**APPENDIX 4E**

**PRELIMINARY FINAL REPORT GIVEN TO THE ASX UNDER LISTING RULE 4.3A and 2005 ANNUAL REPORT**

**Oriental Technologies Investment Limited ABN 13 060 266 248**

Reporting Period: Year ended 31 December 2005
Previous Reporting Period: Year ended 31 December 2004

**Results for announcement to the market**

| | | | | | |
|---|---|---|---|---|---|
| Revenue from ordinary activities | up | 12.1 | % | to | $35,035,000 |
| Profit(Loss) from ordinary activities after income tax attributable to members | down | n/a | % | to | $(2,395,000) |
| Net profit (loss) for the period attributable to members | down | n/a | % | to | $(2,395,000) |

| Dividends per Share | Amount per share | Franked amount per share at 30% tax |
|---|---|---|
| Final | Nil cents | Nil cents |
| Interim | Nil cents | Nil cents |

It is not proposed to pay dividends and there is no record date for determining entitlements to dividends.

**Explanation**

Refer to the Review of Operations, page 2 of the 2005 Annual Report following this Appendix 4E.

**Income statement and notes**

Refer page 25 of the 2005 Annual Report following this Appendix 4E.

**Balance sheet and notes**

Refer page 26 of the 2005 Annual Report following this Appendix 4E.

**APPENDIX 4E**

**PRELIMINARY FINAL REPORT GIVEN TO THE ASX UNDER LISTING RULE 4.3A and 2005 ANNUAL REPORT**

**Oriental Technologies Investment Limited ABN 13 060 266 248**

Reporting Period: Year ended 31 December 2005
Previous Reporting Period: Year ended 31 December 2004

**Statement of Cash flows and notes**

Refer page 27 of the 2005 Annual Report following this Appendix 4E.

**Details of dividend or distribution reinvestment plans in operation**

There is not a dividend or distribution reinvestment plan in operation.

**Statement of accumulated losses**

Refer to Statement of changes in equity on page 28 of the 2005 Annual Report following this Appendix 4E.

**Other significant information**
Refer to the 2005Annual Report following this report.

**A commentary on results for the period**

Refer to the Review of Operations, page 2 of the 2005 Annual Report following this Appendix 4E.

| | **Current Period (¢)** | Previous corresponding period (¢) |
|---|---|---|
| NET TANGIBLE ASSETS PER ORDINARY SHARE (NTA backing) | **8.9** | 10.4 |

There are no entities over which control has been gained or lost during the period.

There are no associates or joint venture entities

The information contained in this Appendix 4E is based on the Annual report for the year ended 31 December 2005, which has been audited and is attached.

**ORIENTAL TECHNOLOGIES INVESTMENT LIMITED**

**ABN 13 060 266 248**

**ANNUAL REPORT**

**31 DECEMBER 2005**

**ORIENTAL TECHNOLOGIES INVESTMENT LIMITED**

**ANNUAL REPORT 2005**

CONTENTS

## Review of Operations

## Overview

The Company is pleased to report its results for the year ended 31 December 2005.

As previously announced, the delay in the production of this year's financial report is caused by the process of merging the company's 2 subsidiaries (old and new factories) in China, which required the liquidation of Yangzhou Huayang Battery Co Ltd ("YHBC", the old factory) and the transfer of the assets previously owned by YHBC to Yangzhou Apollo Battery Co Limited ("YABC", the new factory). This procedure involves the local government in various stages including approval of the valuation of the assets transferred from YHBC to YABC. The procedure is nearing an end but is still incomplete at the time of reporting.

Net loss attributable to the members of Oriental Technologies Investment Limited for the year ended 31 December 2005 was $2,395,000, representing a change from last year's profitable result (2004: $339,000). Revenue for 2005 was $35.0M, an increase of 12% over the previous period (2004: $31.3M).

The loss compared with 2004 is predominantly due to:

- Impairment of property, plant & equipment totalling $2,047,000 (2004: $Nil);
- Increased depreciation & amortisation totalling $2,112,000 (2004: $991,000) as operation of the new factory commences; and
- Higher finance costs totalling $655,000 (2004: $178,000) due to increased borrowings required to fund construction of the new factory.

The cash flow from operations has been healthy during the year.

## China Operation

For the year ended on 31 December 2005, the Company's operation in China completed the construction of its new factory and the relocation of operations from its old factory. The integrated operation at the new location is more efficient and technologically advanced. This marks a new era for the Company's battery making operation in China.

A vigorous employee training program has resulted in productivity improvement and raw materials wastage reduction while maintaining consistent product quality. Improved working conditions also helped stabilise the workforce.

Demand for SLI batteries in the Company's traditional markets, Europe and Australia, was stable during the year.

While the Company implemented price increases to recover margin during the reporting period, its customer base in Europe and Australia remained stable.

Bank credits remain extremely tight for the period as the Chinese government's effort to contain the economic growth rate intensified. Working capital limitation continued to restrict the Company's ability to reach its full potential.

After relaxation of the foreign exchange control by the Chinese authority in July 2005, the Chinese currency Rmb appreciated approximately 2.4% by year-end against the US dollar. Rmb has appreciated a further 0.8% in the first half of 2006, confirming the trend for the near future. As the Company exports most of its products from China, this currency movement adversely affected the Company's result.

In 2005, lead price in China moved in step with the LME price. It stayed generally stable throughout the year except in December when increased volatility returned to the market. Between December 2005

## Review of Operations (continued)

and May 2006, LME lead price moved in rapid succession from US$1,070/tonne to US$1,448/tonne and back to where it started in the space of 6 months.

The Company has adopted a more flexible pricing policy to adapt to the constantly changing environment. The more responsive approach of lead indexed pricing helped the Company to a certain degree to protect its margins in a volatile market. For the first half of 2006, the lead price trended downwards from its peak in February. This has helped the Company's operation in China to further strengthen its market position and recover some of the margins previously eroded by the high raw material costs.

## Capital Injection by a Minority shareholder in YABC

As announced earlier this year, the Company welcomed the decision by one of the minority shareholders in YABC to inject US$4m fresh capital into YABC. Together with the merger of YHBC, the enlarged YABC will be properly capitalised for its current level of operation and satisfy the local authority and financial institutions for their continued support. This restructuring is still on-going at the moment and when finished, OTI's shareholding in YABC will be diluted but retains majority control.

## Profit Share Re-negotiation

In December 2005, the liquidators of China Venturetechno International Co Limited (CVIC, holder of the 20% profit share right) sold CVIC together with the profit share right to a company in Hong Kong. Since then a dialogue has been developed between the Company and the new owner of CVIC in relation to the profit share.

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, 21 August 2006

Gerard McMahon
Chairman of the Board

## Directors' Report

The Directors of Oriental Technologies Investment Limited present their report on the Company for the financial year ended 31 December 2005.

**Directors**

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

| | | **Date Appointed** |
|---|---|---|
| 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 (resigned 22 December 2005) |
| Christopher Corrigan | | 26 July 2000 (resigned 31 December 2005) |
| 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, unless otherwise indicated.

**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 28 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.

Mr McMahon is a director of the following companies listed on the Hong Kong Stock Exchange:

- Guangnan (Holdings) Limited (appointed June 1999); and
- Techwayson (Holdings) Limited (appointed 10 May 2006).

Mr McMahon is also a director of Indonesian Investment Fund Limited (appointed 10 December 2001), which is listed on the Irish Stock Exchange.

Mr McMahon was a director of RNA Holdings Limited (listed Hong Kong Stock Exchange) for the period 9 December 2004 to 8 January 2005.

*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.

*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.

*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.

*Yong Bao*

Executive Director

Mr Bao was 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 was the General Manager of Hua Yang since its inception.

Mr Bao resigned as a director of Oriental Technologies Investment Limited on 22 December 2005.

*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.

Until recently, Mr Corrigan was 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.

Mr Corrigan was a director of Patrick Corporation Limited for the period 22 March 1990 to 15 May 2006; and is a director of Publishing and Broadcasting Limited (appointed 8 March 2006).

Mr Corrigan resigned as a director of Oriental Technologies Investment Limited on 31 December 2005.

**Company Secretary**

Mr. Ian Morgan was appointed to the position of company secretary of the Company on 31 December 2003. Mr Morgan is an experienced company secretary and is company secretary for other Australian listed public companies. He is also a member of Chartered Secretaries Australia.

**Officers who were previously partners of the audit firm**

No person was an officer of the Company during the financial year and previously a partner of the current audit firm, BDO.

**Remuneration Report -AUDITED**

*Principles of compensation*

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Compensation levels for key management personnel and secretaries of the entity, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The entity does not establish any relationship between remuneration and the entity's performance. No director or executive has an entitlement to a termination payment, other than any statutory payment made in lieu of notice at the existing rate of pay.

Key management personnel, as defined by AASB 124, were not issued with any equity instruments as compensation during the financial year ended 31 December 2005 (2004 Nil).

*Remuneration of directors and specified executives*

The remuneration structure for key management personnel, 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;

## Directors' Report (continued)

**Remuneration Report (AUDITED) (continued)**

- 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 any executive share option scheme operated by or to be established by 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;
    - 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.

## Directors' Report (continued)

**Remuneration Report (AUDITED) (continued)**

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the four named Company executives and relevant group executives who receive the highest remuneration are:

| | | Short-term | | | | Post-employment | Other long term | Termination benefits | Share-based payments | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees $ | Cash bonus $ | Non-monetary benefits $ | Total | Super-annuation benefits $ | $ | | Options and rights) $ | | | |
| **Directors** | | | | | | | | | | | | |
| **Non-executive** | | | | | | | | | | | | |
| Gerard McMahon (Chairperson) | 2005 | 24,000 | - | - | 24,000 | 2,160 | - | - | - | 2,160 | - | - |
| | 2004 | 24,000 | - | - | 24,000 | 2,160 | - | - | - | 2,160 | - | - |
| Lawrence L Xin | 2005 | - | - | - | - | - | - | - | - | - | - | - |
| | 2004 | - | - | - | - | - | - | - | - | - | - | - |
| Steve S Xin | 2005 | - | - | - | - | - | - | - | - | - | - | - |
| | 2004 | - | - | - | - | - | - | - | - | - | - | - |
| Patrick TK Ma | 2005 | - | - | - | - | - | - | - | - | - | - | - |
| | 2004 | - | - | - | - | - | - | - | - | - | - | - |
| Christopher Corrigan (resigned 31 December 2005) | 2005 | 24,000 | - | - | 24,000 | 2,160 | - | - | - | 2,160 | - | - |
| | 2004 | 24,000 | - | - | 24,000 | 2,160 | - | - | - | 2,160 | - | - |
| **Executives** | | | | | | | | | | | | |
| George Su Su, Managing Director | 2005 | 48,000 | - | - | 48,000 | 4,320 | - | - | - | 4,320 | - | - |
| | 2004 | 48,000 | - | - | 48,000 | 4,320 | - | - | - | 4,320 | - | - |
| Yong Bao General Manager (resigned as a Director 22 December 2005) | 2005 | 37,221 | - | - | 37,221 | - | - | - | - | - | - | - |
| | 2004 | 10,042 | - | - | 10,042 | - | - | - | - | - | - | - |
| Chunyang Qiu | 2005 | - | - | - | - | - | - | - | - | - | - | - |
| | 2004 | - | - | - | - | - | - | - | - | - | - | - |

