



**ORIENTAL TECHNOLOGIES INVESTMENT  
LIMITED**

**ABN 13 060 266 248**

**ANNUAL REPORT**

**31 DECEMBER 2004**

# **ORIENTAL TECHNOLOGIES INVESTMENT LIMITED**

## **ANNUAL REPORT 2004**

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# **Oriental Technologies Investment Limited - Annual Report 2004**

## **Review of Operations**

### **Overview**

The Company is pleased to report its results for the year ended 31 December 2004.

Net profit for the year ended 31 December 2004 was \$0.275 million, a decrease of 90% over the previous year (2003 \$2.654 million). Turnover for the year ended 31 December 2004 was \$32.31 million, an increase of 3% over the previous year (2003: \$31.34 million).

In the period under review, the Company continued its strategy of developing to become a significant lead acid battery manufacturer in the global market by supplying competitively priced quality products. The European market remained the Company's main market, complemented by the Australian market.

The sharp decline in the Company's net profit for the period reflects the difficult trading environment due to high raw material costs.

Limitation on production capacity prevented the Company from embarking on its plan to enter the domestic Chinese market.

### **New Factory**

The Company is pleased to announce that the construction of the new factory has now been completed and it is now operational. Production volume at the new factory has now reached that of the old factory, albeit with some teething problems.

Due to logistical consideration and local residents' pressure, the Company brought forward its plan to consolidate the old factory operation into the new site. The relocation of the old factory to the new site was largely carried out in December 2004 and January 2005, causing small disruptions to the manufacturing operation and delivery schedule.

All but one battery-making operation are now being carried out in the new factory. Only the plate formation operation for dry charged batteries still operates at the original factory location.

As the new factory gradually ramps up its output volume, the Company will be able to better service its customers who suffered from the chronic capacity shortage problem of the past 3 years.

With new and more advanced equipment and machinery, the goals for the new manufacturing operation are to achieve higher productivity, lower material wastage and better product quality.

In order to satisfy the target OEM customers' stringent quality standard, in addition to the Company's current after-market requirement, the design and equipment specification of the new factory was upgraded. This upgrade resulted in approximately a 10% cost increase, when compared to the original budget.

Since early 2004, the Chinese central government instigated a nationwide credit tightening policy in an effort to keep the country's economy from overheating. This austerity policy made it much harder for private companies operating in China to obtain bank credit. As the Company's operation in China is expected to grow, the Company is now exploring alternative options to fund the anticipated increase in working capital demanded by its Chinese operation.

## **Oriental Technologies Investment Limited - Annual Report 2004**

### **Review of Operations (continued)**

#### **Raw Material Price**

The single most important raw material for our battery making business is the metal lead. After big fluctuations in the first 6 months in 2004, lead price moved within the range between US\$870 and US\$1,010 a ton. This is approximately twice as much as the price range in 2003. So far, in 2005, there is no clear sign to indicate that the lead price will ease.

The high raw material costs narrowed the Company's margins. The Company was unable to improve profitability, despite several price increases during the period.

#### **Strategic Partner**

The Company is now in its final stage of discussions with a leading international lead acid battery company with strong technical capability to form a technical cooperation relationship.

#### **Outlook**

The current financial year will be a year of growth for the Company as more production capacity is now available after the completion of the new factory. However, high lead price and competition at the Company's key market place present serious challenges.

On behalf of the board, I thank all the staff of the Company for their dedication and effort, and our shareholders for their support.

Sydney, 31 March 200



Gerard McMahon  
Chairman of the Board

# Oriental Technologies Investment Limited - Annual Report 2004

## Directors' Report

The Directors of Oriental Technologies Investment Limited present their report on the Company for the financial year ended 31 December 2004.

### Directors

The names of the Directors of the Company during or since the end of the financial year are:

		<b>Date Appointed</b>
Gerard McMahon	Chairman	7 April 2000
Lawrence Luo-lin Xin	Non Executive Vice-Chairman	24 December 1999
George Su Su	Managing Director	17 February 1995
Yong Bao		26 July 2000
Christopher Corrigan		26 July 2000
Patrick Ting Keung Ma		24 December 1999
Chunyang Qiu		14 July 1998
Steve Shulin Xin		24 December 1999

All the Directors named above held office during and since the end of the financial year.

### Directors' Qualifications, Experience and Special Responsibilities

Particulars of qualifications, experience and special responsibilities of each Director are as follows:

#### Gerard McMahon

Non Executive Chairman of Directors  
Chairman of the Audit Committee

Originally from Australia, Mr McMahon has been living and working in Hong Kong for 27 years and is currently Non-executive Director of a Hong Kong publicly listed company. He is also a director of Asian Capital (Corporate Finance) Limited, a Hong Kong based corporate finance advisory firm.

Mr McMahon is admitted as a barrister in Hong Kong and New South Wales. His past experience includes extensive involvement in Hong Kong's Securities and Futures Commission as its Chief Counsel, Member and Executive Director. Mr McMahon is particularly specialised in Hong Kong company law, securities and banking law and takeovers and mergers regulations.

#### Lawrence Luo-lin Xin

Non Executive Vice-Chairman  
Member of Audit Committee

Mr Xin is Managing Director of Red Investment & Development Limited, an investment company based in Hong Kong.

A post-graduate of Beijing University, Mr Xin has wide China related business experience in Japan, North America and Australia. From 1993 to 1997, Mr Xin was a director of China C&Y Management Co. Limited, an investment manager of a Chinese investment fund based in Hong Kong with special industry focus.

## **Oriental Technologies Investment Limited - Annual Report 2004**

### **Directors' Report (continued)**

#### **George S Su**

Managing Director

Mr Su became Managing Director of the Company in March 1998. He was instrumental in the setting up of Hua Yang Battery Co Ltd, the Company's joint venture subsidiary in China.

Prior to his appointment to the Company's Board, Mr Su held various positions in the direct investments and international operations of China Venturetechno International Co Limited ("CVIC" a Chinese government controlled investment company) with his last position being the Managing Director of CVIC's Asia/Pacific operations based in Singapore. He has more than 15 years of direct investment experience in China and the Asia Pacific region.

Mr Su studied at the Economic Department of Beijing University between 1981 and 1983 before he was sent on a Chinese government scholarship to Hamline University, St Paul, Minnesota, USA where he received his Bachelor of Arts Degree in Business Administration with Computer Science as an allied field in 1986.

#### **Yong Bao**

Executive Director

Mr Bao is a director and General Manager of Hua Yang Battery Co. Ltd. He joined Yangzhou Storage Battery Factory in 1975 and worked in various positions in the factory. The last position held by Mr Bao was General Manager of the factory.

In 1989, Hua Yang Battery Co. Ltd. was established as a Sino-foreign joint venture, of which Yangzhou Storage Battery is the local shareholder. Mr Bao was instrumental in the setting up of Hua Yang and, more importantly, the success afterwards. He has been the General Manager of Hua Yang since its inception.

#### **Christopher D Corrigan**

Non-executive Director

Mr Corrigan has a Bachelor of Economics from the Australian National University and studied at the Program for Management Development at Harvard.

He had a career with Bankers Trust spanning twenty years, including periods as Managing Director of Bankers Trust in Australia and for the Asia/Pacific region.

Mr Corrigan sponsored the formation of a development capital business of A\$220 million known as Jamison Equity Limited in 1990, which became a wholly owned subsidiary, in December 1996, of the publicly listed company Patrick Corporation Limited.

He is Managing Director of Patrick Corporation which handles international sea-based trade through Patrick Terminals, Australia's largest stevedore; domestic intermodal transport through its interest in Pacific National, the largest intermodal rail operator; and domestic aviation through its interest in Virgin Blue, a value-based Australian airline.

## **Oriental Technologies Investment Limited - Annual Report 2004**

### **Directors' Report (continued)**

#### **Patrick Ting Keung Ma**

Non-executive Director

Mr Ma is Chairman of Red Investment & Development Limited, a Hong Kong based investment company and Chairman of Mainland Limited, which owns Majestic Hotel and Centre, a hotel and shopping complex in the heart of the commercial district in Kowloon, Hong Kong.

Mr Ma is Chairman of Yobo Construction Limited, a real estate development and construction company in Taiwan. As an executive director of Deluxe Motors Limited, Mr Ma was instrumental in that company's obtaining the sole marketing rights for SAAB cars in China's prosperous Guangdong Province.

Mr Ma's late father was the founder of Oriental Press Group Limited which publishes Hong Kong's largest newspaper. Mr Ma was director of Oriental Press Group Ltd between 1978 and 1993. He was also a director of Oriental Daily News Charitable Fund Association which is a major promoter of and contributor to the welfare of the handicapped and accident victims and their families in Hong Kong. Mr Ma is an Australian citizen.

#### **Chunyang Qiu**

Executive Director

Mr Qiu joined the Company in August 1995 and has been responsible for marketing and business development.

Mr Qiu has many years of experience in international business and financial management. Prior to joining the Company, Mr Qiu worked as an international business manager at China Venturetech Investment Corporation, export manager at China National Nonferrous Metals Import and Export Corporation's Australian operations and China business development consultant at Fletcher Construction Australia.

In 1981, Mr Qiu graduated from the British Columbia Institute of Technology in Canada with a diploma in business studies. In 2001, he obtained a postgraduate diploma in financial management at Macquarie University in Sydney.

#### **Steve Shulin Xin**

Non-executive Director

Mr Xin is a director of Red Investment & Development Limited and director in charge of direct investment of First Shanghai Investment Limited, a publicly listed investment company in Hong Kong with a focus on investing in China.

Mr Xin is also a director of China Assets (Holdings) Limited, RBI Holdings Limited and First Shanghai's associated companies which are also listed on the Hong Kong stock exchange. Mr Xin's business involvement in Australia includes serving on the board of Public Holdings (Australia) Ltd., an investment company listed on the Australian Stock Exchange.

Previously Mr Xin worked as a registered financial planner for Merrill Lynch and as a senior financial analyst and partner in Vail Securities Inc in Vail, Colorado.

Mr Xin graduated from Lanzhou University, Gansu, China in 1982 and obtained his MBA degree from University of Denver in 1992. Mr Xin is a U.S. citizen.

