



**ORIENTAL TECHNOLOGIES INVESTMENT LIMITED**

**ABN 13 060 266 248**

**ANNUAL REPORT**

**31 DECEMBER 2007**

**ORIENTAL TECHNOLOGIES INVESTMENT LIMITED**

**ANNUAL REPORT 2007**

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# Oriental Technologies Investment Limited – Annual Report 2007

## CHAIRMAN'S REPORT

### Financial Results

Shareholders will see from the 2007 Annual Report that profit after tax, attributable to the members of the parent entity, for the year ended 31 December 2007 totalled \$352,000. Profit after tax for the year ended 31 December 2006 totalled \$1,345,000.

These net results were affected by the following one off adjustments:

- The profit for the year ended 31 December 2007 is reported after deducting an expense totalling \$420,000 for the granting of options during the year ended 31 December 2007; and
- The profit for the year ended 31 December 2006 is reported after including a gain totalling \$845,000 arising from the liquidation of Yangzhou Hua Yang Battery Co Limited during the year ended 31 December 2006.

### Review

The battery manufacturing operation in China has, as Shareholders will see from the Managing Director's review of operations, performed very well despite continuing high lead prices. The factory has undergone considerable restructuring of its business operations under the guidance of Dr Wang Xinsheng who, besides having an indirect interest in the equity of the operation, is also General Manager as well as now being Managing Director of Oriental Technologies Investment Limited.

Under Dr Wang, OTI's China operation has been able to increase its end user prices considerably. It is anticipated that, by being able to continue to manage lead cost volatility with corresponding changes to the unit sales price, maintain or increase sales volumes, and control fixed overheads at present levels; sales and profitability would again increase during the coming year.

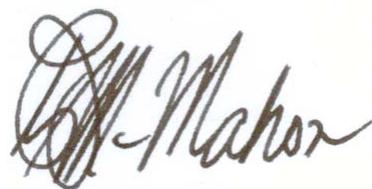
### Prospects

Shareholders would be aware of the existence of two Redeemable Floating Notes, with a total face value of approximately \$21 million, created in 2000 to enable the Company to be re-listed with ASX Limited after a long period of suspension. These Redeemable Floating Notes were created to convert certain OTI shareholders' loans into the Redeemable Floating Notes.

The Redeemable Floating Notes entitled the holders to 20% of net profit after tax payable upon the declaration of a dividend by OTI. Although no dividend has been declared since the date the Redeemable Floating Notes were issued, the existence of these Redeemable Floating Notes had an adverse affect upon the Company's share price. The Directors therefore decided to negotiate cancellation of these Redeemable Floating Notes in exchange for the issue of new OTI ordinary shares.

In February 2008, the Redeemable Floating Notes were cancelled and 9,477,082 new ordinary fully paid shares, representing 7 ½% of total new ordinary shares, were issued to the Redeemable Floating Note holders, who are associated with the New World Group, one of Hong Kong's leading publicly listed property developers.

Your Directors welcome this development and look forward to a meaningful relationship with the new OTI shareholders.



Gerard McMahan  
Chairman  
31 March 2008

## **Oriental Technologies Investment Limited – Annual Report 2007**

### **REVIEW OF OPERATIONS**

The Company is pleased to report its results for the year ended 31 December 2007.

Net profit attributable to the members of Oriental Technologies Investment Limited for the year ended 31 December 2007 was \$352,000 (2006: \$1,345,000). Revenue for 2007 was \$68.3 M, an increase of 33% over the previous period (2006: \$51.1M).

#### **China Operations**

For the year ended on 31 December 2007 the Company's operation in China endured a year full of challenges again. The main factors that negatively impacted on YABC's results were:

- i) Removal of 13% tax rebate on export of automotive batteries by Chinese government at the end of 2006, and
- ii) Continued escalation in raw material costs and strengthening Chinese local currency.

The 13% tax rebate on export of automotive batteries, which are YABC's main products, plays a significant role in the battery costing structure over the past years. Without considering other negative factors, the new Chinese tax rebate policy to remove the 13% tax rebate resulted in an immediate increase to YABC's product costs.

Lead is the main raw material for batteries. The price of lead in China was at historical high levels for the whole of 2007. Compared to the 2006 average price, the market saw a relentless 65% increase in lead prices during 2007.

In the meantime, during 2007 Chinese local currency Rmb strengthened by more than 5%.