## Directors' Report (continued)

**Remuneration Report (AUDITED) (continued)**

| | | Short-term | | | | Post-employment | Other long term | Termination benefits | Share-based payments | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees $ | Cash bonus $ | Non-monetary benefits $ | Total | Super-annuation benefits $ | $ | | Options and rights $ | | | |
| **Executives** | | | | | | | | | | | | |
| Ian Morgan (Company Secretary) (Note 1) | 2005 | - | - | - | - | - | - | - | - | - | - | - |
| | 2004 | - | - | - | - | - | - | - | - | - | - | - |
| **Total compensation: key management personnel (consolidated)** | 2005 | 133,221 | - | - | 133,221 | 8,640 | - | - | - | 8,640 | - | - |
| | 2004 | 106,042 | - | - | 106,042 | 8,640 | - | - | - | 8,640 | - | - |
| **Total compensation: key management personnel (company)** | 2005 | 96,000 | - | - | 96,000 | 8,640 | - | - | - | 8,640 | - | - |
| | 2004 | 96,000 | - | - | 96,000 | 8,640 | - | - | - | 8,640 | - | - |

Note 1: For the year ended 31 December 2005, the Company paid $28,864 (2004 $16,200) to an entity related to Mr Ian Morgan for the provision of company secretarial services.

End of Audited Section of Directors' Report

**Share Options**

The Orientech Employee Share Option Plan was approved by shareholders on 6th 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. The 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 this 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.

Options were issued to, and are held by:

| | **Number of Options Held 1 January 2005** | **Exercised** | **Granted** | **Expired** | **Number of Options Held 31 December 2005** |
|---|---|---|---|---|---|
| Series 1 options | 5,000,000 | 400,000 | - | 4,600,000 | - |
| Series 2 options | - | - | 200,000 | - | 200,000 |

There are two hundred thousand unissued ordinary shares for which options are outstanding at the date of this report.

*Series 1 options*

Oriental Technologies Investment Limited issued 5,000,000 options over unissued shares under the Orientech Employee Share Option Plan on 24 November 2000. Details of these 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). |

400,000 of these options were exercised during the financial year (2004 Nil). The remaining 4,600,000 options expired on 23 November 2005.

*Series 2 options*

Oriental Technologies Investment Limited issued a further 200,000 options over un-issued shares under the Orientech Employee Share Option Plan on 18 May 2005. Details of the options granted are:

| | |
|---|---|
| Exercise Period: | Within the five-year period ending on 17 May 2010. |
| Exercise Price: | 9.9 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). |

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

| | Number of ordinary shares | | |
|---|---|---|---|
| **Director** | **Beneficial** | **Non-Beneficial** | **Total** |
| Gerard McMahon | - | - | - |
| Lawrence L Xin | - | 55,500,000 | 55,500,000 |
| George Su Su | - | - | - |
| Patrick T K Ma | - | 55,500,000 | 55,500,000 |
| Chunyang Qiu | - | - | - |
| Steve S Xin | - | 55,500,000 | 55,500,000 |

**<u>Directors' Meetings</u>**

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 | - | - | - |
| Christopher Corrigan | 6 | 2 | - | - |
| Patrick T K Ma | 6 | - | - | - |
| Chunyang Qiu | 6 | 5 | - | - |
| Steve S Xin | 6 | - | - | - |

**<u>Principal Activities</u>**

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

## Directors' Report (continued)

**Non Audit Services**

Details of amounts paid to the Auditor for non Audit services provided during the year are set out in Note 11 to the financial statements. The Directors are satisfied that the provision of these non Audit services is compatible with the general standard of independence for the auditors imposed by the Corporations Act 2001 because:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1*Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

**Operating Results**

Net loss attributable to members of Oriental Technologies Investment Limited for the financial year was $2,395,000 (2004 $339,000 profit).

**Dividends**

The Directors do not recommend the payment of a dividend (2004 $Nil). No dividends have been paid or declared since the start of the financial year (2004 $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.

**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.

**Subsequent Events**

Except as stated in Note 32 to the Financial Statements, 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.

## Directors' Report (continued)

**<u>Proceedings on Behalf of Company</u>**

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.

**<u>Indemnification of Officers and Auditors</u>**

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

The Company has paid a premium of $22,472 (2004 $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 as Director, Secretary or Executive Officer of the Company other than conduct involving a wilful breach of duty in relation to the Company.

**<u>Lead auditor's independence declaration</u>**

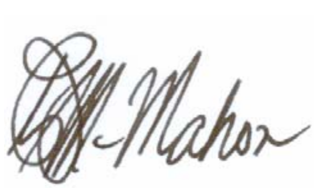
The Lead auditor's independence declaration is set out on page 24 and forms part of the directors' report for the financial year ended 31 December 2005.

**<u>Rounding Off of Amounts</u>**

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 21 August 2006

Signed in accordance with a resolution of the Directors



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 four non-executive independent Directors including the Chairman and two 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 47.5% 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;

- 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.

The Board comprises four non-executive independent Directors (Messrs Gerard McMcMahon appointed 7 April 2000, Lawrence Luo-lin Xin appointed 24 December 1999, Patrick Ting Keung Ma appointed 24 December 1999, Steve Shulin Xin appointed 24 December 1999) and two executive Directors (Messrs George Su appointed 17 February 1995 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.

## 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.

## 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.

As required by section 307C of the Corporations Act 2001, the Company's Auditor provides the Company with a declaration of the auditor's independence from the Company.

*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.

## 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 McMahon and Lawrence Luo-lin Xin). The Chairman of the Audit Committee is also the Chairman of the Board (Mr Gerard McMahon).

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.

**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 conduct of the audit and the preparation and content of the Auditor's Report.

**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.

*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.

## 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.

Chartered Accountants
& Advisers

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**DECLARATION OF INDEPENDENCE BY D S MCLEAN TO THE DIRECTORS OF ORIENTAL TECHNOLOGIES LIMITED**

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

**D S McLean**
Partner

**BDO**
Chartered Accountants

Dated in Sydney this 21st day of August, 2006

## Income Statements for the Year Ended 31 December 2005

| | Notes | Consolidated Entity 2005 | Consolidated Entity 2004 $'000 | Parent Entity 2005 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|---|---|
| Revenue | 6 | **35,035** | 31,266 | **12** | 2,870 |
| Other income | 7 | **176** | 1,107 | **-** | 191 |
| Changes in inventories of finished goods and work in progress | | **(296)** | 651 | **-** | - |
| Raw materials and consumables used | | **(31,097)** | (29,723) | **-** | - |
| Employee benefits expense | 8.1 | **(1,036)** | (1,110) | **(171)** | (113) |
| Depreciation and amortisation expense | 8.1 | **(2,112)** | (991) | **(3)** | (2) |
| Impairment of property, plant and equipment | 8.1 | **(2,047)** | - | **-** | - |
| Impairment of investment in subsidiary | 8.1 | **-** | - | **(851)** | |
| Other expenses | 8.2 | **(698)** | (677) | **(481)** | (542) |
| Finance costs | 8.1 | **(655)** | (178) | **-** | - |
| **(Loss)/Profit before income tax** | | **(2,730)** | 345 | **(1,494)** | 2,404 |
| Income tax (expense) / benefit | 9 | **(121)** | 13 | **-** | - |
| **(Loss)/Profit for the year** | | **(2,851)** | 358 | **(1,494)** | 2,404 |
| Loss / (Profit) attributable to minority interest | | **456** | (19) | **-** | - |
| **(Loss)/Profit attributable to members of the parent** | 24 | **(2,395)** | 339 | **(1,494)** | 2,404 |

| | Notes | Cents | Cents |
|---|---|---|---|
| **Basic (Loss)/Earnings per share** | | | |
| (Loss)/Profit from continuing operations attributable to the ordinary equity holders of the Company | 10 | **(2.05)** | 0.29 |
| Profit from discontinued operations | | **-** | - |
| (Loss)/Profit attributable to the ordinary equity holders of the Company | | **(2.05)** | **0.29** |
| **Diluted (Loss)/Earnings per share** | | | |
| (Loss)/Profit from continuing operations attributable to the ordinary equity holders of the Company | 10 | **(2.05)** | 0.28 |
| Profit from discontinued operations | | **-** | - |
| (Loss)/Profit attributable to the ordinary equity holders of the Company | | **(2.05)** | **0.28** |

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

**Balance Sheets as at 31 December 2005**

| | | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|---|
| | | **2005** | 2004 | **2005** | 2004 |
| | **Note** | **$'000** | $'000 | **$'000** | $'000 |
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 12 | **2,162** | 2,194 | **157** | 27 |
| Trade and other receivables | 13 | **2,690** | 3,425 | **21** | 244 |
| Inventories | 14 | **2,207** | 2,214 | **-** | - |
| **Total current assets** | | **7,059** | 7,833 | **178** | 271 |
| **Non-current assets** | | | | | |
| Other financial assets | 15 | **-** | - | **11,345** | 12,196 |
| Deferred tax assets | 17 | **73** | - | - | - |
| Property, plant and equipment | 18 | **19,539** | 20,044 | **31** | 34 |
| Intangible assets | 19 | **494** | 494 | **-** | - |
| **Total non-current assets** | | **20,106** | 20,538 | **11,376** | 12,230 |
| **Total assets** | | **27,165** | 28,371 | **11,554** | 12,501 |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | **3,221** | 3,806 | **704** | 182 |
| Interest-bearing liabilities | 21 | **11,794** | 10,813 | **-** | - |
| Current tax liabilities | | **93** | - | **-** | - |
| Provisions | 22 | **1,111** | 1,112 | **1,111** | 1,112 |
| **Total current liabilities** | | **16,219** | 15,731 | **1,815** | 1,294 |
| **Total liabilities** | | **16,219** | 15,731 | **1,815** | 1,294 |
| **Net assets** | | **10,946** | 12,640 | **9,739** | 11,207 |
| **EQUITY** | | | | | |
| Contributed equity | 23 | **27,892** | 27,870 | **27,892** | 27,870 |
| Other reserves | 24 | **1,231** | 319 | **4** | - |
| Accumulated Losses | 24 | **(20,478)** | (18,084) | **(18,157)** | (16,663) |
| Parent entity interest | | **8,645** | 10,105 | **9,739** | 11,207 |
| Minority interest | 25 | **2,301** | 2,535 | **-** | - |
| **Total equity** | | **10,946** | 12,640 | **9,739** | 11,207 |

The above balance sheets should be read in conjunction with the accompanying notes.

