – | 2,334 |
| | – | – | – | 2,334 |

The key management at the Group are consıdered to be the Board of Dırectors and theır remuneratıon ıs descrıbed ın Note 5

Amounts due to the Company from subsıdıary undertakıngs represent net proceeds from the lıstıng on AIM, whıch have been advanced to the tradıng subsıdıarıes to ınvest ın new plant and workıng capıtal Amounts due to subsıdıary undertakıngs represent costs paıd on the Company's behalf by ıts subsıdıary undertakıngs In the opınıon of the dırectors, the Group ıs controlled by Mr Shanjı Yang, General Manager and Dırector, who owned 55 36 per cent of the ıssued share capıtal of Chına Shoto plc at 31 December 2010 (2009 55 36 per cent )

## 20. Deferred tax

Deferred tax ıs calculated ın full on temporary dıfferences under the lıabılıty method usıng a respectıve companıes' tax rate The movements ın deferred tax assets and lıabılıtıes durıng the perıod are shown below

| | *Group 2010 £000* | *Group 2009 £000* |
|---|---|---|
| **Deferred tax assets** | | |
| At begınnıng of the financıal year | 198 | 43 |
| Transfer to/(from) ıncome statement | 87 | 181 |
| Exchange dıfferences | 16 | (26) |
| At end of the financıal year | 301 | 198 |

**Notes to the Financial Statements (continued)**

## 21. Share capitals

| | 2010 £000 | 2009 £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 company's 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 has been credited to other reserves

In the Company's financial statements, the difference between the fair value of the shares paid and the nominal value of the 10p ordinary shares issued to the vendors of Leadstar Enterprises Limited have 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 per cent of their profit after income tax, as determined under PRC GAAP, to the statutory surplus reserve until the reserve balance reaches 50 per cent 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 per cent of the registered capital

*Statutory public welfare fund*

According to the relevant PRC regulations and the Articles of Association of the relevant companies, companies within the Group registered in PRC are required to transfer 10 per cent 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 receivables The Group distinguishes its clients by two kinds of credit line One is 100 per cent 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 review all debtors for impairment and are comfortable that all un-provided debts are fully recoverable

Quantitative disclosures of the credit risk in relation to trade and other receivables are disclosed in note 14

(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 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 2010 £000* | *Group 2009 £000* |
|---|---|---|
| Repayable within 1 month | 22,654 | 22,104 |
| Repayable within 2-3 months | 16,223 | 50,864 |
| Repayable within 4-6months | 47,554 | 16,511 |
| Repayable 7–12 months | 11,758 | 8,821 |
| Repayable over 1 year | 8,544 | 9,810 |
| Total | 106,733 | 108,110 |

(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 3 8 per cent 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 2010 £000* | *Group 2009 £000* |
|---|---|---|
| Financial assets | | |
| Renminbi | 105,140 | 45,392 |
| US Dollar | 5,204 | 1,654 |
| Other | 642 | 33 |
| | 110,986 | 47,079 |

A 10 per cent strengthening of the RMB against the USD would result in reported group profit being £732,000 (2009 £853,000) lower Conversely, a 10 per cent weakening of the RMB against the USD would result in reported group profit being £732,000 higher

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

(e) *Interest rate risk*

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

The Group is exposed to interest rate risk through the impact of change in interest rates on interest-bearing debts and interest-bearing cash Other than the bank deposits and borrowings, the Group has no other significant interest-bearing assets and liabilities The Group's policy is to secure all 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

If interest rates increased by a further 2 per cent points, this would result in group profit being £737,000 (2009 £594,000) lower Conversely, a decrease of 2 per cent points would result in group profit being £737,000 (2009 £594,000) higher

(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 2010, the price of the main raw material, lead ingot, changed between a month average price RMB 14,485 and RMB 17,656 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 2010* |
|---|---|---|---|
| Leadstar Enterprises Limited | British Virgin, Islands 18 March 2005 | Investment holding | 100% |
| Jiangsu Shuangdeng Group Co Ltd | China, 16 September 2003 | Investment holding | 100% |