Due to this difficult operating environment, the focus of our China operation has been margin improvement for existing markets, instead of increased volumes. Another major target in 2007 was to develop the Chinese domestic market and take a major market share in the delta area of the Yangzijiang River.

YABC managed to maintain a similar volume of sales compared to 2006 (2.2% increase in 2007). The increase in revenue (total Rmb sales increased by 41% over the previous year) predominantly reflects the effect of higher average selling prices.

The domestic market has delivered a remarkable result in both sales revenue and profit. Rmb 45 million in domestic sales was achieved during 2007, which represent 11% of YABC's total annual sales.

Other measures to improve the financial performance include cost reductions in manufacturing, reduction in scrap rate for materials consumption, and tightly controlled overheads.

#### **Capital Issue**

Up to the date of this report, the application for reduction of YABC's registered capital has not yet been finally approved by the People's Republic of China's local government authority.

Verbal agreement was obtained prior to 31 December 2007. A letter dated 18 February 2008 and prepared by the Yangzhou Foreign Trade and Economic Department to approve the reduction of YABC's registered capital from USD 20.0 million to USD 13.1 million has also been received.

This written approval was a first approval and final approval is still conditional upon receipt of any objections from YABC's creditors, debtors, other Chinese Government authorities, or any other interested party. It is a requirement of Chinese law that YABC lodge a notice in the print media for public comment or objection about the proposed reduction in registered capital. There is then a 45 day period for receipt of any objections. YABC placed this notice in a Chinese newspaper on 20 February 2008 and final approval may be received soon.

## **Oriental Technologies Investment Limited – Annual Report 2007**

### **REVIEW OF OPERATIONS (continued)**

#### **Outlook**

The year of 2008 should be a continued challenging year to the Company's China operation. Lead price remains unpredictable and will likely to continue to challenge the Company's profitability during 2008. Management will continue its efforts to consolidate the result achieved in second half of 2007, by implementing new costing structures which closely link with lead price movements and continuously improve profit margins by increasing domestic sales.

31 March 2008

Xinsheng Wang  
Managing Director

# Oriental Technologies Investment Limited – Annual Report 2007

## DIRECTORS' REPORT

The Directors of Oriental Technologies Investment Limited present their report on the Company for the financial year ended 31 December 2007.

### Directors

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

		<b>Date Appointed</b>	<b>Date Resigned</b>
Gerard McMahon	Chairman	7 April 2000	
Lawrence Luo-lin Xin	Non Executive Vice-Chairman	24 December 1999	
Xinsheng Wang	Managing Director	31 August 2007	
George Su Su	Non-Executive Director	17 February 1995	
Patrick Ting Keung Ma	Non-Executive Director	24 December 1999	31 August 2007
Chunyang Qiu	Non-Executive Director	14 July 1998	31 August 2007
Steve Shulin Xin	Non-Executive Director	24 December 1999	31 August 2007

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 34 years and is currently Non-executive Director of two Hong Kong publicly listed companies. He is also a consultant to 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:

- Guangan (Holdings) Limited (appointed June 1999); and
- The Quaypoint Corporation Limited (formerly 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

## **Oriental Technologies Investment Limited – Annual Report 2007**

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

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.

*Dr Xinsheng Wang*

Managing Director

Dr Wang became Managing Director of the Company on 31 August 2007 and has substantial experience in marketing and business management. He joined CITIC Australia Commodity Trading Pty Ltd (CACT) in 1995 as a senior manager and become an executive director of CACT in 1999, then Vice –President in 2003. Under his leadership, the battery division of CACT has been developed as one of top three battery players in Australian market. He resigned the position in 2006 and become a senior consultant to CACT. Dr Wang was appointed as managing director of Yangzhou Apollo Battery Co Ltd in June 2006. He holds a PhD degree in Food Science and Technology from the University of NSW.

*George S Su*

Non Executive Director

Mr Su became Managing Director of the Company in March 1998 and resigned as Managing Director to become a Non Executive Director of the Company, effective 31 August 2007. 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.

### **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, RSM Bird Cameron Partners.

### **Remuneration Report –AUDITED BY RSM BIRD CAMERON PARTNERS**

#### *Principles of compensation*

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

## Oriental Technologies Investment Limited – Annual Report 2007

### Directors' Report (continued)

#### Remuneration Report (AUDITED) (continued)

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 issued with equity instruments as compensation during the financial year ended 31 December 2007 (2006 Nil). Details of Series 3 options over ordinary shares in the Company provided as remuneration to each director of the Company and each of the key management personnel of the parent entity and the consolidated entity are set out below. When exercisable, each option is convertible into one ordinary fully paid share of Oriental Technologies Investment Limited. Further information on the options is set out in Note 28 to these financial statements.