## Statements of Cash Flows for the Year Ended 31 December 2005

| | Note | Consolidated Entity 2005 $'000 | Consolidated Entity 2004 $'000 | Parent Entity 2005 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | | **36,499** | 30,927 | **-** | - |
| Cash paid to suppliers and employees | | **(35,010)** | (28,769) | **(596)** | (294) |
| Interest received | | **25** | 63 | **12** | 5 |
| Legal claim received | | **697** | - | **191** | - |
| Interest paid | | **(655)** | (178) | **-** | - |
| Income taxes paid | | **(101)** | (303) | **-** | - |
| **Net cash inflow / (outflow) from operating activities** | 28 | **1,455** | 1,740 | **(393)** | (289) |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | **(1,737)** | (10,878) | **-** | (36) |
| Proceeds from sale of property, plant and equipment | | **120** | 27 | **-** | - |
| Refund for security deposits | | **-** | - | **-** | 8 |
| **Net cash outflow from investing activities** | | **(1,617)** | (10,851) | **-** | (28) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of shares | | **23** | - | **23** | - |
| Repayment of borrowings | | **(64)** | - | **-** | - |
| Proceeds from borrowings | | **-** | 4,326 | **500** | - |
| **Net cash inflow/(outflow) from financing activities** | | **(41)** | 4,326 | **523** | - |
| Net (decrease) / increase in cash and cash equivalents | | **(203)** | (4,785) | **130** | (317) |
| Net foreign exchange differences | | **171** | (33) | **-** | - |
| Cash and cash equivalents at beginning of year | | **2,194** | 7,012 | **27** | 344 |
| **Cash at the end of the financial year** | 12 | **2,162** | 2,194 | **157** | 27 |

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

**Statements of Changes in Equity for the Year Ended 31 December 2005**

| | Issued capital | Accumulated Losses | Other reserves | Total | Minority interest (note 25) | Total equity |
|---|---|---|---|---|---|---|
| **CONSOLIDATED ENTITY** | | | | | | |
| **At 1 January 2004** | 27,870 | (18,080) | 454 | 10,244 | 2,564 | 12,808 |
| Foreign currency translation differences | - | - | (427) | (427) | (107) | (534) |
| Other | - | 4 | - | 4 | 22 | 26 |
| Provision for Profit share payment | - | (55) | - | (55) | - | (55) |
| **Total income and expense for the year recognised directly in equity** | - | **(51)** | **(427)** | **(478)** | **(85)** | **(563)** |
| Profit for the year | - | 339 | - | 339 | 19 | 358 |
| **Total income and expense for the year** | - | **288** | **(427)** | **(139)** | **(66)** | **(205)** |
| Transfer (from)/to (Accumulated losses)/General Reserve | - | (292) | 292 | - | - | - |
| Share issue | - | - | - | - | 37 | 37 |
| **At December 2004** | **27,870** | **(18,084)** | **319** | **10,105** | **2,535** | **12,640** |
| Foreign currency translation differences | - | - | 908 | 908 | 223 | 1,131 |
| Other | - | 1 | - | 1 | (1) | - |
| **Total income and expense for the year recognised directly in equity** | - | **1** | **908** | **909** | **222** | **1,131** |
| Loss for year | - | (2,395) | - | (2,395) | (456) | (2,851) |
| **Total income and expense for year** | - | **(2,394)** | **908** | **(1,486)** | **(234)** | **(1,720)** |
| Exercising of executive share options | 22 | - | - | 22 | - | 22 |
| Share based payments | - | - | 4 | 4 | - | 4 |
| **At 31 December 2005** | **27,892** | **(20,478)** | **1,231** | **8,645** | **2,301** | **10,946** |

| | Issued capital | Accumulated Losses | Other reserves | Total | Minority interest (note 25) | Total equity |
|---|---|---|---|---|---|---|
| **PARENT** | | | | | | |
| **At 1 January 2004** | 27,870 | (19,012) | - | 8,858 | - | 8,858 |
| Provision Profit share payment | - | (55) | - | (55) | - | (55) |
| **Total income and expense for the year recognised directly in equity** | - | **(55)** | **-** | **(55)** | **-** | **(55)** |
| Profit for the year | - | 2,404 | - | 2,404 | - | 2,404 |
| **Total income and expense for the year** | - | 2,349 | - | 2,349 | - | 2,349 |
| **At December 2004** | **27,870** | **(16,663)** | **-** | **11,207** | **-** | **11,207** |
| **Total income and expense for the year recognised directly in equity** | - | - | - | - | - | - |
| Loss for the year | - | (1,494) | - | (1,494) | - | (1,494) |
| **Total income and expense for the year** | - | **(1,494)** | - | **(1,494)** | - | **(1,494)** |
| Exercising of executive share options | 22 | - | - | 22 | - | 22 |
| Share based payments | - | - | 4 | 4 | - | 4 |
| **At 31 December 2005** | **27,892** | **(18,157)** | **4** | **9,739** | **-** | **9,739** |

The above statements of changes in equity should be read in conjunction with the accompanying notes

**Notes to and forming part of the financial statements for the year ended 31 December 2005**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### NOTE 1 CORPORATE INFORMATION

The financial report of Oriental Technologies Investment Limited for the year ended 31 December 2005 was authorised for issue in accordance with a resolution of the directors on 15 August 2006 and covers Oriental Technologies Investment Limited as an individual entity as well as the consolidated entity consisting of Oriental Technologies Investment Limited and its subsidiaries as required by the Corporations Act 2001.

The financial report is presented in Australian currency.

Oriental Technologies Investment Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The address of the registered office and principal place of business is Level 19, 2 Market Street, Sydney, NSW 2000.

For the name of the parent and the ultimate parent of the group, refer Note 30 Related Party Transactions.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of Preparation**

The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The historical cost basis has been used, including land and buildings which have been measured at cost.

Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared under AIFRS and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements. Comparatives for the year ended 31 December 2004 have been restated accordingly.

Reconciliations of AIFRS equity and profit for the year ended 31 December 2004 to the balances reported in the 31 December 2004 financial report are detailed in Note 33.

**(b) Going Concern**

Notwithstanding the deficiency of net 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.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Going Concern (continued)

The People's Republic of China Government has the power to reject Yangzhou Apollo Battery Co Limited's ("YABC") business registration in the event that YABC does not maintain a minimum issued capital. The Company's directors believe that rejection of YABC's business registration is unlikely. Further details are included in Note 32.

### (c) Basis of Consolidation

*Subsidiaries*
The consolidated financial statements comprise of the financial statements of Oriental Technologies Investment Limited and its subsidiaries at 31 December each year ("the Group"). Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Subsidiaries are accounted for in the parent entity financial statements at cost, less impairment write downs.

### (d) Business Combinations

The purchase method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued, the value of the equity instruments is their published market price as at the date of exchange unless, in rare circumstances it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired, liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill (refer Note 2(n)). If the cost of acquisition is less than the Group's share of the fair value of the net assets acquired, the difference is recognised in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

### (e) Foreign Currency Translation

The functional currency of Oriental Technologies Investment Limited is Australian Dollars and that of its Chinese subsidiaries is Chinese Renminbi (RMB). The presentation currency is Australian dollars (AUD).

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Foreign Currency Translation (continued)**

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in the income statement.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

The functional currency of the overseas subsidiaries is RMB. At reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Oriental Technologies Investment Limited at the closing rate at balance sheet date and income and expenses are translated at the average exchange rates for the year. All resulting exchange differences are recognised as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange difference recognised in the foreign currency translation reserve relating to that particular foreign operation is recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**(f) Revenue Recognition**

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of Goods*
Revenue from sale of lead acid batteries is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to the buyer when goods have been delivered to the customer.

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

*Dividends*
Dividends are recognised when the Group's right to receive payment is established.

**(g) Income Tax**

The income tax expense for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Income Tax (continued)**

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in equity are also recognised directly in equity.

Oriental Technologies Investment Limited and its Australian wholly-owned subsidiary have implemented the tax consolidation legislation for the whole of the financial year. Oriental Technologies Investment Limited is the head entity in the tax consolidated group. The stand-alone taxpayer approach has been used to allocate current income tax expense and deferred tax balances to wholly-owned subsidiaries that form part of the tax consolidated group. Oriental Technologies Investment Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year.

**(h) Impairment of Assets**

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the income statement where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs.

**(i) Cash and Cash Equivalents**

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

**(j) Trade Receivables**

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts. They have repayment terms between 30 and 60 days. Collectibility of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Inventories**

*Raw Materials, Work in Progress and Finished Goods*
Inventories are stated at the lower of cost and net realisable value. Cost comprises of all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

**(l) Property, Plant and Equipment**

All land useage rights, buildings, plant and equipment are stated at historical cost. This includes costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation and any impairments.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| | |
|---|---|
| - Land usage rights | 2% per annum |
| - Leasehold buildings | 4.5% per annum |
| - Plant & Equipment | 3% - 27% per annum |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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.

Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and is included in the income statement in the period that the item is derecognised.

**(m) Leases**

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases and capitalised at inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Intangible Assets**

*Goodwill*
Goodwill represents the excess of the cost of the business combination over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is not amortised but is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses on goodwill cannot be reversed.

**(o) Trade and Other Payables**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms.

**(p) Borrowings**

Bank loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(q) Other Liabilities**

Other liabilities comprise current amounts due to related parties that do not bear interest and are repayable at call.

**(r) 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 are in progress.

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

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is 1.0% (2004 3.4%).

Borrowing costs include interest on short term borrowings.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(s) Provisions**

Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

**(t) Employee Benefit Provisions**

*Wages and Salaries and Annual Leave*
Provision is made for the Group's liabilities for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within 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.

**(u) Contributed Equity**

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

**(v) Share-Based Payments**

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for options over shares ("equity-settled transactions"). The following plan is currently in place to provide these benefits:
- the Orientech Employee Share Option Plan (ESOP) which provides benefits to employees.

*Share Options Granted Before 7 November 2002 and/or Vested Before 1 January 2005*
No expense has been recognised in respect of options granted before 7 November 2002. Shares are recognised when options are exercised and the proceeds received are allocated to share capital.

*Share Options Granted on or After 7 November 2002 and Vested After 1 January 2005*
The fair value of options granted under the Orientech Employee Share Option Plan are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Oriental Technologies Investment Limited ("market conditions"). This expense is recognised at grant date, when these options also vest.

Where the terms of options are modified, a further expense is recognised for any increase in fair value of the transaction.

If new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(w) 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.

The 200,000 options granted on 18 May 2005 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 31 December 2005. These options could potentially dilute basic earnings per share in the future.

**(x) Accounting Standards Issued But Not Yet Effective**

There are no Australian Accounting Standards issued but not yet effective that would materially impact upon the financial statements.