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### Directors' Report (continued)

#### Directors' Relevant Interests in Securities at the date of this report

Director	Number of ordinary shares			Number of options
	Beneficial	Non-Beneficial	Total	Beneficial
Gerard McMahon	-	-	-	300,000
Lawrence L Xin	-	55,500,000	55,500,000	2,400,000
George Su Su	-	-	-	500,000
Yong Bao	-	-	-	500,000
Chris Corrigan	-	-	-	200,000
Patrick T K Ma	-	55,500,000	55,500,000	200,000
Chunyang Qiu	-	-	-	200,000
Steve S Xin	-	55,500,000	55,500,000	200,000

#### Directors' Meetings

During the financial year, 6 Directors' meetings and 2 Audit Committee meetings were held. Meetings attended by each Director are as follows:

Director	Board of Directors		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
Gerard McMahon	6	6	2	2
Lawrence L Xin	6	5	2	2
George Su Su	6	6	-	-
Yong Bao	6	1	-	-
Christopher Corrigan	6	5	-	-
Patrick T K Ma	6	-	-	-
Chunyang Qiu	6	5	-	-
Steve S Xin	6	-	-	-

#### Principal Activities

The principal activities of the Consolidated Entity during the financial year were manufacturing, exporting, marketing and selling lead acid batteries.

#### Operating Results

Net profit attributable to members of Oriental Technologies Investment Limited for the financial year was \$275,000 (2003 \$2,654,000).

#### Dividends

The Directors do not recommend the payment of a dividend (2003 \$Nil). No dividends have been paid or declared since the start of the financial year (2003 \$Nil).

#### Review of Operations

A review of the Consolidated Entity's operations during the financial year and the results of those operations are contained in the Review of Operations attached to this report.

#### Significant Changes in State of Affairs

Significant changes to the Company's state of affairs are referred to in the Review of Operations and the Financial Statements.

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## **Directors' Report (continued)**

### **Environmental Regulations**

The Directors are not aware of any environmental regulations under the law of the Commonwealth and State with which the Consolidated Entity does not fully comply.

### **Directors and Executive officer's Emoluments**

Refer to Financial Statements for the emoluments of each director and executive officer.

### **Share Options**

No shares were issued as a result of the exercise of an option during the financial year. 200,000 shares were issued subsequent to the financial year and before the date of this report, as a result of the exercise of options. There are four million eight hundred thousand unissued ordinary shares for which options are outstanding at the date of this report.

### **Subsequent Events**

Except as stated elsewhere in this Report, the Review of Operations and in the Financial Statements, the Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the Consolidated Entity's operations, the results of those operations or the Consolidated Entity's state of affairs in future financial years.

### **Future Developments**

Likely developments in the Consolidated Entity's operations known at this date have been covered generally within this Directors' Report and the Review of Operations. In the Directors' opinion, any further disclosure of information would prejudice the interests of the Consolidated Entity.

### **Indemnification of Officers and Auditors**

No indemnity has been given to a current or former Officer or Auditor.

The Company has paid a premium of \$22,472 to insure Directors, Secretaries and Executive Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director, Secretary or Executive Officer of the Company other than conduct involving a wilful breach of duty in relation to the Company.

### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company, or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

## **Oriental Technologies Investment Limited - Annual Report 2004**

### **Directors' Report (continued)**

#### **Rounding Off of Amounts**

The Company satisfies the requirements of Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the Directors' Report and the Financial Report to the nearest thousand dollars. Amounts have been rounded off in the Directors Report and Financial Report in accordance with that Class Order.

Sydney 31 March 2005

Signed in accordance with a resolution of the Directors

A handwritten signature in black ink, appearing to read 'Gerard McMahon', written in a cursive style.

Gerard McMahon  
Chairman

## Corporate Governance

### Principle 1: Lay Solid Foundations for Management and Oversight

*Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.*

The Board has adopted a Corporate Governance Policy, which defines functions reserved for the Board and those delegated to Management.

The Board is accountable to shareholders for the performance of the Company and has overall responsibility for its operations.

The Board's primary objective is to protect and enhance shareholder value within a defined, informed structure which protects the rights and interests of shareholders and other stakeholders by ensuring that the Company and its controlled entities are properly managed. The Board, together with senior management, is responsible to shareholders and other stakeholders for the Company's total business performance.

Management of the business of the Company is conducted by the Managing Director as designated by the Board and by officers and employees to whom the management function is delegated by the Managing Director.

### Principle 2: Structure the Board to Add Value

*Recommendation 2.1: A majority of the board should be independent directors.*

The Corporate Governance Policy defines the criteria for Board structure and independence. At present, the Board comprises five non-executive independent Directors including the Chairman and three executive Directors including the Managing Director.

The Board notes that Messrs Lawrence Luo-lin Xin, Patrick Ting Keung Ma and Steve Shulin Xin are each a non-executive Director of the Company and have the following related party interests:

- Red Investment & Development Limited ("RIDL"), a company of which Messrs L Xin, Ma and S Xin are Directors, owns 47.65% of the Company's issued ordinary shares; and
- RIDL receives fees from the Company to provide the Company with technical assistance and to review and source new business for the Company's operations in China.

The Board considers Messrs L Xin, Ma and S Xin to be independent Directors because:

- Each has wide China related experience in merchant banking, investment banking and financial markets;
- Each are independent of management and likely to exercise unfettered and independent judgement;
- Each has experience, background and skills required by the Board, including experience in manufacturing, finance, mergers and acquisitions and banking;
- Their skills are complementary to the skills of other Company Directors;

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### Corporate Governance (continued)

- They offer personal qualities which will promote a critical and objective review of the Company's performance;
- The Company is considered to be a medium sized business, without the capacity to appoint additional independent Directors; and
- They will offer diverse opinions, but with balanced participation and commitment.

*Recommendation 2.2: The chairperson should be an independent director.*

The Chairman is a non-executive independent Director.

*Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual.*

The Chairman and Managing Director are different individuals.

*Recommendation 2.4: The board should establish a nomination committee.*

The Corporate Governance Policy defines a policy for a Remuneration Committee, which is required to meet as required. This Remuneration Committee has not formed or met to the date of this report.

The size of the Company does not warrant the formation of a Nomination or Remuneration Committee at this time. Appointments have been considered by the full Board.

*Recommendation 2.5: Other information for reporting on Principle 2.*

#### **Directors' Skills, Experience and Expertise**

Details of Directors' qualifications, experience, term of office and special responsibilities are in the Directors Report included in this Annual Report.

#### **Materiality thresholds**

The Corporate Governance Policy requires the Company to regularly review procedures, and ensure timely identification of disclosure material and materiality thresholds.

Materiality judgments can only be made on a case by case basis, when all the facts are available. The Board would consider an amount which is:

- Equal to or greater than 10 per cent of the appropriate base amount as material, unless there is evidence or convincing argument to the contrary; and
- Equal to or less than 5 per cent of the appropriate base amount not to be material unless there is evidence, or convincing argument, to the contrary.

Directors may obtain independent professional advice at the Company's expense, subject to prior agreement and direction by the Board, on matters arising in the course of Company business. Directors also have access to senior Company managers and Company documents at all times.

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### Corporate Governance (continued)

The Board comprises five non-executive independent Directors (Messrs Gerard McMahan appointed 7 April 2000, Lawrence Luo-lin Xin appointed 24 December 1999, Christopher Corrigan appointed 26 July 2000, Patrick Ting Keung Ma appointed 24 December 1999, Steve Shulin Xin appointed 24 December 1999) and three executive Directors (Messrs George Su appointed 17 February 1995, Yong Bao appointed 26 July 2000 and Chunyang Qiu appointed 14 July 1998).

Nominations Committee

Potential nominations to the Board are assessed by the full Board. The Board may appoint a nominations or remuneration committee.

### Principle 3: Promote Ethical and Responsible Decision Making

*Recommendation 3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:*

*3.1.1 The practices necessary to maintain confidence in the company's integrity*

*3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

The Board has adopted a Corporate Governance Policy, which establishes a code of conduct.

The Company's Code of Conduct applies to all Directors, employees, contractors and professionals who have a business association with the Company. It provides guidance on what are acceptable standards of behaviour.

The Company expects persistently high standards of behaviour, which are essential to maintaining the trust and confidence of our stakeholders and the general public. The Directors, management and employees are expected to comply with the standards of integrity and ethical behaviour included in this policy. The Company expects everyone to abide by the spirit as well as the letter of the code.

The Code of Conduct is about developing a consistent understanding of desired behaviours, towards each other and with our business partners. Where appropriate, the expected conduct is elaborated upon in policy and procedure guidelines for specific job descriptions within each related entity.

*Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.*

The Board has adopted a Corporate Governance Policy, which establishes a policy concerning trading in Company securities by Designated Officers.

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### Corporate Governance (continued)

**Designated Officer** means “any director and any other person engaged in the management of the Company or a company within the Company’s group of companies, whether as an employee or consultant, who is notified in writing by the Managing Director that they are designated officers for the purposes of this policy from time to time”;

Designated Officers may not deal:

- Until at least 1 business day after the relevant release of information to the ASX or after a share holder meeting; and
- Within the period of 30 days prior to the release to the ASX of the Company’s annual results or half yearly results. (“Black-Out Periods”)

Subject to not dealing in securities of the Company in the Black-Out Periods, a Designated Officer may deal in securities of the Company if:

- They have satisfied themselves that they are not in possession of any price sensitive information that is not generally available to the public;
- They have advised the Chairman (in the case of Directors) or the Managing Director (in the case of all other Designated Officers) of their intention to do so;
- The Chairman or Managing Director (as the case may be) has made appropriate enquiries with the Board and if the Board is undecided then sought independent legal advice; and
- The Chairman or Managing Director has indicated in writing that there is no impediment to them doing so.

Designated Officers must not communicate price sensitive information to a person who may deal in securities of the Company.

In addition, a Designated Officer must not recommend or otherwise suggest to any person (including a spouse; relative; friend; trustee of a family trust; or directors of a family company) that they buy or sell securities in the Company.

In exceptional circumstances, where it is the only reasonable course of action available to a Designated Officer, clearance may be given by the Chairman and at least one other non-executive director for the Designated Officer to sell (but not to purchase) securities when he or she otherwise would not be permitted to do so by this policy.

An example of the type of circumstances which may be considered exceptional for these purposes would be a pressing financial commitment on the part of the Designated Officer that cannot otherwise be satisfied.

The determination of whether the circumstances are exceptional for this purpose must be made by the Chairman and at least one other non-executive director.