Name	Number of options granted during the year		Number of options vested during the year	
	2007	2006	2007	2006
<b>Directors</b>				
Gerard McMahon	3,000,000	-	3,000,000	-
Lawrence L Xin	3,000,000	-	3,000,000	-
Xinsheng Wang	3,000,000	-	3,000,000	-
George Su Su,	1,000,000	-	1,000,000	-
<b>Company Secretary</b>				
Ian Morgan	500,000	-	500,000	-
	<u>10,500,000</u>	<u>-</u>	<u>10,500,000</u>	<u>-</u>

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables below (page 9). Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options, granted as remuneration for the year ended 31 December 2007 to Directors and key management personnel, included:

- Options were granted for no consideration and vested at the grant date.
- Vested options are exercisable for a period of five years after the grant date.
- Exercise price: 7.0 cents each ordinary fully paid share.
- Grant Date: 16 November 2007.
- Expiry Date: 15 November 2012.
- Share price at grant date: 7.0 cents.
- Expected price volatility of the company's shares: 60%.
- Expected dividend yield: Nil%.
- Risk free interest rate: 6.27%.
- Value of option at grant date: 4.0 cents each option.

## Oriental Technologies Investment Limited – Annual Report 2007

### Directors' Report (continued)

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

##### *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;
- 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.

## Oriental Technologies Investment Limited – Annual Report 2007

### 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 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) \$			
<b>Directors</b>												
<i>Non-executive Directors</i>												
Gerard McMahon (Chairperson)	2007	29,502	-	-	29,502	2,655	-	-	120,000	152,157	-	78.9
	2006	24,000	-	-	24,000	2,160	-	-	-	26,160	-	-
Lawrence L Xin	2007	-	-	-	-	-	-	-	120,000	120,000	-	100.0
	2006	-	-	-	-	-	-	-	-	-	-	-
Steve S Xin (resigned 31 August 2007)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-
Patrick TK Ma (resigned 31 August 2007)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-
Chunyang Qiu (resigned 31 August 2007)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-	-	-	-	-
George Su Su, (Managing Director until 31 August 2007)	2007	36,000	-	-	36,000	3,240	-	-	40,000	79,240	-	50.5
	2006	48,000	-	-	48,000	4,320	-	-	-	52,320	-	-
<b>Executives</b>												
Xinsheng Wang (appointed Acting Chief Executive Officer in May 2006, then Managing Director 31 August 2007)	2007	-	-	-	-	-	-	-	120,000	120,000	-	100.0
	2006	-	-	-	-	-	-	-	-	-	-	-
Yong Bao (former President)	2007	-	-	-	-	-	-	-	-	-	-	-
	2006	23,208	-	-	23,208	-	-	-	-	23,208	-	-
Bo Peng (Vice President)	2007	31,789	-	-	31,789	-	-	-	-	31,789	-	-
	2006	21,730	-	-	21,730	-	-	-	-	21,730	-	-
Mi Yang (Financial Controller)	2007	9,537	-	-	9,537	-	-	-	-	9,537	-	-
	2006	7,957	-	-	7,957	-	-	-	-	7,957	-	-

## Oriental Technologies Investment Limited – Annual Report 2007

### Directors' Report (continued)

#### Remuneration Report (AUDITED) (continued)

		Short-term				Post-employment	Other long term	Termination benefits	Share-based payments	Total \$	Proportion of remuneration related %	Value of options as proportion of remuneration %
		Salary & fees \$	Cash bonus \$	Non-monetary benefits \$	Total	Super-annuation benefits \$	\$		Options and rights \$			
Ian Morgan (Company Secretary) (Note 1)	2007	-	-	-	-	-	-	-	20,000	20,000	-	100.0
	2006	-	-	-	-	-	-	-	-	-	-	-
<b>Total compensation: key management personnel (consolidated)</b>	2007	106,828	-	-	106,828	5,895	-	-	420,000	532,723	-	78.8
	2006	124,895	-	-	124,895	6,480	-	-	-	131,375	-	-
<b>Total compensation: key management personnel (company)</b>	2007	65,502	-	-	65,502	5,895	-	-	420,000	491,397	-	85.5
	2006	72,000	-	-	72,000	6,480	-	-	-	78,480	-	-

Note 1: For the year ended 31 December 2007, the Company also paid \$35,170 excluding GST (2006 \$35,131) to an entity related to Mr Ian Morgan for the provision of company secretarial services.