**(y) Rounding of Amounts**

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to rounding of amounts in the financial report. Amounts have been rounded to the nearest thousand dollars ($'000) unless otherwise stated.

## NOTE 3 RISK MANAGEMENT POLICIES AND OBJECTIVES

Activities undertaken by Oriental Technologies Investment Limited and its subsidiaries may expose the Group to market risk, credit risk, liquidity risk and fair value and cash flow interest rate risk. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material.

**Market risk**

Market risk essentially comprises the following:

**Lead price risk**

The Group has exposure to movements in the US dollar and Chinese renminbi. Lead is the major raw material used to manufacture lead acid batteries. Lead is priced in US dollars. Local costs use Chinese renimnbi.

From 1994 until July 2005, the Chinese policy on currency has been to peg informally the value of the renminbi against the value of the US dollar.

The People's Bank of China announced that, from July 2005, the renminbi would be pegged to a basket of foreign currencies, rather than being strictly tied to the US dollar, and would trade within a narrow 0.3 percent band against this basket of currencies.

The People's Republic of China ("PRC") has stated that this basket is dominated by the U.S. dollar, euro, Japanese yen and South Korean won, with a smaller proportion made up of the British pound, Thai baht, Russian ruble, Australian dollar, Canadian dollar and Singaporean dollar.

The law of the PRC prohibits the Group from hedging against foreign currency exposures in China. However, the Group consistently seeks to pass on any US dollar lead price increases to customers.

**Credit risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Group.

There is no concentration of credit risk with respect to current and non-current receivables as the Group has a large number of customers, dispersed internationally. Group policy is that sales are only made to customers that are credit worthy.

**Liquidity risk**

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g borrowing repayments. It is the policy of the Board of Directors that the Group maintain adequate committed credit facilities.

**Fair value and cash flow interest rate risk**

The Group's cash flow interest rate risk arises from long-term borrowings with variable interest rates, the Group's fair value interest rate risk arises from long-term borrowings with fixed interest rates.

At balance date all borrowings were current liabilities and therefore management believes that there was no major risk in respect of fair value and cash flow interest rate risk.

## NOTE 4 ACCOUNTING ESTIMATES AND JUDGEMENTS

### Critical judgements

In the application of AIFRS management is required to make judgments, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

*Income Tax*
The Group is subject to income taxes in Australia and China. Significant judgement is required in determining the provisioning for income taxes. The Group recognises liabilities for anticipated tax based upon estimates of whether taxes will be due. Where the final tax outcome of these matters is different from the amount initially recorded, such differences will impact the current and deferred income tax provisions in the period in which the determination is made.

### Critical accounting estimates and assumptions

Details of critical accounting estimates and assumptions about the future made by management at the reporting date are set out below:

*Goodwill*
Note 19 includes details about specific estimates made to determine whether there has been any impairment to goodwill.

## NOTE 5 SEGMENT REPORTING

### Description of segments

The Group's primary reporting format is geographical segments. Secondary reporting by business segment is not necessary, due to the nature of this operation.

Although managed globally, the Group operates in three principal geographical areas – China, Australia and Europe. The composition of each geographical segment is as follows:

China - Oriental Technologies Investment Limited operates a lead acid battery manufacturing plant in China and makes local sales.

Europe and Australia - Oriental Technologies Investment Limited exports a broad range of its products to Europe and Australia.

**Primary reporting format - Geographical segments**

**2005**

| | Europe $'000 | Australia $'000 | China $'000 | Other $'000 | Total continuing operations $'000 | Intersegment eliminations/ Unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Sales to external customers | 19,801 | 9,629 | 734 | 4,846 | 35,010 | - | 35,010 |
| Total sales revenue | 19,801 | 9,629 | 734 | 4,846 | 35,010 | - | 35,010 |
| Other revenue/income | - | - | - | - | - | 201 | 201 |
| Total segment revenue/income | 19,801 | 9,629 | 734 | 4,846 | 35,010 | 201 | 35,211 |
| **Result** | | | | | | | |
| Segment result | 828 | 403 | 31 | 202 | 1,464 | (4,194) | (2,730) |
| Loss before income tax | | | | | | | (2,730) |
| Income tax expense | | | | | | | (121) |
| Net loss for the year | | | | | | | (2,851) |

**2004**

| | Europe $'000 | Australia $'000 | China $'000 | Other $'000 | Total continuing operations $'000 | Intersegment eliminations/ Unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Sales to external customers | 25,841 | 4,259 | 1,076 | 27 | 31,203 | - | 31,203 |
| Total sales revenue | 25,841 | 4,259 | 1,076 | 27 | 31,203 | - | 31,203 |
| Other revenue/income | - | - | - | - | - | 1,170 | 1,170 |
| Total segment revenue/income | 25,841 | 4,259 | 1,076 | 27 | 31,203 | 1,170 | 32,373 |
| **Result** | | | | | | | |
| Segment result | 798 | 131 | 33 | 1 | 963 | (618) | 345 |
| Profit before income tax | | | | | | | 345 |
| Income tax benefit | | | | | | | 13 |
| Net profit for the year | | | | | | | 358 |

## NOTE 5 SEGMENT REPORTING (continued)

The costs of the holding company, which are included above as unallocated, are in respect of the business in China and costs incurred in respect of that business.

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

(i) A split between segmental depreciation, 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 18 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.

**Other Disclosures**

*Segment accounting policies*
Segment information is prepared in conformity with the accounting policies used as disclosed in Note 5 and accounting standard AASB 114 Segment Reporting.

Segment revenues and expenses are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

## NOTE 6 REVENUE

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| **From continuing operations** | | | | |
| Sale of goods | **35,010** | 31,203 | **-** | - |
| Interest | **25** | 63 | **12** | 5 |
| Dividend from subsidiary | **-** | - | **-** | 2,865 |
| | **35,035** | 31,266 | **12** | 2,870 |

## NOTE 7 OTHER INCOME

| | | | | |
|---|---|---|---|---|
| Repayment of debt from former subsidiary, previously written off | **-** | 697 | **-** | 191 |
| Tax rebate | **-** | 235 | **-** | - |
| Foreign currency gain | **148** | 66 | **-** | - |
| Other | **28** | 109 | **-** | - |
| | **176** | 1,107 | **-** | 191 |

## NOTE 8.1 EXPENSES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| (Loss)/Profit before income tax includes the following specific expenses: | | | | |
| *Amortisation expense* | | | | |
| Land use rights | **23** | 43 | **-** | - |
| | **23** | 43 | **-** | - |
| *Depreciation expense* | | | | |
| Buildings | **258** | 48 | **-** | - |
| Plant and equipment | **1,831** | 900 | **3** | 2 |
| | **2,089** | 948 | **3** | 2 |
| | **2,112** | 991 | **3** | 2 |
| *Impairment* | | | | |
| Property plant and equipment | **2,047** | - | **-** | - |
| Investment in subsidiary | **-** | - | **851** | - |
| | **2,047** | - | **851** | - |
| Employee benefits | **1,036** | 1,110 | **171** | 113 |
| *Finance Costs* | | | | |
| Interest paid/payable | **692** | 393 | **-** | - |
| | **692** | 393 | **-** | - |
| Less Amount capitalised | **(37)** | (215) | **-** | - |
| | **655** | 178 | **-** | - |
| Defined contribution superannuation expense | **9** | 9 | **9** | 9 |

## NOTE 8.2 EXPENSES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| (Loss)/Profit before income tax includes the following specific expenses: | | | | |
| Technical and advisory fees | **219** | 356 | **219** | 356 |
| General & administrative costs | **400** | 215 | **262** | 186 |
| Bank Charges | **18** | 16 | **-** | - |
| Operating lease rental | **58** | 57 | **-** | - |
| Bad and doubtful debts | **-** | 30 | **-** | - |
| Other expenses | **3** | 3 | **-** | - |
| | **698** | 677 | **481** | 542 |

## NOTE 9 INCOME TAX EXPENSE

| | Consolidated Entity 2005 $'000 | Consolidated Entity 2004 $'000 | Parent Entity 2005 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|---|
| **Current tax expense** | | | | |
| Current tax expense | **(194)** | (17) | **-** | - |
| Total current income tax expense | **(194)** | (17) | **-** | - |
| **Deferred tax (expense)/benefit** | | | | |
| Origination and reversal of temporary differences | **73** | 30 | **-** | - |
| Total income tax (expense)/ benefit in income statement | **(121)** | 13 | **-** | - |

Oriental Technologies Investment Limited is entitled to a Chinese tax refund if any dividend receivable from its Chinese subsidiaries is not remitted overseas; but re-invested in China. The deferred tax expense has been measured using the tax rates applicable to undistributed profit. If all the undistributed profits in these subsidiaries were remitted overseas as dividends, there is no potential income tax consequence different to that disclosed. The Group has applied the Chinese tax rate (12%) assuming that any dividend is remitted overseas to Oriental Technologies Investment Limited and no Chinese tax would be refunded. It is not practicable to determine the potential income tax consequence of any dividend re-investment in China.

| | Consolidated Entity 2005 $'000 | Consolidated Entity 2004 $'000 | Parent Entity 2005 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|---|
| **Reconciliation of the effective tax rate** | | | | |
| (Loss)/Profit from continuing operations before income tax expense | **(2,730)** | 345 | **(1,494)** | 2,404 |
| | **(2,730)** | 345 | **(1,494)** | 2,404 |
| Prima facie tax benefit/(expense) at the Australian tax rate of 30% (2004: 30%) | **819** | (104) | **448** | (721) |
| Non-taxable income: | | | | |
| - non-taxable dividends | **-** | - | **-** | 723 |
| Investment in subsidiary written off | **-** | - | **(255)** | - |
| Impairment of property, plant and equipment | **(614)** | - | **-** | - |
| Non deductible losses and tax offset not recognised as a deferred tax asset | **(193)** | - | **(193)** | - |
| Overseas non deductible expenses | **(199)** | - | **-** | - |
| Previously unrecognised tax offsets now recognised as a deferred tax (liability)/asset | **-** | 30 | **-** | - |
| Other | **-** | 68 | **-** | (2) |
| | **(187)** | (6) | **-** | - |
| Adjustment to reflect income tax payable at 12% for subsidiary in China | **66** | 19 | **-** | - |
| Income tax (expense)/benefit at effective tax rate of 4.4% (2004: 3.8%) | **(121)** | 13 | **-** | - |

## NOTE 10 (LOSS)/EARNINGS PER SHARE

**Reconciliation of (loss)/earnings used in calculating (loss)/earnings per share**

| | Consolidated 2005 $'000 | 2004 $'000 |
|---|---|---|
| ***Basic (loss)/earnings per share*** | | |
| (Loss)/Profit from continuing operations | **(2,851)** | 358 |
| Loss/(Profit) from continuing operations attributable to minority interests | **456** | (19) |
| (Loss)/Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate basic (loss)/earnings per share | **(2,395)** | 339 |
| ***Diluted (loss)/earnings per share*** | | |
| (Loss)/Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate basic (loss)/earnings per share | **(2,395)** | 339 |
| (Loss)/Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate diluted (loss)/earnings per share | **(2,395)** | 339 |

| | Consolidated 2005 Number | 2004 Number |
|---|---|---|
| **Weighted average number of ordinary shares used as the denominator in calculating basic (loss)/earnings per share** | **116,767,293** | 116,484,005 |
| Adjustments for calculation of diluted (loss)/earnings per share: | | |
| - options | **-** | 3,242,911 |
| **Weighted average number of ordinary shares used as the denominator in calculating diluted (loss)/earnings per share** | **116,767,293** | 119,726,916 |

The weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share includes 4,600,000 options that lapsed on 23 November 2005.