This exception shall only apply if dealing in the Company’s securities occurs outside the Black-Out Periods.

If an employee, who is not a Designated Officer, is not in possession of information that he or she knows or ought reasonably to know is price sensitive information not generally available to the public in relation to the Company’s securities then he or she may deal in those securities.

## Oriental Technologies Investment Limited – Annual Report 2004

### Corporate Governance (continued)

If an employee, who is not a Designated Officer, who is in possession of information that he or she knows or ought reasonably to know is price sensitive Information not generally available to the public in relation to the Company's securities then he or she may not deal in those securities.

#### *Recommendation 3.3: Other information for reporting on Principle 3*

This other information is disclosed above, under recommendations 3.1 and 3.2.

### **Principle 4: Safeguard integrity in financial reporting**

*Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.*

The Corporate Governance Policy requires that the Managing Director and Chief Financial Officer certify the accuracy and completeness of financial information and, where relevant, its preparation in accordance with relevant accounting standards, the requirements of the ASX and other laws and regulations.

#### *Recommendation 4.2: The board should establish an audit committee.*

The Company has an established audit committee.

#### *Recommendation 4.3: Structure the audit committee so that it consists of:*

- *only non-executive directors*
- *a majority of independent directors*
- *an independent chairperson, who is not chairperson of the board*
- *at least three members.*

The Company's Audit Committee comprises two non-executive independent Directors (Messrs Gerard McMahon and Lawrence Luo-lin Xin). The Chairman of the Audit Committee is also the Chairman of the Board.

Details of the Audit Committee Member's qualifications, experience, and special responsibilities are in the Directors Report included in this Annual Report.

The Audit Committee meets at least twice a year. The attendees are the Audit Committee Members; Managing Director; External Auditor and Company Secretary.

This Audit Committee structure is considered to be commercially cost effective, and appropriate to the Company's size and structure.

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Corporate Governance (continued)**

*Recommendation 4.4: The audit committee should have a formal charter.*

The Corporate Governance Policy includes a formal Audit Committee charter.

The primary role of the Audit Committee is to assist the board in fulfilling its oversight responsibilities by monitoring and reviewing, on behalf of the Board, the effectiveness of the Company's control environment in the areas of operational risk, legal compliance, regulatory compliance and financial reporting.

*Recommendation 4.5: Other information for reporting on Principle 4*

The Audit Committee comprises two members; each member is an independent non-executive director (Messrs Gerard McMcMahon and Lawrence Luo-lin Xin). The Chairman of the Audit Committee is also the Chairman of the Board (Mr Gerard McMcMahon).

Directors' qualifications, experience, special responsibilities and the number of Audit Committee meetings attended by each Audit Committee member are in the Directors' Report included in this Annual Report.

The size of the Company does not warrant the appointment of an independent Audit Committee Chairperson; or a membership of more than two independent non-executive directors.

### **Principle 5: Making timely and balanced disclosure**

*Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.*

Each year, the Company Secretary prepares a timetable of ASX periodic reporting deadlines. This timetable is reviewed by the Board.

Company policy about continuous disclosure requirements of the ASX Listing Rules is included in the Company's Corporate Governance Policy.

The Board's policy is that shareholders are informed of all material developments that impact on the Company. Detailed continuous disclosure policy is intended to maintain the market integrity and market efficiency of the Company's shares listed on the ASX. This policy sets out the requirements of management to report to the Managing Director, any matter that may require disclosure under the Company's continuous disclosure obligations. Management is also required to report at each Board meeting on this issue. The continuous disclosure process ensures compliance with the Company's continuous disclosure and reporting obligations, consistent with the Australian Stock Exchange Limited Listing Rules, and the Corporations Act 2001.

*Recommendation 5.2: Other information for reporting on Principle 5*

This other information is disclosed above, under recommendation 5.1.

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## Corporate Governance (continued)

### Principle 6: Respect the Rights of Shareholders

*Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.*

The Company aims to convey to its shareholders pertinent information in a detailed, regular, factual and timely manner.

The Board ensures that the annual report includes relevant information about the operations of the Company during the year, and changes in the state of affairs of the Company, in addition to the other disclosures required by the Corporations Act 2001.

Information is communicated to shareholders by the Company through:

- The annual and interim financial reports (for those shareholders who have requested a copy);
- Disclosures to the Australia Stock Exchange and the Australian Securities & Investments Commission;
- Notices and explanatory memoranda of annual general meetings; and
- All Shareholders are invited to attend and raise questions at the Annual General Meeting.

All shareholders are welcome to communicate directly with the Company. All queries will be answered to the maximum extent possible (with consideration given to commercially sensitive information, privacy requirements and the Company's disclosure obligations) and in a timely fashion.

*Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.*

The Statutory Auditor is required to attend the Annual General Meeting and be prepared to answer questions concerning the financial statements.

### Principle 7: Recognise and Manage Risk

*Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management.*

The Audit Committee has the responsibility to establish policies on the system of internal control and management of financial and business risks.

Risk matters are raised with the Audit Committee, which in turn manages these matters raised and reports to the full Board.

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### Corporate Governance (continued)

*Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:*

*7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board*

*7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*

The Company's Corporate Governance Policy requires that these statements are certified by the Managing Director and Chief Financial Officer.

*Recommendation 7.3: Other information for reporting on Principle 7*

This other information is disclosed above, under recommendations 7.1 and 7.2.

### **Principle 8: Encourage Enhanced Performance**

*Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.*

The Board undertakes self assessment of its collective performance. Individual performance is evaluated by the full Board.

The Company's Corporate Governance Policy discloses the charter, including the process of performance evaluation of executive Directors and senior management by a Remuneration Committee, if required.

### **Principle 9: Remunerate Fairly and Responsibly**

*Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand:*

- (i) the costs and benefits of those policies and*
- (ii) the link between remuneration paid to directors and key executives and corporate performance.*

The Board has regard in the performance of the duties set out herein to any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share option schemes which the Board considers relevant or appropriate.

Fees for non-executive directors reflect the demands on and responsibilities of our Directors. Non-executive Directors are remunerated by way of base fees and statutory superannuation contributions and do not participate in schemes designed for the remuneration of executives. Non-executive directors do not receive any bonus payments nor are they provided with retirement benefits other than statutory superannuation.

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Corporate Governance (continued)**

*Recommendation 9.2: The board should establish a remuneration committee.*

The Board will establish a Remuneration Committee, as required.

*Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.*

Non-executive Directors' fees are determined by the Board within the aggregate amount approved by shareholders.

*Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.*

Any structure for equity based executive remuneration must be commercially cost effective, and appropriate to the Company's size and structure.

*Recommendation 9.5: Other information for reporting on Principle 9.*

When constituted, the Company's Remuneration Committee would comprise two non-executive independent Directors (Messrs Gerard McMahon and Lawrence Luo-lin Xin). The Chairman of the Remuneration Committee would also be the Chairman of the Board.

This Remuneration Committee structure is considered to be commercially cost effective, and appropriate to the Company's size and structure.

Details of the Remuneration Committee Member's qualifications, experience, and special responsibilities are in the Directors Report included in this Annual Report.

There are no schemes for retirement benefits, other than statutory superannuation, for non-executive directors.

### **Principle 10: Recognise the Legitimate Interests of Stakeholders**

*Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.*

The Company's Corporate Governance Policy includes a Code of Conduct which includes a guide for legal and other obligations to legitimate stakeholders.

## Oriental Technologies Investment Limited – Annual Report 2004

### Statements of Financial Performance for the Year Ended 31 December 2004

	Notes	Consolidated Entity		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenues from ordinary activities	2	<b>32,307</b>	31,337	<b>3,061</b>	1,906
Changes in inventories of finished goods and work in progress		<b>651</b>	(55)	-	-
Raw Materials and consumables used		<b>(29,724)</b>	(23,836)	-	-
Employee benefits expense		<b>(1,110)</b>	(1,286)	<b>(113)</b>	(128)
Depreciation and amortisation expense	3	<b>(1,024)</b>	(1,107)	<b>(2)</b>	(1)
Borrowing costs expense	3	<b>(178)</b>	(146)	-	-
Technical and advisory fees		<b>(356)</b>	(340)	<b>(356)</b>	(340)
Head office costs		<b>(209)</b>	(334)	<b>(186)</b>	(334)
Other expenses from ordinary activities		<b>(47)</b>	(243)	-	-
Profit from ordinary activities before income tax expense	3	<b>310</b>	3,990	<b>2,404</b>	1,103
Income tax expense relating to ordinary activities	4	<b>(17)</b>	(474)	-	-
Profit from ordinary activities after related income tax expense		<b>293</b>	3,516	<b>2,404</b>	1,103
Net profit		<b>293</b>	3,516	<b>2,404</b>	1,103
Net profit attributable to outside equity interests		<b>(18)</b>	(862)	-	-
Net profit attributable to members of Oriental Technologies Investment Limited	18	<b>275</b>	2,654	<b>2,404</b>	1,103
Net exchange difference on translation of financial report of self-sustaining foreign operations	17	<b>(313)</b>	(2,849)	-	-
Provision for profit share payment	15	<b>(55)</b>	(531)	<b>(55)</b>	(531)
Total revenues, expenses and valuation adjustments attributable to members of Oriental Technologies Investment Ltd and recognised directly in equity		<b>(368)</b>	(3,380)	<b>(55)</b>	(531)
Total changes in equity other than those resulting from transactions with owners as owners		<b>(93)</b>	(726)	<b>2,349</b>	572
Basic earnings per share (cents per share)	28	<b>0.24</b>	2.28		
Diluted earnings per share (cents per share)	28	<b>0.23</b>	2.24		

The above statements of financial performance should be read in conjunction with the accompanying notes.