End of Audited Section of Directors' Report

## Oriental Technologies Investment Limited – Annual Report 2007

### Directors' Report (continued)

#### Share Options

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

Each employee share option is convertible into one share.

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

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

	<b>Number of Options Held 1 January 2007</b>	<b>Exercised</b>	<b>Granted</b>	<b>Expired</b>	<b>Number of Options Held 31 December 2007</b>
Series 2 options	200,000	-	-	-	200,000
Series 3 options	-	-	10,500,000	-	10,500,000
	<u>200,000</u>	<u>-</u>	<u>10,500,000</u>	<u>-</u>	<u>10,700,000</u>

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

#### *Series 2 options*

Oriental Technologies Investment Limited granted 200,000 Series 2 options over un-issued shares under the Orientech Employee Share Option Plan on 18 May 2005. Details of the Series 2 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:	A Series 2 option may be exercised within the exercise period or if there is earlier termination of the option. An option cannot be exercised unless the option holder has provided not less than 24 months service to the Company (unless the Directors determined otherwise).

## Oriental Technologies Investment Limited – Annual Report 2007

### Directors' Report (continued)

#### Series 3 options

Oriental Technologies Investment Limited granted 10,500,000 Series 3 options over un-issued shares on 16 November 2007. The granting of these Series 3 options was approved by members of the Company at an extraordinary meeting held on 16 November 2007. Details of the Series 3 options granted are:

Exercise Period:	a Series 3 option may be exercisable at any time prior to 5:00pm Eastern Standard Time on the date 5 years after the date of granting the options (Expiry Date). Options not exercised on or before the Expiry Date will automatically lapse;
Exercise Price:	7.0 cents per share.
Exercise of Option:	a Series 3 option may be exercised wholly or in part by completing an application form for ordinary fully paid shares in the Company delivered to the Company's share registry and received by it any time prior to the Expiry Date;

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

Director	Number of ordinary shares			Number of options		
	Beneficial	Non-Beneficial	Total	Beneficial	Non-Beneficial	Total
Gerard McMahon	-	-	-	3,000,000	-	3,000,000
Lawrence L Xin	-	55,500,000	55,500,000	3,000,000	-	3,000,000
Xinsheng Wang	-	-	-	3,000,000	-	3,000,000
George Su Su	-	-	-	1,000,000	-	1,000,000

An entity related to Dr Xinsheng Wang is a minority shareholder of Yangzhou Apollo Battery Company Limited (a company registered in the People's Republic of China), with 44.43% of the total paid-up capital. Yangzhou Apollo Battery Company Limited is a subsidiary of Oriental Technologies Investment Limited.

#### Directors' Meetings

During the financial year, 12 Directors' meetings and 3 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	12	12	3	3
Lawrence L Xin	12	10	3	3
Xinsheng Wang	4	3	-	-
George Su Su	12	11	-	-
Patrick T K Ma	8	-	-	-
Chunyang Qiu	8	-	-	-
Steve S Xin	8	-	-	-

#### Principal Activities

The principal activities of the Consolidated Entity during the financial year were undertaken in the People's Republic of China and included manufacturing, exporting, marketing and selling lead acid batteries. No significant change in the nature of these activities occurred during the year.

## **Oriental Technologies Investment Limited – Annual Report 2007**

### **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 12 to these 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 profit attributable to members of Oriental Technologies Investment Limited for the financial year was \$352,000 (2006 \$1,345,000).

#### **Dividends**

The Directors do not recommend the payment of a dividend (2006 \$Nil). No dividends have been paid or declared since the start of the financial year.

#### **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 33 to these 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.

## **Oriental Technologies Investment Limited – Annual Report 2007**

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

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

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

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

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

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

The Company has paid a premium of \$19,987 (2006 \$28,903) 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.

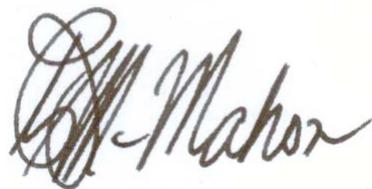
#### **Lead auditor's independence declaration**

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 2007.

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

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

Signed in accordance with a resolution of the Directors

A handwritten signature in dark ink, appearing to read "Gerard McMahon". The signature is written in a cursive, flowing style.