## NOTE 11 AUDITORS' REMUNERATION

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$** | $ | **$** | $ |
| **Assurance Services** | | | | |
| *Audit services* | | | | |
| Amounts paid/payable to BDO for audit or review of the financial report for the entity or any entity in the Group: | **94,824** | 41,725 | **94,824** | 41,725 |
| Amounts paid/payable to a related practice of BDO for audit or review of the financial report for the entity or any entity in the Group: | **26,020** | 7,872 | **26,020** | 7,872 |
| | **120,844** | 49,597 | **120,844** | 49,597 |
| *Other assurance services* | | | | |
| Amounts paid/payable to BDO for non-audit assurance services for the entity or any entity in the group: | | | | |
| - IFRS project | **-** | 2,218 | **-** | 2,218 |
| - Other | **-** | 2,000 | **-** | 2,000 |
| | **-** | 4,218 | **-** | 4,218 |
| Total remuneration for assurance services | **120,844** | 53,815 | **120,844** | 53,815 |
| **Taxation services** | | | | |
| Amounts paid/payable to BDO for non-audit taxation services performed for the entity or any entity in the group: | | | | |
| - Preparation and lodgement of income tax return | **3,000** | 4,000 | **3,000** | 3,600 |
| | **3,000** | 4,000 | **3,000** | 3,600 |

## NOTE 12 CASH & CASH EQUIVALENTS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Cash at bank and in hand | **1,844** | 2,144 | **157** | 27 |
| Notes Receivable | **318** | 50 | **-** | - |
| | **2,162** | 2,194 | **157** | 27 |

Cash at bank and in hand is non-interest bearing. Notes receivable at call bear floating interest rates between 5% and 7% (2004: 1.4%). These deposits have an average maturity of 20 days.

## NOTE 13 TRADE AND OTHER RECEIVABLES (CURRENT)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade receivables | **2,161** | 2,482 | **-** | - |
| Provision for doubtful debts | **(1)** | (6) | **-** | - |
| | **2,160** | 2,476 | **-** | - |
| Receivable for repayment of debt from former subsidiary, previously written off | **-** | 697 | **-** | 191 |
| Amount receivable from subsidiary | **-** | - | **-** | 34 |
| Other debtors | **539** | 252 | **21** | 19 |
| Provision Other debtors | **(9)** | - | **-** | - |
| | **2,690** | 3,425 | **21** | 244 |

**Interest rate risk**

The Groups' exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the tables below:

| **2005** | **Floating rates** | **< 1 year** | **1 - 2 years** | **2 - 3 years** | **3 - 4 years** | **4 - 5 years** | **> 5 years** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Trade receivables | - | - | - | - | - | - | - | 2,160 | **2,160** |
| Other receivables | - | - | - | - | - | - | - | 530 | **530** |
| | - | - | - | - | - | - | - | 2,690 | **2,690** |
| Weighted average interest rate | - | - | - | - | - | - | - | - | - |

| **2004** | **Floating rates** | **< 1 year** | **1 - 2 years** | **2 - 3 years** | **3 - 4 years** | **4 - 5 years** | **> 5 years** | **Non-interest bearing** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Trade receivables | - | - | - | - | - | - | - | 2,476 | **2,476** |
| Other receivables | - | - | - | - | - | - | - | 949 | **949** |
| | - | - | - | - | - | - | - | 3,425 | **3,425** |
| Weighted average interest rate | - | - | - | - | - | - | - | - | - |

## NOTE 14 INVENTORIES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Raw Materials | **118** | 1,558 | **-** | - |
| Work in progress | **1,061** | 460 | **-** | - |
| Finished goods<br>- at cost | **1,028** | 196 | **-** | - |
| | **2,207** | 2,214 | **-** | - |

The cost of inventories recognised as an expense amounted to $31,393,000 (2004: $29,072,000).

## NOTE 15 OTHER FINANCIAL ASSETS (NON-CURRENT)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Shares in subsidiaries (refer note 16) | - | - | **13,069** | 13,069 |
| Write down to recoverable amount | - | - | **(1,724)** | (873) |
| | - | - | **11,345** | 12,196 |

These financial assets are carried at the lower of cost and net asset value.

**Transition to AASB 132 and AASB 139**

The Group has applied the exemption available in AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 January 2005. As these investments were carried at cost under previous GAAP and are also carried at cost under current GAAP, there is no adjustment at the date of transition to AASB 132 and AASB 139 on 1 January 2005 for the parent entity.

**Impairment of investment in subsidiary**
During the year ended 31 December 2005, the parent company provided for an impairment to its investment in subsidiaries.
This impairment loss totals $851,000 (2004: $Nil) and is based upon the parent company's share in the book value of net assets owned by its subsidiaries at 31 December 2005.

## NOTE 16 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2.

| Name of entity | Country of incorporation | Class of shares | Equity holding ** | | Equity holding ** | |
|---|---|---|---|---|---|---|
| | | | **2005** | **2004** | **2005** | **2004** |
| | | | **%** | **%** | **$'000** | **$'000** |
| Orientech Pty Limited | Australia | Ordinary | 100 | 100 | **873** | 873 |
| Yangzhou Hua Yang Battery Co Limited * | China | Ordinary | 80 | 80 | **7,468** | 7,468 |
| Yangzhou Apollo Battery Co Limited * | China | Ordinary | 80 | 80 | **4,728** | 4,728 |
| | | | | | **13,069** | 13,069 |

* These subsidiaries are incorporated and operate within the Peoples Republic of China ("PRC") and are required to comply with the laws and regulations of the PRC. These PRC laws and regulations may, from time to time, restrict the ability of each subsidiary to transfer cash dividends to its Australian holding company, Oriental Technologies Investment Limited.

** The proportion of ownership interest is equal to the proportion of voting power held.

## NOTE 17 DEFERRED TAX ASSETS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Deferred tax assets comprise temporary differences attributable to:** | | | | |
| *Amounts recognised in profit and loss* | | | | |
| Depreciation | **73** | - | **-** | - |
| Total deferred tax assets | **73** | - | **-** | - |

Deferred tax assets recognised do not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

## NOTE 18 PROPERTY, PLANT AND EQUIPMENT

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Land usage rights* | | | | |
| At cost | **1,174** | 1,070 | **-** | - |
| Accumulated amortisation | **(66)** | (43) | **-** | - |
| | **1,108** | 1,027 | **-** | - |
| *Buildings - Leasehold* | | | | |
| At cost | **6,124** | 2,681 | **-** | - |
| Accumulated amortisation & impairment | **(631)** | (47) | **-** | - |
| | **5,493** | 2,634 | **-** | - |
| Total land and buildings | **6,601** | 3,661 | **-** | - |
| *Plant and equipment* | | | | |
| At cost | **21,807** | 11,679 | **36** | 36 |
| Accumulated amortisation & impairment | **(9,135)** | (5,054) | **(5)** | (2) |
| | **12,672** | 6,625 | **31** | 34 |
| Plant and equipment under construction | **266** | 9,758 | - | - |
| Total plant and equipment | **12,938** | 16,383 | **31** | 34 |
| Total non-current property, plant and equipment | **19,539** | 20,044 | **31** | 34 |
| *Total land Usage Rights* | | | | |
| Carrying amount at beginning of financial year | **1,027** | 1,072 | **-** | - |
| Additions | **-** | 41 | **-** | - |
| Amortisation | **(23)** | (43) | **-** | - |
| Effect of movement in foreign exchange | **104** | (43) | **-** | - |
| Carrying amount at end of financial year | **1,108** | 1,027 | **-** | - |
| *Total Buildings - Leasehold* | | | | |
| Carrying amount at beginning of financial year | **2,634** | 1,290 | **-** | - |
| Additions | **15** | 1,230 | **-** | - |
| Disposals | **(193)** | - | **-** | - |
| Depreciation | **(258)** | (48) | **-** | - |
| Impairment loss | **(108)** | - | **-** | - |
| Effect of movement in foreign exchange | **178** | (79) | **-** | - |
| Reclassification | **3,225** | 241 | **-** | - |
| Carrying amount at end of financial year | **5,493** | 2,634 | **-** | - |
| *Total Plant & Equipment* | | | | |
| Carrying amount at beginning of financial year | **6,625** | 6,497 | **34** | - |
| Additions | **36** | 1,556 | **-** | 36 |
| Disposals | **(2)** | (27) | **-** | - |
| Depreciation | **(1,831)** | (900) | **(3)** | (2) |
| Impairment loss | **(1,939)** | - | **-** | - |
| Effect of movement in foreign exchange | **1,219** | (260) | **-** | - |
| Reclassification | **8,564** | (241) | **-** | - |
| Carrying amount at end of financial year | **12,672** | 6,625 | **31** | 34 |
| *Total Construction in Progress* | | | | |
| Carrying amount at beginning of financial year | **9,758** | 1,944 | **-** | - |
| Additions | **1,854** | 8,051 | **-** | - |
| Effect of movement in foreign exchange | **443** | (237) | **-** | - |
| Reclassification | **(11,789)** | - | **-** | - |
| Carrying amount at end of financial year | **266** | 9,758 | **-** | - |

**NOTE 18 PROPERTY, PLANT AND EQUIPMENT**

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Impairment losses recognised in losses during the year | **2,047** | - | **-** | - |

Impairment losses are reported in the line "Impairment of property, plant and equipment" in the income statement. The impairment losses recognised during the year (2004 $Nil) relate to various items of buildings, plant and equipment that are redundant or obsolete. These items were identified as a result of the restructure of Yangzhou Huayang Battery Co Ltd (“YHBC”, the old factory) and the transfer of the assets owned by YHBC to Yangzhou Apollo Battery Co Limited (“YABC”, the new factory).

This restructuring involved the local Chinese government in various stages including approval of the valuation of the assets transferred from YHBC to YABC.

**Land Usage Rights**

In the opinion of Directors and based upon a bank valuation for lending purposes, the market value of land usage rights at 31 December 2005 is approximately RMB 60 million or AUD 10 million.