## Oriental Technologies Investment Limited – Annual Report 2004

### Statements of Financial Position as at 31 December 2004

	Notes	Consolidated Entity		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Current Assets</b>					
Cash assets	5	2,194	7,012	27	344
Receivables	6	3,425	2,881	244	304
Inventories	7	2,214	1,488	-	-
<b>Total Current Assets</b>		<b>7,833</b>	<b>11,381</b>	<b>271</b>	<b>648</b>
<b>Non-current Assets</b>					
Other financial assets	8	-	-	12,196	9,331
Property, plant and equipment	9	20,044	10,803	34	-
Intangibles	10	461	494	-	-
Other	11	-	8	-	8
<b>Total Non-current Assets</b>		<b>20,505</b>	<b>11,305</b>	<b>12,230</b>	<b>9,339</b>
<b>Total Assets</b>		<b>28,338</b>	<b>22,686</b>	<b>12,501</b>	<b>9,987</b>
<b>Current Liabilities</b>					
Payables	12	3,806	1,732	182	72
Interest-bearing liabilities	13	10,813	6,762	-	-
Current tax liabilities	14	-	298	-	-
Provisions	15	1,112	1,057	1,112	1,057
<b>Total Current Liabilities</b>		<b>15,731</b>	<b>9,849</b>	<b>1,294</b>	<b>1,129</b>
<b>Total Liabilities</b>		<b>15,731</b>	<b>9,849</b>	<b>1,294</b>	<b>1,129</b>
<b>Net Assets</b>		<b>12,607</b>	<b>12,837</b>	<b>11,207</b>	<b>8,858</b>
<b>Equity</b>					
Contributed equity	16	27,870	27,870	27,870	27,870
Reserves	17	(2,059)	(1,981)	-	-
Accumulated losses	18	(15,732)	(15,608)	(16,663)	(19,012)
<b>Parent entity interest</b>		<b>10,079</b>	<b>10,281</b>	<b>11,207</b>	<b>8,858</b>
Outside equity interest	19	2,528	2,556	-	-
<b>Total Equity</b>		<b>12,607</b>	<b>12,837</b>	<b>11,207</b>	<b>8,858</b>

The above statements of financial position should be read in conjunction with the accompanying notes.

## Oriental Technologies Investment Limited – Annual Report 2004

### Statements of Cash Flows for the Year Ended 31 December 2004

	Notes	Consolidated Entity		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>					
Receipts arising from operating activities		30,927	32,381	-	-
Payments arising from operating activities		(28,769)	(28,022)	(294)	(1,277)
Interest received		63	85	5	43
Borrowing costs		(178)	(146)	-	-
Income tax paid		(303)	(456)	-	-
<b>Net cash inflow / (outflow) from operating activities</b>	29(b)	<b>1,740</b>	3,842	<b>(289)</b>	(1,234)
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(10,878)	(3,056)	(36)	-
Payment for land usage rights		-	(1,072)	-	-
Proceeds from sale of property, plant and equipment		27	-	-	-
Refund for security deposits		-	-	8	-
<b>Net cash outflow from investing activities</b>		<b>(10,851)</b>	(4,128)	<b>(28)</b>	-
<b>Cash flows from financing activities</b>					
Increase in Bank Loans		4,326	3,343	-	-
<b>Net cash inflow from financing activities</b>		<b>4,326</b>	3,343	-	-
Net (decrease) / increase in cash		(4,785)	3,057	(317)	(1,234)
Cash at the beginning of the financial year		7,012	4,731	344	1,578
Effect of exchange rates on cash holdings in foreign currencies		(33)	(776)	-	-
Cash at the end of the financial year	29(a)	<b>2,194</b>	7,012	27	344

The above cash flow statements should be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial Statements

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report covers the consolidated entity of Oriental Technologies Investment Limited and controlled entities and Oriental Technologies Investment Limited as an individual parent entity. Oriental Technologies Investment Limited is a listed public company incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report.

The carrying amounts of all non-current assets are reviewed at each reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

#### (a) *Going Concern*

Notwithstanding the net deficiency of current assets the financial report has been prepared on a going concern basis, which contemplates continuity of normal trading activities and the realisation of assets and settlement of liabilities in the normal course of business.

The on-going viability of the consolidated entity is dependent on its ability to generate profits from future operations, the continued availability of bank facilities and the ability of the consolidated entity to raise additional equity.

Directors believe that present funding facilities will be retained; and the Company will have access to additional funding, if required.

#### (b) *Basis of Consolidation*

The consolidated accounts comprise the accounts of the parent entity and its controlled entities. All inter-company balances and transactions between entities in the consolidated entity including any unrealised profits or losses, have been eliminated on consolidation.

#### (c) *Investments in Controlled Entities*

Investments in controlled entities are valued at cost less write-downs to recoverable amounts.

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### Statement of Significant Accounting Policies (continued)

##### (d) *Property, Plant and Equipment*

- (i) Acquisition - Property, plant and equipment are brought to account at cost less, where applicable, any accumulated depreciation or amortisation.
- (ii) Depreciation and amortisation - The depreciable amount of all property, plant and equipment and capitalised leased assets, is depreciated/amortised over their useful lives to the consolidated entity on a straight line basis commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation/Amortisation Rate
Leasehold buildings	4.5%
Plant and equipment	3 - 27%

- (iii) Disposals - The gain or loss on disposal of all property, plant and equipment, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the result from ordinary activities before income tax of the consolidated entity in the year of disposal.
- (iv) Recoverable Amount - The carrying amount of property, plant and equipment is reviewed at each reporting date by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.
- (v) Non-current assets constructed by the consolidated entity – Construction in progress is stated at cost. Interest costs incurred in relation to construction are capitalised as part of the cost of each asset. Construction in progress is transferred to fixed assets when completed and ready to use.
- (vi) Land Usage Rights – Land usage rights are carried at cost and amortised over the life of the right acquired. The current life of land usage rights is 50 years.

##### (e) *Capitalisation of Borrowing Costs*

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset will be capitalised as part of the cost of that asset. The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when:

Expenditures for the assets are being incurred;  
Borrowing costs are being incurred; and  
Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is 3.4% (2003 - \$Nil capitalised).

Borrowing costs include interest on short term borrowings.

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Notes to and forming part of the Financial Statements (continued)**

#### **Statement of Significant Accounting Policies (continued)**

*(f) Leases*

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

*(g) Inventories*

Inventories are valued at the lower of cost and net realisable value. Costs are assigned on a first in first out basis.

*(h) Foreign Currency Transactions and Balances*

Foreign currency transactions are initially translated into Australian currency at the rates of exchange ruling at the dates of the transactions. At balance date amounts payable and receivable in foreign currencies are translated into Australian currency at the rates of exchange at that date. Realised and unrealised gains or losses arising from exchange rate fluctuations relating to monetary items are included in the result from ordinary activities in the financial period in which they arise.

The assets and liabilities of overseas controlled entities, which are self-sustaining, are translated at period end rates and operating results are translated at an average rate. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

*(i) Provisions*

Employee Benefits - Provision is made for the consolidated entity's liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, are measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year are measured at the present value of the estimated future cash outflows to be made for those benefits.

*(j) Revenue*

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to financial assets.

Dividends from controlled entities are brought to account when they are proposed by the controlled entity.

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Notes to and forming part of the Financial Statements (continued)**

#### **Statement of Significant Accounting Policies (continued)**

##### **(k) Earnings per Share**

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of Oriental Technologies Investment Limited (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the financial year.

For the purpose of calculating diluted earnings per share, profit or loss attributable to ordinary equity holders of Oriental Technologies Investment Limited and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

Profit or loss attributable to ordinary equity holders of Oriental Technologies Investment Limited is adjusted, by the after-tax effect of:

- (i) any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of Oriental Technologies Investment Limited;
- (ii) any interest recognised in the period related to dilutive potential ordinary shares ; and
- (iii) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;

##### **(k) Income Tax**

The consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense in the statement of financial performance is based on the accounting result (after allowing for permanent differences). Timing differences are brought to account as either a provision for deferred income tax or an asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation, the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with conditions of deductibility imposed by the law.

##### **(l) Trade Debtors**

Trade debtors are recognised when the risks and rewards of ownership of the underlying sales transactions have passed to customers.

This event usually occurs on the delivery of inventories to customers. Trade debtors are recorded at nominal amounts, credit terms are 30-60 days. Recoverability of overdue amounts is assessed on an ongoing basis. Specific provision is made for all doubtful accounts.

The recoverability of debts is assessed at each balance date and specific provision is made for any doubtful accounts. In addition a general provision in respect of debtors is maintained.

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### Statement of Significant Accounting Policies (continued)

*(m) Intangibles*

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on consolidation is amortised on a straight line basis over the period of 20 years. The balance is reviewed at each reporting date and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

*(n) Trade Creditors*

These amounts represent unpaid liabilities for goods received and services provided to the Company and consolidated entity prior to the end of the financial period. The amounts are unsecured and normally settled within 30-60 days.

*(o) Segment Reporting*

The Company manufactures lead acid batteries in China. Revenue arises from local sales in China and exports, mainly to Europe and Australia.

The Company's risks and returns are affected predominantly by differences in the geographical areas in which it operates, not differences in the products and services it provides.

The majority of geographical segment revenue arises from sales to external customers. Geographical segment revenue from sales to external customers and from sales to other segments is, for certain geographical segments, 10% or more of total segment revenue for all segments.

*(p) Comparative figures*

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

*(q) Rounding of amounts*

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the Financial Report and Directors' Report have been rounded off to the nearest \$1,000.

*(r) Australian Equivalents To International Financial Reporting Standards (IFRS's)*

For years ending on or after 31 December 2005, all general purpose financial reports prepared in accordance with the requirements of Chapter 2M of the Corporations Act will be required to comply with Australian equivalents to International Financial Reporting Standards (IFRSs) instead of Australian Accounting Standards presently on issue. Comparative financial statements must also be presented in accordance with Australian equivalents to IFRSs for the year ending 31 December 2005.

a) Management of the Transition Process

In order to facilitate this transition process, the Audit Committee has reviewed the requirements of Oriental Technologies Investment Limited and controlled entities ("Group") implementing Australian equivalents to IFRSs for the year ending 31 December 2005.

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### Statement of Significant Accounting Policies (continued)

This transition process consists of 3 phases as follows:

(i) Planning Phase

The Planning Phase involves identifying differences in key accounting policies between current Australian Accounting Standards and the Australian equivalents to IFRSs to be adopted in future. It also involves an assessment of complex areas and assessing resources available to implement the process.

The planning phase has essentially been completed.

(ii) Diagnosis Phase

The Diagnosis Phase involves a more detailed analysis (than merely of key accounting policy differences) of measurement and disclosure impacts and preparatory work on revised statutory reporting templates. To ensure that quantitative information is available for AASB 1047 disclosures required at 30 June 2005, decisions will be taken on exemptions and options provided in AASB 1 “First Time Adoption of Australian Equivalents to IFRSs” and detailed impairment testing will be performed on opening balance sheet carrying values of assets at 1 January 2004.