Gerard McMahon  
Chairman of the Board

31 March 2008

# Oriental Technologies Investment Limited – Annual Report 2007

## CORPORATE GOVERNANCE

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 31 December 2007

### **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 of four Directors comprises three non-executive independent Directors, including the Chairman; and one executive Managing Director.

The Board notes that Mr Lawrence Luo-lin Xin is a non-executive Director of the Company and has the following related party interests:

- Red Investment & Development Limited ("RIDL"), a company of which Mr Xin is a Director, 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 Mr Xin to be an independent Director because:

- He has wide China related experience in merchant banking, investment banking and financial markets;
- He is independent of management and likely to exercise unfettered and independent judgement;
- He has experience, background and skills required by the Board, including experience in manufacturing, finance, mergers and acquisitions and banking;

**Corporate Governance (continued)**

- His skills are complementary to the skills of other Company Directors;
- He offers 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
- He 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.

## Oriental Technologies Investment Limited – Annual Report 2007

### Corporate Governance (continued)

The Board comprises three non-executive independent Directors (Messrs Gerard McMahan appointed 7 April 2000, Lawrence Luo-lin Xin appointed 24 December 1999, and George Su was appointed a Director on 17 February 1995 (resigned as Managing Director to be a non-executive independent Director on 31 August 2007); and one executive Director (Mr Xinsheng Wang appointed Managing Director on 31 August 2007).

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.

## Oriental Technologies Investment Limited – Annual Report 2007

### 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.

## Oriental Technologies Investment Limited – Annual Report 2007

### 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.

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

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.

## **Oriental Technologies Investment Limited – Annual Report 2007**

### **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.

## Oriental Technologies Investment Limited – Annual Report 2007

### Corporate Governance (continued)

#### Principle 6: Respect the Rights of Shareholders

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

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

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

Information is communicated to shareholders by the Company through:

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

All shareholders are welcome to communicate directly with the Company.

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

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

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

## Oriental Technologies Investment Limited – Annual Report 2007

### Corporate Governance (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Oriental Technologies Investment Limited – Annual Report 2007**

### **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 would be considered to be commercially cost effective, and appropriate to the Company's size and structure.

Details of the proposed 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.

# RSM Bird Cameron Partners

Chartered Accountants

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GPO Box 5138 Sydney NSW 2001  
T +6 2 9233 8933 F +61 2 9233 8521  
www.rsmi.com.au

## **Auditor's Independence Declaration under section 307C of the Corporations Act 2001 To the Directors of Oriental Technologies Investment Limited and Controlled Entities**

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2007 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



**RSM Bird Cameron Partners**  
Chartered Accountants



**W E Beauman**  
Partner

Sydney  
Dated: 31 March 2008

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## Oriental Technologies Investment Limited – Annual Report 2007

### INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated Entity		Parent Entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue	6	<b>67,964</b>	50,108	<b>671</b>	538
Other income	7	<b>315</b>	978	<b>5</b>	40
Changes in inventories of finished goods and work in progress		<b>5,152</b>	3,422	-	-
Raw materials and consumables used		<b>(65,286)</b>	(45,838)	-	-
Employee benefits expense	8	<b>(3,126)</b>	(2,432)	<b>(500)</b>	(78)
Depreciation expense	8	<b>(1,911)</b>	(2,127)	-	-
Finance costs	8	<b>(824)</b>	(681)	<b>(2)</b>	(3)
Other expenses	8	<b>(934)</b>	(1,271)	<b>(422)</b>	(2,624)
<b>Profit/(Loss) before income tax</b>		<b>1,350</b>	2,159	<b>(248)</b>	(2,127)
Income tax expense	10	-	(102)	-	-
<b>Profit/(Loss) for the year</b>		<b>1,350</b>	2,057	<b>(248)</b>	(2,127)
Profit attributable to minority equity interest		<b>(998)</b>	(712)	-	-
<b>Profit/(Loss) attributable to members of the parent entity</b>	24	<b>352</b>	1,345	<b>(248)</b>	(2,127)

**Cents                      Cents**

#### Basic Earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the Company	11	<b>0.3</b>	1.2
Profit from discontinued operations		-	-
Profit attributable to the ordinary equity holders of the Company		<b>0.3</b>	1.2

#### Diluted Earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the Company	11	<b>0.3</b>	1.2
Profit from discontinued operations		-	-
Profit attributable to the ordinary equity holders of the Company		<b>0.3</b>	1.2

The accompanying notes form part of these financial statements.