## NOTE 19 INTANGIBLE ASSETS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Goodwill* | | | | |
| At deemed cost | **494** | 494 | **-** | - |
| Total intangible assets | **494** | 494 | **-** | - |
| **Reconciliation** | | | | |
| *Goodwill* | | | | |
| Balance at beginning of year | **494** | 494 | **-** | - |
| Balance at end of year | **494** | 494 | **-** | - |

In conducting the impairment test of cash-generating unit ("CGU"), the whole factory is considered to be one inseparable unit. No subdivision or operating unit of the Group is independently capable of producing a directly sellable product to generate cash flow.

The recoverable amount of the cash-generating unit is based on value-in-use calculations which use cash flow projections based on budgets approved by management covering a 5 year period. The growth rate used in these budgets does not exceed the long-term average growth rate for the business in which the cash-generating unit operates.

Key assumptions used for value-in-use calculations are as follows:

1. No further capital investment will be made to improve the current manufacturing facility

2. Cost structure in the CGU reflects the historical average and this cost structure will remain throughout the 5 year forecast period

3. Lead is a raw material contributing to a significant part of the overall cost of a battery and is considered to be the most sensitive cost element. Sensitivity tests are carried out. The lead price quoted on the London Metals Exchange ("LME") is assumed to fluctuate with US$ 1,000/tonne being the most likely scenario.

4. The prices in the Chinese domestic market are assumed to be 33% and 30% respectively greater than the LME prices for the first 2 forecast years and 20% for the remainder of the forecast period.

5. Plastic is a major component cost and is linked to the oil price. A US$75/barrel oil price is assumed, with an annual price growth rate of 5%.

6. Rmb to US$ exchange rate is assumed to continue its current gradual appreciating trend, averaging an increase of 1.2% per annum

7. A discount rate of 6.2% is used to determine a present value for cash flows over the 5 year forecast period

## NOTE 20 TRADE AND OTHER PAYABLES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Trade payables | **3,221** | 3,806 | **203** | 181 |
| Amount payable to wholly owned subsidiary | **-** | - | **501** | 1 |
| | **3,221** | 3,806 | **704** | 182 |

## NOTE 21 INTEREST-BEARING LIABILITIES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **CURRENT** | | | | |
| **Secured** | | | | |
| Bank loans | **11,794** | 10,813 | **-** | - |
| Total secured current interest-bearing liabilities | **11,794** | 10,813 | **-** | - |
| **Total current interest-bearing liabilities** | **11,794** | 10,813 | **-** | - |

*Bank loans*

| | Consolidated 2005 | | | Consolidated 2004 | | | |
|---|---|---|---|---|---|---|---|
| | **RMB'000** | **Interest pa %** | **Expiry** | **USD'000** | **RMB'000** | **Interest pa %** | **Expiry** |
| | 3,800 | 6.1400 | 20/04/06 | 1,000 | 8,277 | LIBOR * 1.6 | 17/02/05 |
| | 5,000 | 6.1400 | 28/04/06 | 500 | 4,138 | LIBOR * 1.6 | 23/04/05 |
| | 5,000 | 6.1400 | 26/04/06 | - | 5,000 | 5.841 | 29/04/05 |
| | 5,000 | 6.1400 | 30/04/06 | - | 5,000 | 5.841 | 30/04/05 |
| | 5,000 | 6.1400 | 20/04/06 | - | 5,000 | 5.841 | 31/05/05 |
| | 5,000 | 6.1400 | 20/05/06 | - | 20,000 | 5.310 | 01/06/05 |
| | 22,050 | 5.5800 | 20/06/06 | - | 20,000 | 5.841 | 20/06/05 |
| | 1,670 | 5.5800 | 20/06/06 | 300 | 2,483 | 2.175 | 12/11/05 |
| | 17,000 | 5.8590 | 29/08/06 | - | - | - | - |
| | 69,520 | | | | 69,898 | | |
| $'000 | 11,794 | | | | 10,813 | | |

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Assets pledged as security* | | | | |
| Corporate guarantee by Yangzhou Apollo Battery Co Limited | 4,886 | 10,813 | - | - |
| Collateralized by land ownership of Yangzhou Apollo Battery Co Limited | 4,024 | - | - | - |
| Guaranteed by land use right | 2,884 | - | - | - |
| | 11,794 | 10,813 | - | - |

LIBOR means the London Inter Bank Offered Rate, a benchmark interest rate. USD 1,600,000 loan was secured by Yangzhou Huayang Battery Co Ltd, which used its deposit receipt valued at USD 1,668,800 as a pledge to the bank.

Subsequent to 31 December 2005 and at the date of this report, bank loans payable are as follows:

| **RMB'000** | **Interest pa %** | **Expiry** |
|---|---|---|
| 17,000 | 5.859 | 29/08/2006 |
| 11,500 | 5.496 | 05/01/2007 |
| 10,000 | 4.875 | 08/06/2007 |
| 10,000 | 4.875 | 15/06/2007 |
| 10,000 | 5.850 | 20/06/2007 |
| 5,000 | 5.496 | 15/12/2006 |
| 63,500 | | |

Assets pledged by the consolidated entity as security have not changed since 31 December 2005.

**NOTE 21 INTEREST-BEARING LIABILITIES (continued)**

**Financing arrangements**
The following financing facilities were available at balance date.

| | Consolidated Entity 2005 $'000 | Consolidated Entity 2004 $'000 | Parent Entity 2005 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|---|
| **Credit stand-by arrangements** | | | | |
| **Bank loans** | | | | |
| Total facilities: | | | | |
| Used at balance date | **11,794** | 10,813 | **-** | - |
| Unused at balance date | **-** | - | **-** | - |
| | **11,794** | 10,813 | **-** | - |

**Interest rate risk exposures**

The Groups' exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the tables below:

**2005**

| | | Floating rates $'000 | < 1 year $'000 | 1 - 2 years $'000 | 2 - 3 years $'000 | 3 - 4 years $'000 | 4 - 5 years $'000 | > 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Bank loans | | - | 11,794 | - | - | - | - | - | - | 11,794 |
| | | - | 11,794 | - | - | - | - | - | - | 11,794 |
| Weighted average interest rate | | | 5.8% | - | - | - | - | - | - | - |

**2004**

| | | Floating rates $'000 | < 1 year $'000 | 1 - 2 years $'000 | 2 - 3 years $'000 | 3 - 4 years $'000 | 4 - 5 years $'000 | > 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Bank loans | | 1,921 | 8,892 | - | - | - | - | - | - | 10,813 |
| | | 1,921 | 8,892 | - | - | - | - | - | - | 10,813 |
| Weighted average interest rate | LIBOR * 1.6 | | 5.5% | - | - | - | - | - | - | - |

**Fair value**

The carrying amounts and fair values of interest-bearing liabilities at balance date are:

| | Consolidated Entity 2005 $'000 | Consolidated Entity 2004 $'000 | Parent Entity 2005 $'000 | Parent Entity 2004 $'000 |
|---|---|---|---|---|
| **On-balance sheet** | | | | |
| Bank loans | **11,794** | **10,813** | **-** | **-** |
| Total assets pledged as security | **11,794** | **10,813** | **-** | **-** |

## NOTE 22 PROVISIONS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **CURRENT** | | | | |
| Employee benefits | **15** | 16 | **15** | 16 |
| Profit share payment | **1,096** | 1,096 | **1,096** | 1,096 |
| | **1,111** | 1,112 | **1,111** | 1,112 |

| | Profit share $'000 |
|---|---|
| **Balance at beginning of the year** | 1,096 |
| **Balance at end of year** | 1,096 |
| | |
| **Non-current** | - |
| **Current** | 1,096 |
| | 1,096 |

**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. In the opinion of Directors, a PSP is payable only if a dividend is declared payable by the Company. 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 $Nil in respect of its cash liability for the PSP payable on the loss for the twelve months ended 31 December 2005 (2004 $55,000), bringing the total provision for the PSP payable to $1,096,000 (2004 $1,096,000).

## NOTE 23 CONTRIBUTED EQUITY

| | 2005 Shares | 2005 $'000 | 2004 Shares | 2004 $'000 |
|---|---|---|---|---|
| **Share capital** | | | | |
| *Ordinary shares - no par value* | | | | |
| Fully paid and authorised | 116,884,005 | 27,892 | 116,484,005 | 27,870 |
| | 116,884,005 | 27,892 | 116,484,005 | 27,870 |

**Movements in ordinary share capital**

| Date | Details | Number of shares | Issue price (cents) | $'000 |
|---|---|---|---|---|
| 01-Jan-04 | Opening balance | 116,484,005 | 20.0 | 27,870 |
| 31-Dec-04 | Balance | 116,484,005 | | 27,870 |
| 14-Mar-05 | Exercise of options expiring 23 November 2005 | 200,000 | 5.7 | 11 |
| 20-May-05 | Exercise of options expiring 23 November 2005 | 200,000 | 5.7 | 11 |
| 31-Dec-05 | Closing balance | 116,884,005 | | 27,892 |

**Employee option plan**

Details of the employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 29.

**Ordinary Shares**

A dividend may be declared and would be 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.

## NOTE 24 RESERVES AND ACCUMULATED LOSSES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Other Reserves** | | | | |
| General reserve | **775** | 707 | - | - |
| Foreign currency translation reserve | **452** | (388) | - | - |
| Share option reserve | **4** | **-** | **4** | **-** |
| | **1,231** | 319 | **4** | - |
| **General reserve** | | | | |
| Balance at start of year | **707** | 454 | **-** | - |
| Currency translation differences | **68** | (39) | **-** | - |
| Transfer from accumulated losses | **-** | 292 | **-** | - |
| Balance at end of year | **775** | 707 | **-** | - |

It is a requirement in the People's Republic of China that part of accumulated profits be transferred to a general reserve.

| | | | | |
|---|---|---|---|---|
| **Foreign currency translation reserve** | | | | |
| Balance at start of year | **(388)** | - | **-** | - |
| Currency translation differences | **840** | (388) | **-** | - |
| Balance at end of year | **452** | (388) | **-** | - |

The foreign currency translation reserve is used to record exchange differences on translation of foreign controlled subsidiaries. The reserve is recognised in the income statement when the investment is disposed of.

| | | | | |
|---|---|---|---|---|
| *Share Option Reserve* | | | | |
| Balance at start of year | **-** | - | **-** | - |
| Share based payment | **4** | - | **4** | - |
| Balance at end of year | **4** | - | **4** | - |
| **Accumulated Losses** | | | | |
| Balance at start of year | **(18,084)** | (18,080) | **(16,663)** | (19,012) |
| Net (loss)/profit for the year | **(2,395)** | 339 | **(1,494)** | 2,404 |
| Provision for profit share payment | **-** | (55) | **-** | (55) |
| Transfer to general reserve | **-** | (292) | **-** | - |
| Other | 1 | 4 | - | - |
| Balance at end of year | **(20,478)** | (18,084) | **(18,157)** | (16,663) |

**NOTE 25 MINORITY INTERESTS**

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Minority interests in:** | | | | |
| Share capital | **2,557** | 2,331 | **-** | - |
| Reserves | **194** | 178 | **-** | - |
| Accumulated Losses | **(450)** | 26 | **-** | - |
| | **2,301** | 2,535 | **-** | - |

**NOTE 26 FRANKING ACCOUNT BALANCE**

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Franking credits available for the subsequent financial years based on a tax rate of 30% (2004: 30%) | **-** | - | **-** | - |

## NOTE 27 FINANCIAL INSTRUMENTS

**Risk Management Policies**
Exposure to credit, interest rate and currency risks arises in the normal course of the consolidated entity's business. Derivative financial instruments are not used.