Business impacts (e.g. relationships with bankers and lenders and employees), accounting system changes, training and resource requirements will also be identified during this phase.

This phase is now due for completion by 30 June 2005.

(iii) Conversion Phase

During the Conversion Phase, changes required to accounting and reporting systems will be finalised and tested. Agreements with lenders and contracts with employees will be reviewed to ensure that the Group is not prejudiced by the adoption of the new accounting framework. During this phase the Group will ensure that all employees, accounting personnel and others who are impacted by the adoption of Australian equivalents to IFRSs are confident with new processes. This phase is now expected to be completed by 30 June 2005.

(b) Changes to Key Accounting Policies

The Group has identified the following key differences in accounting policies that are expected to arise from adopting Australian equivalents to IFRSs.

#### Share-Based Payments

The Group does not currently recognise an expense for Options issued to Directors and employees. On 24 November 2000, Oriental Technologies Investment Limited issued a total of 5,000,000 Options to Directors and employees, the terms of each Option are an option to purchase one ordinary at an exercise price of 5.7 cents per share. Each Option must be exercised within the five-year period ending 23 November 2005.

Adoption of IFRS's would normally recognise an expense for all share-based remuneration, including deferred shares and options, and amortise those expenses over the relevant vesting periods. (AASB 2 Share Based Payments).

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Notes to and forming part of the Financial Statements (continued)**

#### **Statement of Significant Accounting Policies (continued)**

However, AASB 1 (“First Time Adoption of Australian Equivalents to International Financial Reporting Standards”) prohibits adoption of AASB 2 when the equity instruments are granted on or prior to 7 November 2002 and the fair value of those equity instruments has not been publicly disclosed.

On adoption of Australian equivalents to IFRSs, Oriental Technologies Investment Limited will not recognise an expense for these Options.

#### **Intangibles**

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition, and is amortised on a straight line basis over the period of 20 years. The balance is reviewed at each reporting date and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

Under Australian equivalents to IFRS’s, goodwill will no longer be required to be amortised but instead be subject to an annual impairment test. This will result in lower amortisation expenses, and therefore higher earnings on an annual basis, but increased volatility in earnings during periods when impairment losses are recognised.

#### **Impairment**

The carrying amount of property, plant and equipment and goodwill is reviewed at each reporting date by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets’ employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Under Australian equivalents to IFRSs, the Group will be required to determine the recoverable amount as the higher of fair value less costs to sell and value in use (which is determined using discounted cash flows).

Property, plant and equipment include usage rights, buildings and plant and equipment.

#### **Land usage rights and Buildings**

For land usage rights and buildings, it is unlikely that this change in policy and basis for calculation will lead to impairment losses. This is due to the fact that the fair values of the assets are higher than the carrying values of the assets.

#### **Plant and Equipment and Goodwill**

For plant and equipment and goodwill this change in policy, that is using discounted cash flows, may lead to impairment losses being recognised and therefore greater volatility in future earnings. It is also possible that when discounting is initially applied on transition at 1 January 2004, impairment losses may need to be recognised on some assets, resulting in a negative impact on opening balances of retained earnings at that date.

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Notes to and forming part of the Financial Statements (continued)**

#### **Statement of Significant Accounting Policies (continued)**

##### Taxation

A “balance sheet” approach will be adopted under Australian equivalents to IFRSs, replacing the “statement of financial performance” approach currently used by Australian companies. The “balance sheet” method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. Any initial adjustments to calculate deferred tax assets and liability balances on transition using the new basis will be made through opening balances of retained earnings at 1 January 2004. Deferred tax asset and liability balances at 1 January 2004 can only be calculated once all other opening balance sheet amounts have been finalised at that date.

##### Translation of Foreign Subsidiaries

The assets and liabilities of overseas controlled entities, which are self -sustaining, are translated at period end rates and operating results are translated at an average rate. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

Australian equivalents to IFRSs provide similar treatment to this Group’s translation of overseas controlled entities, except that when a foreign controlled entity is disposed of, any balance in equity resulting from translation differences is transferred to profit or loss in the period of sale. As a result, net profit will increase or decrease during periods when disposals of foreign operations occur.

The group has yet to determine whether they will use the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to reset balances of the translation differences in equity to zero at 1 January 2004.

If the balances of translation differences in equity are reset to zero at 1 January 2004, the initial adjustment will be processed via opening balances of retained earnings at that date, and this will impact the amount of profit and loss on the disposal of foreign operations in future periods.

##### Presentation Currency

The Group is currently required to present the financial statements in Australian currency. Under Australian equivalents to IFRSs the Group may select a presentation currency other than Australian currency.

Unless otherwise stated, the accounting policies adopted are consistent with those applied in the 31 December 2003 annual report.

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>2. REVENUE</b>				
<b>Revenue from operating activities</b>				
Sale of goods	31,203	31,201	-	-
Other	109	51	-	-
	<b>31,312</b>	<b>31,252</b>	<b>-</b>	<b>-</b>
<b>Revenue from non - operating activities</b>				
Interest received from other persons	63	85	5	43
Repayment of debt from former subsidiary, previously written off	697	-	191	-
Other	235	-	-	-
Dividends received from controlled entity	-	-	2,865	1,863
Revenue from ordinary activities	<b>32,307</b>	<b>31,337</b>	<b>3,061</b>	<b>1,906</b>
<b>3. PROFIT FROM ORDINARY ACTIVITIES</b>				
Profit from ordinary activities before related income tax expense includes the following specific net gains and expenses:				
<b>Net gains</b>				
Dividends received from controlled entities	-	-	2,865	1,863
Interest income from other persons	63	85	5	43
<b>Expenses</b>				
Cost of sales	29,073	23,891	-	-
Borrowing costs				
Interest paid/payable to other persons	393	146	-	-
Amount capitalised	(215)	-	-	-
Borrowing costs expensed	178	146	-	-
Depreciation – property, plant and equipment	900	1,025	2	1
Amortisation of land use rights	43	-	-	-
Amortisation of buildings	48	48	-	-
Amortisation of goodwill	33	34	-	-
Total depreciation and amortisation	1,024	1,107	2	1
Loss on disposal of non-current assets	-	46	-	6
Rental expenses on operating leases	-	37	-	37
Foreign currency translation gain /(loss)	66	(235)	-	-
<b>Individually significant item</b>				
<b>Gain</b>				
Repayment of debt from former subsidiary, previously written off	697	-	191	-

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>4. INCOME TAX EXPENSE</b>				
(a) The prima facie tax on profit from ordinary activities is reconciled to the income tax provided in the accounts as follows:				
Prima facie tax on profit from ordinary activities before income tax at 30%	93	1,197	721	331
Adjustment to reflect income tax payable at 12% for subsidiary in China	(19)	(861)	-	-
Add (less) tax effect of:				
Exempt foreign dividend	-	-	(723)	(346)
Other	(57)	138	2	15
Income tax attributable to profit from ordinary activities	<u>17</u>	<u>474</u>	<u>-</u>	<u>-</u>
(b) Future income tax benefits not brought to account is comprised of the following estimated tax benefits at 30%:				
Timing differences	<u>24</u>	<u>21</u>	<u>24</u>	<u>21</u>
<b>5. CURRENT ASSETS - Cash</b>				
Cash at bank and on hand	2,144	6,988	27	344
Notes receivable	50	24	-	-
	<u>2,194</u>	<u>7,012</u>	<u>27</u>	<u>344</u>
			Chinese Interest Rate	Expiry Date
	\$ '000	RMB '000	Per annum %	
Notes receivable:				
<b>2004</b>	19	120	-	25 Feb 2005
	31	200	-	14 Jun 2005
	<u>50</u>	<u>320</u>		
<b>2003</b>	8	50	-	16 Feb 2004
	16	100	-	12 Apr 2004
	<u>24</u>	<u>150</u>		
<b>6. CURRENT ASSETS - Receivables</b>				
Trade debtors	2,482	2,019	-	-
Provision for doubtful debts	(6)	(4)	-	-
	<u>2,476</u>	<u>2,015</u>	<u>-</u>	<u>-</u>
Other debtors	252	866	19	128
Receivable for repayment of debt from former subsidiary, previously written off	697	-	191	-
Amounts receivable from controlled entities	-	-	34	176
	<u>3,425</u>	<u>2,881</u>	<u>244</u>	<u>304</u>

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>7. CURRENT ASSETS - Inventories</b>				
Raw materials	1,558	937	-	-
Work in progress	460	392	-	-
Finished goods	196	159	-	-
	<b>2,214</b>	<b>1,488</b>	-	-
<b>8. NON-CURRENT ASSETS - Other financial assets</b>				
Shares in controlled entities at cost (Note 26)	-	-	13,069	10,204
Write down to recoverable amount	-	-	(873)	(873)
	-	-	<b>12,196</b>	<b>9,331</b>
<b>9. NON-CURRENT ASSETS - Property, Plant and Equipment</b>				
<b>Land</b>				
Land usage rights	1,070	1,072	-	-
Less accumulated amortisation	(43)	-	-	-
	<b>1,027</b>	<b>1,072</b>	-	-
<b>Buildings – Leasehold</b>				
Cost	2,681	1,535	-	-
Less accumulated amortisation	(47)	(245)	-	-
	<b>2,634</b>	<b>1,290</b>	-	-
<b>Plant and Equipment</b>				
Cost	11,679	10,645	36	-
Less accumulated depreciation	(5,054)	(4,148)	(2)	-
	<b>6,625</b>	<b>6,497</b>	<b>34</b>	-
Construction in progress	9,758	1,944	-	-
	<b>20,044</b>	<b>10,803</b>	<b>34</b>	-
Borrowing Cost Capitalised	215	-	-	-
Capitalisation rate used in the allocation of borrowing costs	3.4%	-	-	-

Reconciliations of the carrying amounts for each class of property, plant and equipment at the beginning and the end of the current financial period are set out below:

	Land Usage Rights \$'000	Leasehold Buildings \$'000	Plant and Equipment \$'000	Construction in Progress \$'000	Total \$'000
Consolidated Entity:					
Carrying amount at 1 January 2004	1,072	1,290	6,497	1,944	10,803
Additions	41	1,230	1,556	8,051	10,878
Reclassifications	-	241	(241)	-	-
Disposals	-	-	(27)	-	(27)
Foreign currency translation movement	(43)	(79)	(260)	(237)	(619)
Depreciation expense	(43)	(48)	(900)	-	(991)
Carrying amount at 31 December 2004	<b>1,027</b>	<b>2,634</b>	<b>6,625</b>	<b>9,758</b>	<b>20,044</b>
Parent entity:					
Carrying amount at 1 January 2004	-	-	-	-	-
Additions	-	-	36	-	36
Disposals	-	-	-	-	-
Depreciation expense	-	-	(2)	-	(2)
Carrying amount at 31 December 2004	-	-	<b>34</b>	-	<b>34</b>

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>10. NON-CURRENT ASSETS - Intangibles</b>				
Goodwill	669	669	-	-
Less accumulated amortisation	(208)	(175)	-	-
	<b>461</b>	<b>494</b>	<b>-</b>	<b>-</b>
<b>11. NON-CURRENT ASSETS - Other</b>				
Security deposits	-	8	-	8
	<b>-</b>	<b>8</b>	<b>-</b>	<b>8</b>
<b>12. CURRENT LIABILITIES – Payables</b>				
<b>Unsecured Liabilities</b>				
Trade creditors	3,806	1,732	181	72
Amount payable to wholly owned entity	-	-	1	-
	<b>3,806</b>	<b>1,732</b>	<b>182</b>	<b>72</b>
<b>13. CURRENT LIABILITIES – Interest-Bearing Liabilities</b>				
<b>Secured</b>				
Bank Loans (a)	10,813	6,762	-	-
	<b>10,813</b>	<b>6,762</b>	<b>-</b>	<b>-</b>
Bank Loan facility with Bank of China				
Facility limit	10,813	6,762	-	-
Amount utilised	(10,813)	(6,762)	-	-
Unused credit facility	-	-	-	-
	US Dollars	Chinese RMB	Interest Rate Per annum	Expiry Date
Bank Loans	'000	'000	%	
<b>2004</b>				
	1,000	8,277	LIBOR * 1.6	17 Feb 2005
	500	4,138	LIBOR * 1.6	23 Apr 2005
		5,000	5.841	29 Apr 2005
		5,000	5.841	30 Apr 2005
		5,000	5.841	31 May 2005
		20,000	5.310	1 Jun 2005
		20,000	5.841	20 Jun 2005
	300	2,483	2.175	12 Nov 2005
		<b>69,898</b>		
	\$000	<b>10,813</b>		
<b>2003</b>				
	(c) 1,600	13,243	2.8750	Current
		8,000	4.2000	25 Feb 2004
	2,500	20,692	LIBOR * 1.6	29 Oct 2004
		<b>41,935</b>		
	\$000	<b>6,762</b>		

- (a). Loans from the Bank of China are secured with a corporate guarantee by Yangzhou Apollo Battery Co Limited.
- (b). LIBOR means the London Inter Bank Offered Rate, a benchmark interest rate.
- (c). USD 1,600,000 loan was secured by Yangzhou Huayang Battery Co Ltd, which used its deposit receipt, valued USD 1,668,800 as a pledge to the bank.

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>14. CURRENT LIABILITIES – Tax</b>				
Income tax payable	-	298	-	-
	-	298	-	-
<b>15. CURRENT LIABILITIES - Provisions</b>				
Employee benefits (note 24)	16	16	16	16
Provision for profit share payment	1,096	1,041	1,096	1,041
	<b>1,112</b>	<b>1,057</b>	<b>1,112</b>	<b>1,057</b>

#### Debt Restructure Arrangement

Under an arrangement entered into with China Venturetechno International Co. Limited (“CVIC”) and Red Lion Resources Limited (“RLRL”) in accordance with shareholders approval on 26 July 2000, the total indebtedness of \$20,834,841 by the Company and its controlled entities to CVIC/RLRL was extinguished in return for the payment by the Company out of and limited to the Company’s net profit after tax (“NPAT”) (if any) in each year, of a profit share payment (“PSP”) equal to 20% of each NPAT. The “PSP” will cease once the cumulative implied payment amount (“CIPA”) reaches \$20,834,841 or the expiration of 50 years, whichever is the sooner.

The CIPA shall be equal to the sum of the Implied Payment Amount (“IPA”) in each year.

The IPA in each year shall be equal to the actual amount paid to Red Lion and CVIC / (1 + (discount) or (premium)). The discount or premium is the discount or premium that the current year’s NPAT represents relative to the pre-agreed breakeven NPAT of \$4.0 million.

The company has made a provision of \$55,000 in respect of its cash liability for the PSP payable on the profit for the twelve months ended 31 December 2004 (2003 \$530,000), bringing the total provision for the PSP payable to \$1,096,000 (2003 \$1,041,000).

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>16. CONTRIBUTED EQUITY</b>				
116,484,005 (2003: 116,484,005) fully paid ordinary shares	<b>27,870</b>	27,870	<b>27,870</b>	27,870

#### Ordinary Shares

Any dividend may be declared and paid on all ordinary shares in proportion to the number of ordinary shares and the amounts paid up, or deemed to be paid up, on these shares.

Any proceeds on winding up, where assets are insufficient, would be distributed to the members in proportion to the number of ordinary shares and the amounts paid up on these shares.

At a general meeting every shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and one vote for each share held on a poll.

#### Share Options

Oriental Technologies Investment Limited issued five million options on unissued shares under the Orientech Share Option Plan on 24 November 2000. Details of the options granted are:

Exercise Period:	Within the five-year period ending on 23 November 2005.
Exercise Price:	5.7 cents per share.
Exercise of Option:	An option may be exercised within the exercise period or if there is earlier termination of the option. An option cannot be exercised unless the option holder has provided not less than 24 months service to the Company (unless the Directors determined otherwise).

No shares were issued as a result of the exercise of an option during the financial year. There were five million unissued ordinary shares for which options are outstanding, for further details refer Note 20.

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

16. CONTRIBUTED EQUITY (continued)	Number of Ordinary Shares	
	2004	2003
<b>Associates' Relevant Interests in Ordinary Shares</b>		
Patrick T K Ma	55,500,000	55,500,000
Lawrence L Xin	55,500,000	55,500,000
Steve S Xin	55,500,000	55,500,000

Subsidiaries of Oriental Technologies Investment Limited do not have a relevant interest in ordinary shares of Oriental Technologies Investment Limited.

17. RESERVES	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>General reserve</b>				
Balance at 1 January 2004	717	458	-	-
Transfer to foreign currency translation reserve	(245)	-	-	-
Transfer to outside equity interests in controlled entities	(109)	-	-	-
Transferred from accumulated losses	344	259	-	-
Balance at 31 December 2004	707	717	-	-

A general reserve is held as a result of Chinese legislative requirements to maintain a level of profits in a presently non-distributable reserve.

### Foreign currency translation reserve

Balance at 1 January 2004	(2,698)	151	-	-
Transfer from general reserve	245	-	-	-
Adjustments arising from the translation of foreign controlled entity's financial statements	(313)	(2,849)	-	-
Balance at 31 December 2004	(2,766)	(2,698)	-	-
Total reserves	(2,059)	(1,981)	-	-

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled entity's financial statements.

### 18. ACCUMULATED LOSSES

Retained losses at the beginning of the financial year	(15,608)	(17,472)	(19,012)	(19,584)
Net profit attributable to the members of the parent entity	275	2,654	2,404	1,103
Provision for profit share payment	(55)	(531)	(55)	(531)
Transfer to general reserve	(344)	(259)	-	-
Retained losses at the end of the financial year	(15,732)	(15,608)	(16,663)	(19,012)

### 19. OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

Interest in:				
Share Capital	2,331	1,738	-	-
Reserves	178	114	-	-
Accumulated losses	19	704	-	-
	2,528	2,556	-	-

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### 20. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

The following persons were directors of Oriental Technologies Investment Limited during the financial year:

*Chairman – non-executive*

Gerard McMahon

*Executive Directors*

Yong Bao

George Su Su

Chunyang Qiu

*Non- executive Directors*

Christopher Corrigan

Patrick Ting Keung Ma

Lawrence Luo-lin Xin

Steve Shulin Xin

#### Remuneration of directors and specified executives

The remuneration structure for executive officers, including executive Directors, seeks to remunerate with due regard to performance and other factors.

The Corporate Governance Policy provides the framework for a Remuneration Committee to consider directors and executive remuneration, as required.

The Remuneration Committee shall be responsible for all elements of the remuneration of the executive Directors of Oriental Technologies Investment Limited and shall make recommendations to the Board on:-

- The basic salary paid to the executive Directors and any recommendations made by the Managing Director of Oriental Technologies Investment Limited for changes to that basic salary;
- The remuneration and terms of employment of prospective executive Directors of Oriental Technologies Investment Limited;
- Any bonuses to be paid to the executive Directors and, in respect of any element of remuneration of an executive Director which is performance-related, to formulate suitable performance-related criteria and monitor their operation; and to consider any recommendations of the Managing Director of Oriental Technologies Investment Limited regarding bonuses or performance-related remuneration;
- All performance-related formulae relevant to the remuneration of the Directors of Oriental Technologies Investment Limited, including the terms of their service contracts and changes to those contracts, and to consider the eligibility of Directors for of any executive share option scheme operated by or to be established by of Oriental Technologies Investment Limited including but not limited to (subject always to the rules of that scheme and any applicable legal and ASX requirements):-
  - the selection of those eligible Directors of Oriental Technologies Investment Limited and its related entities to whom options should be granted;
  - the timing of any grant;
  - the numbers of shares over which options are to be granted;

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### 20. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

- the exercise price at which options are to be granted;
- the imposition of any objective condition which must be complied with before any option may be exercised;
- disclosure of details of remuneration packages and structures in addition to those required by law or by the ASX;
- other benefits granted to the executive Directors and any recommendations of the Managing Director of Oriental Technologies Investment Limited for changes in those benefits.

The Remuneration Committee shall have regard in the performance of the duties set out herein to any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share option schemes which the Remuneration Committee considers relevant or appropriate.

Oriental Technologies Investment Limited does not formalise remuneration and other terms of employment into service or employment agreements.

#### Indemnities and Insurance

Amounts disclosed for remuneration of directors and specified executives exclude insurance premiums of \$22,472 paid by the consolidated entity in respect of directors' and officers liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to the insurance contracts is set out in the director's report.