## Oriental Technologies Investment Limited – Annual Report 2007

### BALANCE SHEETS AS AT 31 DECEMBER 2007

	Note	Consolidated Entity		Parent Entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	13	2,177	4,101	303	199
Trade and other receivables	14	11,092	5,098	14	39
Inventories	15	10,781	5,629	-	-
<b>Total current assets</b>		<b>24,050</b>	14,828	<b>317</b>	238
<b>Non-current assets</b>					
Other financial assets	16	-	-	9,667	9,667
Property, plant and equipment	18	16,207	16,830	-	-
Intangible assets	19	-	-	-	-
<b>Total non-current assets</b>		<b>16,207</b>	16,830	<b>9,667</b>	9,667
<b>Total assets</b>		<b>40,257</b>	31,658	<b>9,984</b>	9,905
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	20	7,163	4,140	574	676
Short-term borrowings	21	14,347	10,291	-	-
Short term provisions	22	125	15	24	15
<b>Total current liabilities</b>		<b>21,635</b>	14,446	<b>598</b>	691
<b>Non current liabilities</b>					
Trade and other payables	20	132	36	-	-
<b>Total non current liabilities</b>		<b>132</b>	36	-	-
<b>Total liabilities</b>		<b>21,767</b>	14,482	<b>598</b>	691
<b>Net assets</b>		<b>18,490</b>	17,176	<b>9,386</b>	9,214
<b>EQUITY</b>					
Issued capital	23	27,892	27,892	27,892	27,892
Reserves	24	237	(310)	424	4
Accumulated Losses	24	(17,815)	(18,014)	(18,930)	(18,682)
Parent entity interest		10,314	9,568	9,386	9,214
Minority equity interest	25	8,176	7,608	-	-
<b>Total equity</b>		<b>18,490</b>	17,176	<b>9,386</b>	9,214
Net tangible assets per share (cents)		<b>15.8</b>	14.7	<b>8.0</b>	7.9

The accompanying notes form part of these financial statements.

## Oriental Technologies Investment Limited – Annual Report 2007

### CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated Entity		Parent Entity	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Cash flows from operating activities</b>					
Cash receipts from customers		60,943	47,827	-	-
Cash paid to suppliers and employees		(64,772)	(48,710)	(566)	(483)
Interest received		134	32	15	7
Dividend received		-	-	655	531
Finance costs		(824)	(681)	(2)	(3)
Income taxes paid		-	(117)	-	-
<b>Net cash (outflow)/inflow from operating activities</b>	27	<b>(4,519)</b>	<b>(1,649)</b>	<b>102</b>	<b>52</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(1,615)	(4,963)	-	-
Proceeds from sale of property, plant and equipment		137	4,751	-	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(1,478)</b>	<b>(212)</b>	<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		-	5,233	-	-
Repayment of borrowings		-	(976)	-	-
Proceeds from borrowings		4,444	-	-	-
Dividend paid by controlled entity to outside equity interests		(390)	-	-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>4,054</b>	<b>4,257</b>	<b>-</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents		(1,943)	2,396	102	52
Net foreign exchange differences		19	(457)	2	(10)
Cash and cash equivalents at beginning of year		4,101	2,162	199	157
<b>Cash at the end of the financial year</b>	13	<b>2,177</b>	<b>4,101</b>	<b>303</b>	<b>199</b>

The accompanying notes form part of these financial statements.