**Credit risk**
Management has a credit policy in place and this exposure to credit risk is monitored on an ongoing basis. Export shipments to customers are made by letter of credit. The consolidated entity does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

**Interest rate risk**
The consolidated entity adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is on a fixed rate basis.

The following is the carrying amount of the financial instruments, assets/ (liabilities) that are exposed to interest rate risk:

**2005**

| | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 | Total $'000 | Effective Interest Rate |
|---|---|---|---|---|---|---|---|
| *Fixed rate* | | | | | | | |
| Interest-bearing loans and borrowings | (8,910) | (2,884) | - | - | - | (11,794) | 5.8% |
| Cash at bank and on hand | 1,844 | - | - | - | - | 1,844 | - |
| *Floating rate* | | | | | | | |
| Notes Receivable | 318 | - | - | - | - | 318 | 5% to 7% |

**2004**

| | 6 months or less $'000 | 6-12 months $'000 | 1-2 years $'000 | 2-5 years $'000 | More than 5 years $'000 | Total $'000 | Effective Interest Rate |
|---|---|---|---|---|---|---|---|
| *Fixed rate* | | | | | | | |
| Interest-bearing loans and borrowings | (8,508) | (384) | - | - | - | (8,892) | 5.5% |
| Cash at bank and on hand | 2,144 | - | - | - | - | 2,144 | - |
| *Floating rate* | | | | | | | |
| Interest-bearing loans and borrowings | (1,921) | - | - | - | - | (1,921) | LIBOR * 1.6 |
| Cash and cash equivalents | 50 | - | - | - | - | 50 | 1.4% |

Refer note 21 for a summary of used and unused interest bearing loan facilities; and details of loan fair values.

## NOTE 28 CASH FLOW INFORMATION

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Reconciliation of (loss)/profit after income tax to net cash flow from operating activities** | | | | |
| (Loss)/Profit after tax for the year | **(2,851)** | 358 | **(1,494)** | 2,404 |
| Depreciation and amortisation | **2,112** | 991 | **3** | 2 |
| Impairment loss | **2,047** | - | **851** | - |
| Share option expenses | **4** | - | **4** | - |
| Net exchange differences | **(27)** | (85) | **-** | - |
| Reinvestment of dividend received from subsidiary | **-** | - | **-** | (2,865) |
| - decrease/(increase) in trade debtors | **314** | (461) | **-** | - |
| - decrease/(increase) in other debtors | **419** | (70) | **222** | 60 |
| - decrease/(increase) in inventories | **8** | (726) | **-** | - |
| - (decrease)/increase in trade creditors | **(591)** | 2,059 | **21** | 110 |
| - increase/(decrease) in current tax liability | **93** | (298) | **-** | - |
| - (increase) in deferred tax asset/(decrease) in deferred tax liability | **(73)** | (30) | **-** | - |
| Other | **-** | 2 | **-** | - |
| Net cash flow from operating activities | **1,455** | 1,740 | **(393)** | (289) |

## NOTE 29 SHARE-BASED PAYMENTS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Share-based payment expense recognised during the financial year** | | | | |
| Options issued under employee option plan | 4 | - | 4 | - |
| | 4 | - | 4 | - |

**Employee option plan**

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

Each employee share option is convertible into one ordinary fully paid share.

Each ordinary fully paid share issued as a result of an employee converting an employee share option will rank pari passu with all existing ordinary fully paid shares.

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, where the 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.

**NOTE 29 SHARE-BASED PAYMENTS (continued)**

Details of options outstanding as part of the employee option plan during the financial year are as follows:

**2005**

| Grant date | Exercise date | Exercise price | Balance at beginning of year | Granted during the year | Forfeited during the year | Exercised during the year | Expired during the year | Balance at end of year | Exercisable at end of year |
|---|---|---|---|---|---|---|---|---|---|
| 24-Nov-00 | 5 years ending 23 November 2005 | 5.7 cents per share | 5,000,000 | - | - | (400,000) | (4,600,000) | - | - |
| 18-May-05 | 5 years ending 17 May 2010 | 9.9 cents per share | - | 200,000 | - | - | - | 200,000 | 200,000 |
| Total | | | 5,000,000 | 200,000 | - | (400,000) | (4,600,000) | 200,000 | 200,000 |
| Weighted average exercise price | | | 5.7 cents per share | 9.9 cents per share | | 5.7 cents per share | 5.7 cents per share | 9.9 cents per share | 9.9 cents per share |

**2004**

| Grant date | Exercise date | Exercise price | Balance at beginning of year | Granted during the year | Forfeited during the year | Exercised during the year | Expired during the year | Balance at end of year | Exercisable at end of year |
|---|---|---|---|---|---|---|---|---|---|
| 24-Nov-00 | 5 years ending 23 November 2005 | 5.7 cents per share | 5,000,000 | - | - | - | - | 5,000,000 | 5,000,000 |
| Total | | | 5,000,000 | - | - | - | - | 5,000,000 | 5,000,000 |
| Weighted average exercise price | | | 5.7 cents per share | | | | | 5.7 cents per share | 5.7 cents per share |

The weighted average share price at the date of exercise of the options was 8.5 cents for the year ended 31 December 2005.

The weighted average remaining contractual life of share options outstanding at 31 December 2005 was 4 years and 5 months (2004: 11 months).

***Fair value of options granted***

The weighted average fair value of options granted during the year date was 1.77 cents. The fair value at grant date was determined using a Black-Scholes option pricing model that takes into account the share price at grant date, exercise price, expected volatility, option life, expected dividends, the risk free rate, vesting and performance criteria, the impact of dilution, the fact that the options are not tradeable. The inputs used for the Black-Scholes option pricing model for options granted during the year ended 31 December 2005 were as follows:

- options are granted for no consideration, have a 5 year life and are exercisable at the grant date
- grant date: 18 May 2005
- share price at grant date: 6.4 cents
- exercise price: 9.9 cents
- expected volatility: 38.5%
- expected dividend yield: Nil%
- risk free rate: 5.3%

Expected volatility was determined based on the historic volatility (based on the remaining life of the option), adjusted for any expected changes to future volatility based on publicly available information.

## NOTE 30 RELATED PARTY TRANSACTIONS

The Group consists of Oriental Technologies Investment Limited and its subsidiaries Orientech Pty Limited, Yangzhou Hua Yang Battery Co. Limited and Yangzhou Apollo Battery Co Limited. The ownership interests in these subsidiaries are set out in note 16.

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.

**Parent entity**

The ultimate Australian parent entity and ultimate parent entity is Oriental Technologies Investment Limited, which at 31 December 2005 owned:

(i) 100% of the issued ordinary shares of Orientech Pty Ltd in Australia (2004 100%);
(ii) 80% of Yangzhou Hua Yang Battery Co Limited in China (2004 80%); and
(iii) 80% of Yangzhou Apollo Battery Co Limited in China (2004 80%).

**Key management personnel compensation**

Refer to the Remuneration Report section of the Directors' Report, which has been identified as audited.

**Specified Directors**

The names of specified directors for the reporting period were as follows:
Gerard McMahon
Lawrence Lulin Xin
George Su Su
Yong Bao (resigned 22 December 2005)
Christopher Corrigan (resigned 31 December 2005)
Patrick Ting Keung Ma
Chunyang Qiu
Steve Shulin Xin

**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 $220,000 (2004 $356,000).

## NOTE 30 RELATED PARTY TRANSACTIONS (continued)

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 2005 was 55,500,000 (2004: 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 2005 was Nil (2004: 4,500,000).

No ordinary shares or options were acquired or disposed of by Directors or their Director related entities during the financial year (2004 Nil).

Transactions with related parties

| | **Consolidated Entity** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Dividend revenue** | | | | |
| Subsidiaries | - | - | - | 2,865 |
| **Outstanding balances** | | | | |
| The following balances are outstanding at reporting date in relation to transactions with related parties: | | | | |
| ***Non-current receivables (loans to related parties)*** | | | | |
| Subsidiaries | - | - | 6 | 34 |
| ***Non-current payables (loans from related parties)*** | | | | |
| Wholly owned subsidiary | - | - | 507 | 1 |

Loans receivable from related parties are unsecured and are free of interest. They are repayable at call. No provisions for doubtful debts have been recognised on these outstanding balances, nor have any bad debt expenses been incurred.

The loan owing to the wholly owned subsidiary is unsecured and interest free. The loan is repayable at call.

## NOTE 31 COMMITMENTS

**Lease commitment**

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Future minimum lease payments* | | | | |
| Within one year | 58 | 57 | - | - |
| Later than one year but not later than 5 years | - | - | - | - |
| Later than 5 years | - | - | - | - |
| | 58 | 57 | - | - |

As at the end of 31 December 2005 Yangzhou Huayang Battery Co., Ltd had annual commitments under a lease as set out below:

Item: Plant
Leaseholder: Yangzhou Battery Factory
Period: No maturity date
Amount: $58,000 per annum

This commitment does not arise from a non-cancellable operating lease; but the plant and equipment is integrated into the group's production line at Yangzhou Huayang Battery Co, so that there is effectively a non-cancellable commitment.

## NOTE 32 SUBSEQUENT EVENTS

### a) Shareholders' Agreement

As at 31 December 2005, the shareholders of Yangzhou Huayang Battery Co Limited ("YHBC") and Yangzhou Apollo Battery Co Ltd ("YABC") were Oriental Technologies Investment Limited ("OTI") (80%), Indeveno Industrial Supply Pty Ltd ("Indeveno") (11%) and Yangzhou Lida Power Supply Co Ltd ("Lida") (9%) ("Shareholders").

During February 2006, the Shareholders agreed to a new capital investment totalling USD 4,000,000 by Indeveno into YABC; a transfer of YHBC's assets into YABC; and then the liquidation of YHBC. A summary of this agreement follows:

Lida transfer its interests in YHBC and YABC to Indeveno.

Indeveno is required to invest USD 4,000,000 as registered capital into YABC. USD 3,222,732 was contributed by Indeveno by 31 March 2006. A further USD 550,000 was contributed on 15 June 2006.