## Notes to the Financial Statements (continued)

| *Name of the companies* | *Place and date of incorporation* | *Principal activities* | *Proportion (%) of ownership interest at 31 December 2010* |
|---|---|---|---|
| Hong Kong Wealth Source Development Co Ltd | Hong Kong, China, 24 September 1997 | Investment holding | 100% |
| Jiangsu Fuste Power Supply Co Ltd | China, 23 October 2001 | Manufacturing and sales of GEL and GFX batteries | 100% |
| Nanjing Shuangdeng Science and Technology Development Academy Co Ltd | China, 18 June 2001 | Technology research and development, manufacture and sales of UPS | 100% |
| Jiangsu Best Power Supply Co. Ltd | China, 13 January 2006 | Manufacturing and sales power-aided bicycle batteries | 100% |
| Glory Trinity Engineering Ltd | Hong Kong, China, 26 February 2003 | Investment holding | 100% |
| Rugao Tianpeng Metallurgy Co , Ltd | China, 25 January 2010 | Recycling old batteries and producing and sales of alloy materials | 100% |

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

| | *2010 Number of Options* | *2009 Number of Options* | *Exercise price(£)* |
|---|---|---|---|
| Outstanding at the beginning of the period | 1,180,000 | 1,480,000 | 1 30 |
| Lapsed during the period | – | 300,000 | 1 30 |
| Outstanding at the end of the period | 1,180,000 | 1,180,000 | 1 30 |
| Exercisable at the end of the period | 1,180,000 | 1,180,000 | 1 30 |

The Group recognised total expenses of nil (2009 nil) related to equity-settled share-based payment transaction during the year All options had vested at 31 December 2008

## Notes to the Financial Statements (continued)

### 26. Segmental 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 16 per cent (2009 8 per cent ) to Group turnover
- The Back Up Batteries segment includes Valve Regulated, Flooded and Gel batteries This segment contributes 84 per cent (2009 92 per cent ) to Group turnover
- The Lead Recycle segment includes lead recycle and recycling old and useless batteries and producing and sales alloy This segment contributes 0 per cent to Group turnover as the majority of sales are intergroup

***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 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* | | *Metallurgy* | *PTB* | | *Eliminations* | | *Continuing* | |
|---|---|---|---|---|---|---|---|---|---|
| | *2010* | *2009* | *2010* | *2010* | *2009* | *2010* | *2009* | *2010* | *2009* |
| | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* |
| **Revenue** | | | | | | | | | |
| Sales to external customers | 165,568 | 196,531 | 20 | 31,360 | 16,038 | – | – | 196,948 | 212,569 |
| Inter-segment sales | 1 192 | – | 6,866 | 306 | 9 676 | (8 364) | (9,676) | – | – |
| Total revenue | 166,760 | 196,531 | 6,886 | 31,666 | 25,714 | (8,364) | (9 676) | 196,948 | 212,569 |
| **Results** | | | | | | | | | |
| Segment profit | 19,085 | 26,011 | 284 | (174) | (669) | – | – | 19,195 | 25 342 |
| Unallocated corporate expenses | | | | | | | | (706) | (268) |
| Profit from operations before taxation | | | | | | | | 18,489 | 25,074 |
| Income taxation | | | | | | | | (3,199) | (1 610) |
| Profit for the year | | | | | | | | 15,290 | 23,464 |

| | *Back up batteries* | | *PTB* | | *Metallurgy* | *Eliminations* | | *Consolidated* | |
|---|---|---|---|---|---|---|---|---|---|
| | *2010* | *2009* | *2010* | *2009* | *2010* | *2010* | *2009* | *2010* | *2009* |
| | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* |
| **Assets and liabilities** | | | | | | | | | |
| Segment assets | 169,631 | 169,119 | 15,098 | 10,835 | 6,139 | | | 190,868 | 179,954 |
| Unallocated assets | | | | | | | | 11,575 | 3,234 |
| Total assets | | | | | | | | 202,443 | 183,188 |
| Segment liabilities | 97,498 | 104 141 | 10,110 | 5,454 | 227 | | | 107,835 | 109,595 |
| Unallocated liabilities | | | | | | | | 2,971 | 563 |
| Total liabilities | | | | | | | | 110,806 | 110,158 |