## Oriental Technologies Investment Limited – Annual Report 2007

### STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Issued capital \$'000	Accumulated Losses \$'000	Other reserves \$'000	Total \$'000	Minority interest (note 25) \$'000	Total equity \$'000
<b>CONSOLIDATED ENTITY</b>						
At 1 January 2006	27,892	(19,382)	1,231	9,741	2,301	12,042
Profit for the year ended 31 December 2006	-	1,345	-	1,345	712	2,057
Foreign currency translation differences	-	-	218	218	(145)	73
Transfer to minority interest	-	23	-	23	(23)	-
Capital issue to minority shareholder	-	-	-	-	4,766	4,766
Transfer to gain on liquidation of foreign subsidiary	-	-	(1,762)	(1,762)	-	(1,762)
Other	-	-	3	3	(3)	-
Total income and expense for the year recognised directly in equity	-	23	(1,541)	(1,518)	4,595	3,077
<b>At 31 December 2006</b>	<b>27,892</b>	<b>(18,014)</b>	<b>(310)</b>	<b>9,568</b>	<b>7,608</b>	<b>17,176</b>
Profit for the year ended 31 December 2007	-	352	-	352	998	1,350
Foreign currency translation differences	-	-	(26)	(26)	(40)	(66)
Transfer between reserves	-	(153)	153	-	-	-
Share based payments	-	-	420	420	-	420
Dividend paid by controlled entity to outside equity interests	-	-	-	-	(390)	(390)
Total income and expense for the year recognised directly in equity	-	(153)	547	394	(430)	(36)
<b>At 31 December 2007</b>	<b>27,892</b>	<b>(17,815)</b>	<b>237</b>	<b>10,314</b>	<b>8,176</b>	<b>18,490</b>
<b>PARENT</b>						
At 1 January 2006	27,892	(16,555)	4	11,341	-	11,341
Loss for the year ended 31 December 2006	-	(2,127)	-	(2,127)	-	(2,127)
<b>At 31 December 2006</b>	<b>27,892</b>	<b>(18,682)</b>	<b>4</b>	<b>9,214</b>	<b>-</b>	<b>9,214</b>
Loss for the year ended 31 December 2007	-	(248)	-	(248)	-	(248)
Share based payments	-	-	420	420	-	420
Total income and expense for the year recognised directly in equity	-	-	420	420	-	420
<b>At 31 December 2007</b>	<b>27,892</b>	<b>(18,930)</b>	<b>424</b>	<b>9,386</b>	<b>-</b>	<b>9,386</b>

The accompanying notes form part of these financial statements.

# Oriental Technologies Investment Limited – Annual Report 2007

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 1 CORPORATE INFORMATION

The financial report of Oriental Technologies Investment Limited for the year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 31 March 2008 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 and domiciled 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 12, 32 Martin Place Sydney NSW 2000.

For the name of the parent and the ultimate parent of the group, refer Note 29 to these financial statements.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on an accruals basis and is based on historical costs, including the measurement of land and buildings.

The financial report of Oriental Technologies Investment Limited and controlled entities and Oriental Technologies Investment Limited as an individual parent entity complies with all International Financial Reporting Standards (IFRS) in their entirety.

The accounting policies set out below have been consistently applied to all years presented.

#### (b) Basis of Consolidation

##### *Subsidiaries*

The consolidated financial statements comprise of the financial statements of Oriental Technologies Investment Limited and its controlled entities 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.

A list of controlled entities is contained in Note 17 to these financial statements. All controlled entities have a December financial year end.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated. Unrealised losses are also eliminated unless costs cannot be recovered.

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

**(b) Basis of Consolidation (continued)**

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.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

**(c) 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 19). 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.

**(d) 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).

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.

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

**(d) Foreign Currency Translation (continued)**

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.

**(e) Revenue Recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

*Sale of Goods*

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to and title is passed to customers.

*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.

**(f) Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is possible that future tax profits will be available against which deductible temporary differences can be utilised.

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

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

**(f) Income Tax (continued)**

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.

**(g) Impairment of Non-Financial Assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment and land use rights has suffered an impairment loss, or an impairment loss previously recognised no longer exists and may be reversed.

If any indication of impairment loss exists, the recoverable amount of the asset is estimated based on the higher of its fair value less cost to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that independently generates cash flows, a cash-generating unit.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Any impairment losses are immediately recognised as an expense.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of any impairment loss is immediately recognised as income.

**(h) Cash and Cash Equivalents**

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.

**(i) Trade Receivables**

The majority of sales are due upon presentation of an invoice. The remaining sales are with credit terms ranging from 30 to 90 days, as well as on letter of credit. Collection 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.

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

**(j) 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.

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

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account of their estimated residual values of 10%, using the straight-line method.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on reasonable basis and depreciated separately:

Buildings and plant	20 years
Machinery	10 years
Motor vehicles	5 years
Electronic equipment	5 years
Other equipment	5 years
Moulds	5 years

**Construction in progress**

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

**Land use rights**

Land use rights represent amounts paid for the acquisition of the rights to use land located in the Peoples Republic of China for periods of 50 years. Land use rights are carried at cost and amortised to income statement over the lease terms.

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

**(l) 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 in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(m) 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.

**(n) 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 payment terms are between 30 and 60 days.

**(o) Borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest 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.

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

**(p) Other Liabilities**

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

**(q) 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 the assets are substantially ready for their intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is Nil% (2006 Nil%).