It was agreed that:

- The existing capital value of YABC is USD 4,078,569; and
- The value of YHBC assets to be transferred will be subject to capital contribution verification by the local government authorities; but
- YHBC's accumulated profits at 31 December 2005 and any general capital reserve of YHBC are to be used to make up any YHBC liquidation loss so that the total value of assets transferred to YABC will be no less than USD 5,000,000; and
- If there is any YHBC surplus, it shall be distributed in cash to each Shareholder in accordance with its respective holding in YHBC prior to liquidation.

All Shareholders agreed to apply to the relevant government authorities for an authorized capital reduction in YABC from USD 20,000,000 to USD 13,078,569.

It was agreed that future profit distribution be allocated according to the above percentages only after USD 4,000,000 is contributed by Indeveno.

All Shareholders agreed to:

- Make application to the local approving government department for liquidation of YHBC;
- Conduct YHBC's liquidation in according to all the relevant taxation, accounting, auditing and liquidation laws and regulations of the People's Republic of China ("PRC") and accept any loss in value as a result of this liquidation.

All Shareholders agreed to take whatever possible measures to minimize the loss of assets value in the liquidation process.

**NOTE 32 SUBSEQUENT EVENTS (continued)**

**a) Shareholders' Agreement (continued)**

Assets of YHBC after liquidation shall be allocated to YHBC's shareholders according to their respective shareholdings and each Shareholder in turn shall inject such assets into YABC as contribution to its registered capital.

During the process of YHBC's liquidation and YABC's capital restructuring, these two companies shall be deemed as one integral entity. In the unlikely event that Indeveno's shareholding should be higher than 44.47%, the shareholding structure would be OTI 55.53% and Indeveno 44.47%.

YABC's new Board of Directors shall consist of 3 Directors representing OTI; plus 2 Directors representing Indeveno.

**Overview**

The majority of the plant and equipment of the old factory has been transferred to the new site. Only the plate formation operation for dry charged batteries then operated at the original factory location.

The PRC Government has the power to reject YABC's business registration in the event that YABC does not maintain a minimum issued capital. The Company's directors believe that rejection of YABC's business registration is unlikely.

As a result of this injection of funds and merger: OTI's 80% interest in YABC will reduce to around 55.53%; and YABC's registered and paid up capital will total around USD 13,078,569.

OTI's final interest in YABC has not yet been determined, as it depends upon the value of transferred assets approved by the PRC Government and recognised as part of YABC's minimum issued capital. If the value of YHBC's assets transferred to YABC is below USD 5,000,000, OTI's interest in YABC will be less than 55.53%. However, Directors believe that OTI's interest in YABC will be around 55.53% and also believe that the profit for the Group as a result of its change in percentage holding will be approximately $146,000.

This re-structuring still requires PRC Government approval and compliance with local legal, accounting and regulatory requirements. These additional requirements caused delays with finalising the 2005 year end accounts.

**b) Inter-company Dividend**

On 17 July 2006, Yangzhou Huayang Battery Co Limited paid a dividend to the Company of US$400,000 (A$531,360).

## NOTE 33 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

As stated in Note 2, this is the first time that the financial statements of the Group have been prepared using Australian equivalents to IFRS. The following information summarises the impact of the transition from previous GAAP at transition date (1 January 2004) and at the end of the previous financial year:

### (a) AASB 1 Transitional Exemptions

The group has elected to use the following transitional exemptions allowed by AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards:*

***Share-based payments***

AASB 2 *Share-Based Payments* has only been applied to equity instruments granted after 7 November 2002 that had not vested by 1 January 2005.

***Foreign currency translation differences***

The Group has elected to apply the exemption available in AASB 1 to reset balances on transition in the foreign currency translation reserve to zero. This will result in subsequent gains or losses on disposal of foreign operations excluding translation differences that arose prior to transition date, 1 January 2004.

### (b) Business Combinations

AASB 3: Business Combinations has not been applied retrospectively to business combinations that were effected prior to transition date.

### (c) Reconciliation of total equity presented under AGAAP to that presented under AIFRS

The impact of adopting AIFRS on the total equity as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") is as follows:

| | **Consolidated Entity** | | **Parent Entity** | |
|---|---|---|---|---|
| | **31-Dec-04** | **01-Jan-04** | **31-Dec-04** | **01-Jan-04** |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Total equity under AGAAP** | **12,607** | 12,837 | **11,207** | 8,858 |
| Reversal of goodwill amortisation | **33** | - | **-** | - |
| Deferred tax adjustment | **-** | (30) | **-** | - |
| **Total equity under AIFRS** | **12,640** | 12,807 | **11,207** | 8,858 |

**NOTE 33 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)**

**(c) Reconciliation of retained earnings presented under AGAAP to that presented under AIFRS**

The impact of adopting AIFRS on the total equity as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") is as follows:

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 31-Dec-04 | 01-Jan-04 | 31-Dec-04 | 01-Jan-04 |
| | $'000 | $'000 | $'000 | $'000 |
| **Total accumulated losses under AGAAP** | **(15,732)** | (15,608) | **(16,663)** | (19,012) |
| Reversal of goodwill amortisation | **33** | - | **-** | - |
| Other | **313** | 254 | **-** | - |
| Resetting foreign currency translation reserves to zero on transition | **(2,698)** | (2,698) | **-** | - |
| Deferred tax adjustment | **-** | (30) | **-** | - |
| **Total accumulated losses under AIFRS** | **(18,084)** | (18,082) | **(16,663)** | (19,012) |

**(d) Reconciliation of profit after tax presented under AGAAP to that under AIFRS**

The impact of adopting AIFRS on the total equity as reported under Australian Accounting Standards applicable before 1 January 2005 ("AGAAP") is as follows:

| | Consolidated | Parent |
|---|---|---|
| | 31-Dec-04 | 31-Dec-04 |
| | $'000 | $'000 |
| **Total profit after tax as reported under AGAAP** | **293** | 2,404 |
| Reversal of goodwill amortisation | **33** | - |
| Other | **2** | - |
| Deferred tax adjustments | **30** | - |
| **Total profit after tax reported under AIFRS** | **358** | 2,404 |

There are no material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

**Directors' Declaration**

The directors of the company declare that:

1. The financial statements, comprising the income statements, balance sheets, cash flow statements, statements of changes in equity, 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 2005 and of the performance for the year ended on that date of the company and the 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.

3. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

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:

Gerard McMahon
Chairman of the board

Sydney, 21 August 2006

Chartered Accountants
& Advisers

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**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ORIENTAL TECHNOLOGIES INVESTMENT LIMITED**

## Scope

*The Financial Report and Directors' Responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Oriental Technologies Investment Limited (the company) and the consolidated entity, for the year ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in pages 7 to 10 of the directors' report, as permitted by Class Order 06/50 "Transfer of remuneration information into directors' report".

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. The directors are also responsible for the compensation disclosures contained in the directors' 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 and the compensation disclosures comply with AASB 124 and Class Order 06/50 "Transfer of remuneration information into directors' report". 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 and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the compensation disclosures comply with Accounting Standard AASB 124 and Class Order 06/50 "Transfer of remuneration information into directors' report".

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 compensation disclosures, 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.

**Independence**

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

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

**Audit Opinion**

In our opinion:

(1) 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 consolidated entity's financial position as at 31 December 2005 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(iii) other mandatory financial reporting requirements in Australia; and

(2) the compensation disclosures that are contained in pages 7 to 10 of the directors' report comply with Accounting Standard AASB 124 and Class Order 06/50 "Transfer of remuneration information into directors' report".

**Uncertainty Regarding Going Concern**

Without qualification to the opinion expressed above, we note 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 2. 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, the ability of the consolidated entity to raise additional equity and the successful completion of the restructuring in China.

**BDO**
Chartered Accountants

**D S McLean**
Partner

Dated in Sydney this 21st day of August 2006

## Shareholder Information

At 31 July 2006 issued capital was 116,884,005 ordinary shares held by 615 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 31 July 2006.**

| | | Ordinary Shares | |
|---|---|---|---|
| | | **Number** | **% of Total** |
| 1 | Red Investment & Development Ltd | 55,500,000 | 47.5 |
| 2 | Dynamic Ford Limited | 23,280,000 | 19.9 |
| 3 | Wirtz Family Investment Company LLC | 9,984,000 | 8.5 |
| 4 | HF Stevenson (Aust) P/L | 2,749,713 | 2.4 |
| 5 | Mr Makram Hanna & Mrs Rita Hanna | 1,232,000 | 1.1 |
| 6 | Invia Custodian Pty Limited | 952,172 | 0.8 |
| 7 | Mr Kevin John Holman | 842,000 | 0.7 |
| 8 | Bernard Marie Francois Le Clezio | 800,000 | 0.7 |
| 9 | Mr John O Wirtz | 600,000 | 0.5 |
| 10 | Mr Adrian Robert Nijman + Mrs Jenny Ann Nijman | 560,000 | 0.5 |
| 11 | Blackmort Nominees Pty Ltd | 500,000 | 0.4 |
| 12 | Capricorn Society Ltd | 450,000 | 0.4 |
| 13 | Lady Penelope Patricia Street | 437,500 | 0.4 |
| 14 | RD Nyman Corporation (NSW) Pty Ltd | 402,835 | 0.3 |
| 15 | Nomet Pty Ltd | 400,000 | 0.3 |
| 16 | Immune Investments Pty Ltd | 385,508 | 0.3 |
| 17 | Mr Mario Leo Volpe | 370,233 | 0.3 |
| 18 | Elcott Pty Ltd | 350,000 | 0.3 |
| 19 | Mr Raymond Francis Frew + Mrs Gillian Margaret Frew | 343,000 | 0.3 |
| 20 | Mr Paul Roy | 340,000 | 0.3 |
| | Total top 20 Ordinary Shareholders | 100,478,961 | 85.9 |

**Distribution of Holders and Holdings at 31 July 2006**

| | Ordinary Shares | |
|---|---|---|
| | **Number of Holders** | **Shares Held** |
| 1 - 1,000 | 56 | 43,704 |
| 1,001 - 5,000 | 214 | 650,633 |
| 5,001 - 10,000 | 77 | 679,000 |
| 10,001 - 100,000 | 213 | 8,758,563 |
| 100,001 and over | 55 | 106,752,105 |
| **Total** | **615** | **116,884,005** |

| | | |
|---|---|---|
| Holders of less than a marketable parcel: | 348 | 1,383,338 |

## Shareholder Information (continued)

Substantial shareholders at 31 July 2006 as disclosed in Substantial Shareholder Notices given to the Company

| SUBSTANTIAL SHAREHOLDERS | NUMBER OF SHARES | PROPORTION OF ISSUED SHARES |
|---|---|---|
| Red Investment & Development Limited | 55,500,000 | 47.5% |
| Dynamic Ford Limited | 23,280,000 | 19.9% |
| Wirtz International Operations Inc. | 10,884,000 | 9.3% |

**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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