The emoluments of each Director and executive officer for the financial year were as follows:

Name	Primary		Non-monetary benefits	Post-employment		Equity	Total
	Cash Salary and fees	Cash bonus		Super-annuation	Retirement benefits	Options	
	\$	\$	\$	\$	\$	\$	\$
<b>2004</b>							
<b><u>Executive Directors</u></b>							
Yong Bao	10,042	-	-	-	-	-	<b>10,042</b>
Chunyang Qiu	-	-	-	-	-	-	-
George Su Su	48,000	-	-	4,320	-	-	<b>52,320</b>
<b><u>Non-Executive Directors</u></b>							
Christopher Corrigan	24,000	-	-	2,160	-	-	<b>26,160</b>
Patrick T K Ma	-	-	-	-	-	-	-
Gerard McMahon	24,000	-	-	2,160	-	-	<b>26,160</b>
Lawrence L Xin	-	-	-	-	-	-	-
Steve S Xin	-	-	-	-	-	-	-
Total	106,042	-	-	8,640	-	-	<b>114,682</b>
<b>2003</b> Total	121,247	-	-	8,640	-	-	<b>129,887</b>

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### 20. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

##### Share Options

During the financial year, no options over ordinary shares in Oriental Technologies Investment Limited were granted, exercised or vested.

The Orientech Employee Share Option Plan was approved by shareholders on 6<sup>th</sup> January 1998.

Each employee share option is convertible into one share.

The exercise price for each employee share option shall not be less than the greater of:

- (a) Five cents (\$0.05) for each share; and
- (b) The share market price as at the option issue date less a discount of up to but not exceeding 5% of the market price, which discount shall be determined by the Directors.

The share market price on a particular day is the weighted average sale price of shares for the five most recent transaction days preceding that particular day.

An employee share option will terminate and cannot be exercised after the date the holder ceases to be an employee or director, unless otherwise determined by Directors.

Employee share options may not be sold transferred or assigned; except to a legal personal representative of the option holder.

All shares allotted to option holders on the exercise of employee share options will be adjusted to be consistent with changes to the share structure and rank pari-passu with all other shares on issue at the date of allotment.

Oriental Technologies Investment Limited issued five million options on unissued shares under the Orientech Employee Share Option Plan on 24 November 2000. Details of the options granted are:

Exercise Period:	Within the five-year period ending on 23 November 2005.
Exercise Price:	5.7 cents per share.
Exercise of Option:	An option may be exercised within the exercise period or if there is earlier termination of the option. An option cannot be exercised unless the option holder has provided not less than 24 months service to the Company (unless the Directors determined otherwise).

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### 20. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Options were issued to, and are held by:

Option Holder	Date of Grant of Options	Number of Options	Number of Ordinary Shares Over Which Options Granted
<i>Directors</i>			
Yong Bao	24-Nov-2000	500,000	500,000
Christopher Corrigan	24-Nov-2000	200,000	200,000
Patrick Ting Keung Ma	24-Nov-2000	200,000	200,000
Gerard McMahon	24-Nov-2000	300,000	300,000
Chunyang Qiu	24-Nov-2000	200,000	200,000
George Su Su	24-Nov-2000	500,000	500,000
Lawrence Luo-lin Xin	24-Nov-2000	2,400,000	2,400,000
Steve Shulin Xin	24-Nov-2000	200,000	200,000
<i>Others</i>			
Oliver Kwok (Technical Advisor)	24-Nov-2000	200,000	200,000
Rodney Piggott (former CFO)	24-Nov-2000	200,000	200,000
Rodney Wilson (former Company Secretary)	24-Nov-2000	100,000	100,000
		<u>5,000,000</u>	<u>5,000,000</u>

#### Related party transactions with Directors

##### a) Remuneration, retirement benefits and service agreements

An annual technical assistance fee relating to the operation in the Yangzhou Hua Yang Battery Co Limited was payable to Red Investment & Development Limited during the year, a company of which Mr Lawrence Xin, Mr Patrick Ma and Mr Steve Xin are directors.

A monthly payment was made to Red Investment & Development Limited (RIDL) in respect of review and sourcing new business for the Company's operations in China.

Total fees paid and payable to RIDL during the year amounted to \$356,000 (2003 \$340,000).

##### b) Transactions of Directors and Director-related entities concerning shares

The aggregate number of ordinary shares held directly or indirectly by Directors or their Director-related entities at 31 December 2004 was 55,500,000 (2003: 55,500,000).

The aggregate number of unissued ordinary shares held directly or indirectly by Directors or their Director-related entities under options at 31 December 2004 was 4,500,000 (2003: 4,500,000).

No ordinary shares or options were acquired or disposed of by Directors or their Director related entities during the financial year (2003 Nil).

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>21. REMUNERATION OF AUDITORS</b>				
During the financial year, the following services were paid to the auditor of the parent entity and its related practices::				
Audit services				
Fees paid to BDO Australian firm				
Audit and review of financial reports and other audit work required under Corporations Act 2001	41,725	36,975	41,725	36,975
Fees paid to related practices of BDO Australian firm	7,872	10,000	7,872	10,000
Other services				
Fees paid to BDO Australian firm				
Taxation	4,000	2,900	3,600	2,900
IFRS project	2,218	-	2,218	-
Special corporate project	-	50,859	-	50,859
Other	2,000	-	2,000	-
	8,218	53,759	7,818	53,759

## 22. COMMITMENTS

### Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable:

Within one year	57	70	-	-
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### Capital expenditure commitments

Commitments for the acquisition of construction work contracted for at the reporting date, but not recognised as liabilities, payable:

Within one year	-	1,392	-	-
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The above commitment relates in full to a liability construction contract.

## 23. SUPERANNUATION COMMITMENTS

As at 31 December 2004 the consolidated entity participated in several employer sponsored funds. Benefits provided under the funds are based on contributions for each employee. The employees can contribute to the plan at various percentages of their salaries and wages, and the consolidated entity also contributes to the plan at varying levels and satisfied all its legal obligations in the twelve months ended 31 December 2004.

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>24. EMPLOYEE BENEFITS AND RELATED ON-COST LIABILITIES</b>				
Provision for employee benefits – current	16	16	16	16
	<b>2004 Number</b>	2003 Number	<b>2004 Number</b>	2003 Number
Employees at year end	515	414	9	10

### 25. RELATED PARTIES TRANSACTIONS

The group consists of Oriental Technologies Investment Limited and its controlled entities Orientech Pty Limited, Yangzhou Hua Yang Battery Co. Limited and Yangzhou Apollo Battery Co Limited. The ownership interests in these controlled entities are set out in note 26.

Oriental Technologies Investment Limited, the parent entity, operates as a funding and management company for its subsidiaries Yangzhou Hua Yang Battery Co. Limited, Yangzhou Apollo Battery Co Limited and Orientech Pty Limited. Transactions between entities within the group took place on normal commercial terms and conditions.

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Dividends received from controlled entity	-	-	2,865	1,863
Amounts receivable from controlled entities - current	-	-	34	176
Amount payable to wholly owned entity - current	-	-	1	-

The ultimate parent entity in the wholly owned group, ultimate Australian parent entity and ultimate parent entity is Oriental Technologies Investment Limited, which at 31 December 2004 owned:

- (i) 100% of the issued ordinary shares of Orientech Pty Ltd in Australia (2003 100%);
- (ii) 80% of Yangzhou Hua Yang Battery Co Limited in China (2003 80%); and
- (iii) 80% of Yangzhou Apollo Battery Co Limited in China (2003 80%).

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

#### 26. INVESTMENT IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	% of Ownership		Cost of Parent Entity's Investment (\$'000)	
		2004	2003	2004	2003
Parent entity:					
Oriental Technologies Investment Limited	Australia				
Controlled entities of Oriental Technologies Investment Limited:					
Orientech Pty Limited	Australia	<b>100%</b>	100%	<b>873</b>	873
Yangzhou Hua Yang Battery Co Limited	China	<b>80%</b>	80%	<b>7,468</b>	7,468
Yangzhou Apollo Battery Co Limited	China	<b>80%</b>	80%	<b>4,728</b>	1,863
				<b>13,069</b>	10,204

Dividends received from Yangzhou Hua Yang Battery Co Limited of \$2,865,000 (2003 \$1,863,000) were invested by Oriental Technologies Investment Limited into Yangzhou Apollo Battery Co Limited.

#### Controlled Entities Acquired

On 28 June 2003 the parent entity acquired 80% of Yangzhou Apollo Battery Co Ltd for a consideration of \$1,863,000.

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

### 27. SEGMENT INFORMATION

	Consolidated Entity	
	2004	2003
	\$'000	\$'000
Primary reporting - geographical segment by location of customers		
<b>Segment Revenues from External Customers</b>		
Europe	25,841	26,324
Australia	4,259	2,952
China	1,076	1,698
Other Countries	27	227
Unallocated revenue	1,104	136
Total Revenue	<u>32,307</u>	<u>31,337</u>
<b>Segment Results</b>		
Europe	798	4,685
Australia	131	525
China	33	302
Other Countries	1	40
Unallocated expenses net of unallocated revenue	<u>(653)</u>	<u>(1,562)</u>
Profit from ordinary activities before income tax expense	310	3,990
Income tax expense relating to ordinary activities	<u>(17)</u>	<u>(474)</u>
Profit from ordinary activities after related income tax expense	<u>293</u>	<u>3,516</u>
Net profit	<u>293</u>	<u>3,516</u>

The costs of the holding company are in respect of the business in China and costs incurred in respect of that business.

Oriental Technologies Investment Limited only manufacture lead acid batteries in China, so:

- (i) A split between segmental assets and liabilities is not deemed necessary as all the risks and returns arising from the carrying amounts of assets and liabilities only apply to this one geographic segment, China;
- (ii) Included within Note 9 to these accounts is the following information relating to assets:
  - (a) The acquisition of Property, Plant & Equipment and Intangibles that is expected to be used over more than one period; and
  - (b) The depreciation and amortisation expenses for the assets; and
- (iii) Secondary reporting by business segment is not necessary, due to the nature of this operation.