## Notes to the Financial Statements (continued)

| | *Back up batteries* | | *PTB* | | *Metallurgy* | *Eliminations* | | *Consolidated* | |
|---|---|---|---|---|---|---|---|---|---|
| | *2010* | *2009* | *2010* | *2009* | *2010* | *2010* | *2009* | *2010* | *2009* |
| | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* |
| **Other segment information** | | | | | | | | | |
| Finance income | 465 | 440 | 30 | – | 2 | – | – | 497 | 440 |
| Finance costs | 1,473 | 1 705 | 66 | – | 2 | – | – | 1,541 | 1,705 |
| Capital expenditure | | | | | | | | | |
| Property plant and equipment | 7,551 | 7,417 | 356 | 38 | 104 | – | – | 8,011 | 7,455 |
| Intangible assets | 93 | 6 | – | – | – | – | – | 93 | 6 |
| Depreciation and amortization | 1,984 | 1,782 | 238 | 244 | 144 | – | – | 2,366 | 2,026 |

***Geographical segments***

| | *India* | | *Singapore* | | *Others* | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | *2010* | *2009* | *2010* | *2009* | *2010* | *2009* | *2010* | *2009* |
| | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* | *£000* |
| Export sales to | 1,254 | 5,704 | 1 074 | 1,032 | 5,187 | 2,908 | 7,515 | 9,644 |

All export sales originate from the Back up batteries segment

Revenue from three key customers in the Back up Batteries segment represents approximately 55 per cent (2009 75 per cent ) of the Group's revenue

### 27. Construction commitments

Construction commitments as at 31 December 2010 but not recognized in the financial statements is £1,872,714 (2009 £3,422,068)

### 28. Acquisitions during the period

The company signed a share ownership acquisition 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"), and Tianpeng Metallurgy's 100 per cent owned subsidiary Rugao Tiapeng Recycling Co , Ltd on 19 December 2009 The principal reason for this acquisition was to secure a manufacturing operation for recycling lead and back-up battery, and to satisfy requests from the Group's major and largest back-up battery customers

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows

| | *Fair value* |
|---|---|
| | *£'000* |
| Property, plant and equipment | 1,807 |
| Land use right | 187 |
| Current liabilities | (945) |
| Total net assets | 1,049 |
| ***Fair value of consideration paid*** | |
| Cash | 956 |
| Contingent cash consideration | – |
| Total consideration | 956 |
| Negative goodwill | 93 |

The total consideration is £956k The company paid £191k on 28 December 2009, and the balance £765k was paid prior to July 2010 As a result the cash flow consideration for the acquisition of this subsidiary for 2010 is £765k

Since the acquisition date, Tianpeng Metallurgy has contributed £6 8 million to group revenues and £0 4 million to group profit

## Notes to the Financial Statements (continued)

### 29. Disposals during the period

The group had a subsidiary, Yangzhou Zhenghe Power Supply Co , Ltd that manufactured, sold and developed GFM batteries Given the tightening of investment scale from major back-up batteries suppliers in 2010, the group accordingly reduced the production capacity during 2010 As such, the management considered Zhenghe's activities do not fit with the overall strategic objectives of the group and therefore the directors decided to dispose of the groups share in the equity of this subsidiary in December 2010

The net assets of that subsidiary at the date of disposal were as follows

| | *£'000* |
|---|---|
| Net assets disposed | 813 |
| Loss on disposal | (430) |
| Total consideration | 383 |
| Satisfied by | |
| Cash | 383 |
| Net inflow of cash and cash equivalents in respect of Disposal of a subsidiary | 383 |

In accordance with relevant IAS regulation, the gain on disposal of a subsidiary is measured as the difference between the proceeds and the fair value of the subsidiary Currently the loss is calculated as the difference between the proceeds and the carrying amount of the subsidiary

### 30. Reclassification

£12,662,000 of notes payable included in trade and other payables in 2009 has been reclassified to short term loans as this correctly reflects the nature of the underlying instrument

| | *Note* | *2009 Previously Reported £'000* | *Reclassification £'000* | *2009 Restated £'000* |
|---|---|---|---|---|
| Short term bank borrowings | 17 | 28,329 | 12,662 | 40,991 |
| Notes payable | 18 | 27,413 | (12,662) | 14,751 |
| | | 55,742 | – | 55,742 |
| Cash flow statement impact | | | | |
| Net cash flows from operating activities | | 27,024 | (12,662) | 14,362 |
| Net cash flows from financing activities | | (2,670) | 12,662 | 9,992 |