	\$	\$
<b>28. EARNINGS PER SHARE</b>		
Earnings used in calculation of basic EPS and Diluted EPS	<u>274,921</u>	<u>2,653,961</u>
	Number	Number
Weighted average number of ordinary shares used in the calculation of Basic EPS	116,484,005	116,484,005
Potential ordinary shares assumed to have been issued for no consideration	3,242,911	1,968,085
Weighted average number of ordinary shares used in the calculation of Diluted EPS	<u>119,726,916</u>	<u>118,452,090</u>

## Oriental Technologies Investment Limited – Annual Report 2004

### Notes to and forming part of the Financial Statements (continued)

	Consolidated Entity		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>29. CASH FLOW SUPPLEMENTARY INFORMATION</b>				
(a) For the purpose of the statements of cash flows, cash includes cash on hand and in at call deposits with banks, net of bank overdrafts. Cash at the end of the year as shown in the statements of cash flows is reconciled to items in the statements of financial position as follows:				
Cash at bank and on hand (note 5)	<b>2,194</b>	7,012	<b>27</b>	344
(b) Reconciliation of cash inflow from operations with profit from ordinary activities after income tax:				
Profit from ordinary activities after income tax	<b>293</b>	3,516	<b>2,404</b>	1,103
Depreciation and amortisation	<b>1,024</b>	1,107	<b>2</b>	1
Net loss on sale of non-current assets	-	46	-	6
Effect of exchange rates on assets and liabilities in foreign currencies other than cash holdings	<b>(83)</b>	(411)	-	-
Reinvestment of dividend received from subsidiary	-	-	<b>(2,865)</b>	(1,864)
Changes in assets and liabilities:				
(Increase) / Decrease in Trade Debtors	<b>(462)</b>	1,180	-	-
Increase / (Decrease) in Provision for Doubtful Debts	<b>2</b>	(175)	-	-
(Increase) / Decrease in Other Debtors	<b>(70)</b>	258	<b>60</b>	(272)
Increase in Deferred Expenditure	-	73	-	-
(Increase) / Decrease in Inventories	<b>(725)</b>	55	-	-
Increase / (Decrease) in Trade Creditors	<b>2,059</b>	(1,764)	<b>110</b>	(212)
Increase in Employee Benefits	-	4	-	4
Decrease in Income Tax Payable	<b>(298)</b>	(47)	-	-
Net cash inflow / (outflow) from operating activities	<b>1,740</b>	3,842	<b>(289)</b>	(1,234)

# Oriental Technologies Investment Limited – Annual Report 2004

## Notes to and forming part of the Financial Statements (continued)

### 30. FINANCIAL INSTRUMENTS

#### (a) Credit Risk Exposures

The credit risk exposure of the Company and the consolidated entity to financial assets which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

#### (b) Net Fair Values of Financial Assets and Liabilities

The carrying amounts of cash, cash equivalents and non-interest bearing monetary financial assets and liabilities (e.g. accounts receivable and payable) approximate net fair value.

#### (c) Interest Rate Risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Notes	Weighted Average Effective Interest Rate		Floating Interest Rate		Non-interest Bearing		Total	
		2004 %	2003 %	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Cash	5	1.4	5.0	2,180	6,696	14	316	2,194	7,012
Receivables	6	-	-	-	-	2,476	2,015	2,476	2,015
Other Debtors	6	-	-	-	-	949	866	949	866
Security Deposits	11	-	4.3	-	8	-	-	-	8
<b>Total Financial Assets</b>				<b>2,180</b>	<b>6,704</b>	<b>3,439</b>	<b>3,197</b>	<b>5,619</b>	<b>9,901</b>
Trade and sundry creditors	12	-	-	-	-	3,806	1,732	3,806	1,732
Loan Bank of China	13	5.5	4.3	10,813	6,762	-	-	10,813	6,762
<b>Total Financial Liabilities</b>				<b>10,813</b>	<b>6,762</b>	<b>3,806</b>	<b>1,732</b>	<b>14,619</b>	<b>8,494</b>
<b>Net Financial (Liabilities) / Assets</b>				<b>(8,633)</b>	<b>(58)</b>	<b>(367)</b>	<b>1,465</b>	<b>(9,000)</b>	<b>1,407</b>

	Notes	2004 \$'000	2003 \$'000
<b>Reconciliation of Net Financial Liabilities to Total Equity</b>			
Net financial (liabilities) / assets (as above)		(9,000)	1,407
Non financial assets and liabilities			
Inventories	7	2,214	1,488
Plant and equipment	9	20,044	10,803
Intangibles	10	461	494
Provisions	14,15	(1,112)	(1,355)
<b>Total Equity</b>		<b>12,607</b>	<b>12,837</b>

### 31. EVENTS SUBSEQUENT TO REPORTING DATE

The Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the Consolidated Entity's operations, the results of these operations or the Consolidated Entity's state of affairs in future financial years; excepting:

- 200,000 shares were issued subsequent to the financial year, as a result of the exercise of options. There are four million eight hundred thousand unissued ordinary shares for which options are outstanding at the date of this report.

## **Oriental Technologies Investment Limited – Annual Report 2004**

### **Directors' Declaration**

The Directors of the Company declare that:

1. The financial statements and notes comprising the Statements of Financial Performance, Position and Cash Flows, and accompanying notes are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 31 December 2004 and of the performance for the year ended on that date of the company and consolidated entity;
2. In the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Sydney, 31 March 2005



Gerard McMahon  
Chairman of the Board



**Chartered Accountants  
& Advisers**

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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ORIENTAL TECHNOLOGIES INVESTMENTS LIMITED**

### **Scope**

#### *The Financial Report and Directors' Responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Oriental Technologies Investments Limited (the company) and the consolidated entity, for the year ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit Approach*

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



Liability limited by the Accountants  
Scheme, approved under the  
Professional Standards Act 1994 (NSW)  
BDO is a national association of separate  
partnership and entities



## **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

## **Audit Opinion**

In our opinion, the financial report of Oriental Technologies Investment Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2004 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

## **Uncertainty Regarding Going Concern**

Without qualification to the opinion expressed above, we noted that the consolidated report of Oriental Technologies Investment Limited has been prepared on the basis that the consolidated entity will continue as a going concern having regard to the group's trading results and the net deficiency of current assets – refer Note 1. We note that the ability of the consolidated entity to continue as a going concern is dependent upon the achievement of profitable trading, continuing availability of bank facilities and the ability of the consolidated entity to raised additional equity.

BDO

**BDO**

Chartered Accountants

A handwritten signature in black ink, appearing to read 'K R REID'. The signature is written in a cursive style with a long horizontal stroke extending to the right.

**K R REID**

Partner

Dated in Sydney this 31<sup>st</sup> day of March 2005

## Oriental Technologies Investment Limited – Annual Report 2004

### Shareholder Information

At 28 February 2005 issued capital was 116,484,005 ordinary shares held by 645 holders.

At a general meeting every shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and one vote for each share held on a poll.

#### 20 Largest Holders of Ordinary Shares and their Holdings at 28 February 2005.

	ORDINARY SHARES	
	NUMBER	% OF TOTAL
1 Red Investment & Development Ltd	55,500,000	47.65
2 Dynamic Ford Limited	23,280,000	19.98
3 Wirtz International Operations Inc	9,984,000	8.57
4 Invia Custodian Pty Limited <Loftus A/C>	2,785,000	2.39
5 Mr Adrian Robert Nijman + Mrs Jenny Ann Nijman	1,060,000	0.91
6 Mr Rodney Desmond Nyman + Mrs Susan Emilie Nyman <SE & RD Superannuation A/C>	952,172	0.82
7 Gerbev Nominees Pty Ltd	978,000	0.84
8 ANZ Nominees Limited	836,348	0.72
9 Brencorp No11 Pty Limited	720,000	0.62
10 Bernard Marie Francois Le Clezio <BMF LeClezio Super Fund A/C>	635,000	0.55
11 Mr John O Wirtz	600,000	0.52
12 Mr Kevin John Holman	524,000	0.45
13 Brencorp No 11 Pty Ltd	500,000	0.43
14 Blackmort Nominees Pty Ltd <20757 Account>	450,000	0.39
15 Capricorn Society Ltd	450,000	0.39
16 Lady Penelope Patricia Street	437,500	0.38
17 Mr Steven Philip Judd	428,508	0.37
18 Mr Mario Leo Volpe	350,233	0.30
19 Elcott Pty Ltd	350,000	0.30
20 Mr Paul Roy <No 1 Account>	340,000	0.29
Total top 20 Ordinary Shareholders	101,160,761	86.87

#### Distribution of Holders and Holdings at 28 February 2005

	ORDINARY SHARES	
	NUMBER OF HOLDERS	SHARES HELD
1 - 1,000	56	43,704
1,001 - 5,000	225	688,033
5,001 - 10,000	86	751,500
10,001 - 100,000	233	9,329,424
100,001 and over	45	105,671,344
<b>Total</b>	<b>645</b>	<b>116,484,005</b>
Holdings of less than a marketable parcel:	232	488,537

## Oriental Technologies Investment Limited – Annual Report 2004

### Shareholder Information (continued)

Substantial shareholders at 28 February 2005 as disclosed in Substantial Shareholder Notices given to the Company

<b>SUBSTANTIAL SHAREHOLDERS</b>	<b>NUMBER OF SHARES</b>	<b>PROPORTION OF ISSUED SHARES</b>
Red Investment & Development Limited	55,500,000	47.65%
Dynamic Ford Limited	23,280,000	19.98%
Wirtz International Operations Inc.	10,884,000	9.34%

### STOCK EXCHANGE LISTING

The Company's ordinary shares are listed on the Australian Stock Exchange.

### SHARE REGISTRAR

Computershare Investor Services Pty Ltd  
Level 3  
60 Carrington Street  
SYDNEY NSW 1115

GPO Box 7045  
SYDNEY NSW 1115

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Investor enquiries: (within Australia)  
(outside Australia)  
Facsimile:

(02) 8234 5400  
1300 855 080  
61 3 9615 5970  
(02) 8234 5050

<b>REGISTERED OFFICE</b>	<b>AUDITORS</b>
Level 19, 2 Market Street Sydney NSW 2000	BDO Level 19 2 Market Street Sydney NSW 2000
Telephone: (02) 9286 5558	Telephone: (02) 9286 5555
Facsimile: (02) 9286 5559	Facsimile: (02) 9286 5599
E-mail: <a href="mailto:orientech@orientech.com.au">orientech@orientech.com.au</a>	

### COMPANY SECRETARY

Ian Morgan B Bus CA ACIS ASIA MAICD