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

**(r) Financial Instruments**

Financial assets and financial liabilities are recognised when a Group company becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group company's contractual rights to future cash flows from the financial asset expire or when the Group company transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

*Loans and receivables*

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition over the year to maturity. Gains and losses arising from de-recognition, impairment or through the amortisation process are recognised in the income statement.

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit and loss, are impaired. Any impairment loss of financial assets carried at amortised cost is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

*Financial Liabilities*

The Group's financial liabilities include trade and other payables and bank borrowings. All financial liabilities, except for any derivatives, are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

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

**(s) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(t) Employee Benefit Provisions**

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) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(v) 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.

**(w) 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 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.

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

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

#### (w) Share-Based Payments (continued)

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.

#### (x) 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.

#### (y) 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, excepting amendments to Australian Accounting Standards arising from AASB Interpretation 12. For more details refer to Note 31 of these financial statements.

#### (z) 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.

# Oriental Technologies Investment Limited – Annual Report 2007

## Notes to and forming part of the financial statements for the year ended 31 December 2007

### 3 FINANCIAL 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.

The Group's principal financial instruments comprise cash at bank and bank borrowings. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign currency risk), liquidity risk and credit risk. The Group does not have any written risk management policies and guidelines. However, management generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum. Management reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

#### Interest rate risk

The Group's interest rate risk relates to short-term bank borrowings and interest rates and terms of repayment have been disclosed in Note 21 to these financial statements.

#### Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of US dollars, Euros and Chinese Renminbi. As the Group does not seek to hedge foreign currency exposure, there was a foreign currency gain for the year ended 31 December 2007 totalling \$221,000 (2006 \$385,000 loss).

Details of the financial assets and financial liabilities denominated in foreign currencies as at 31 December were as follows:

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
<b>Bank</b>				
US dollars	123	445	11	11
Euros	275	75	-	-
Renminbi	1,487	3,393	-	-
	<b>1,885</b>	<b>3,913</b>	<b>11</b>	<b>11</b>
<b>Trade &amp; other receivables</b>				
US dollars	6,153	1,205	-	-
Euros	1,900	424	-	-
Renminbi	3,025	3,430	-	-
	<b>11,078</b>	<b>5,059</b>	<b>-</b>	<b>-</b>
<b>Trade &amp; other payables</b>				
US dollars	(469)	(293)	-	-
Renminbi	(6,624)	(3,713)	-	-
	<b>(7,093)</b>	<b>(4,006)</b>	<b>-</b>	<b>-</b>
<b>Net foreign exchange exposure</b>	<b>5,870</b>	<b>4,966</b>	<b>11</b>	<b>11</b>

## Oriental Technologies Investment Limited – Annual Report 2007

### Notes to and forming part of the financial statements for the year ended 31 December 2007

#### 3 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

##### *Sensitivity analysis*

If Renminbi had weakened/strengthened by 5% against the US dollar with all the other variables held constant, post tax profit for the year ended 31 December 2007 would have been AUD 295,000 (2006 AUD 69,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated bank and cash balances, trade and other receivables, and trade and other payables. Profit is more sensitive to movement in Renminbi/US dollar exchange rates in 2007 and 2006 because of the increased amount of trade and other receivables.

If Renminbi had weakened/strengthened by 5% against Euros with all the other variables held constant, post tax profit for the year ended 31 December 2007 would have been AUD 111,000 (2006 AUD 25,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Euro denominated bank and cash balances, trade and other receivables, and trade and other payables. Profit is more sensitive to movement in Renminbi/Euro exchange rates in 2007 and 2006 because of the increased amount of trade and other receivables.

If Renminbi had weakened/strengthened by 5% against the Australian dollar with all the other variables held constant, post tax profit for the year ended 31 December 2007 would have been AUD 106,000 (2006 AUD 150,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Renminbi denominated bank and cash balances, trade and other receivables, and trade and other payables. Profit is more sensitive to movement in Renminbi/Australian dollar exchange rates in 2007 and 2006 because of the increased amount of trade and other payables.

##### **Liquidity risk**

Liquidity risk refers to the risk in which the Group is unable to meet its short-term obligations. Liquidity risk is minimal and is managed by matching the payment and receipt cycles. The Group's operations are financed mainly through operating cash flows, equity and bank borrowings.

In addition, the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The maturity profile of the Group's liabilities at the balance sheet date based on contractual undiscounted payments are summarised below:

	Less than 3 months	3 to 12 months	Over 12 months	<b>Total</b>
	\$'000	\$'000	\$'000	<b>\$'000</b>
<b>31 December 2007</b>				
Consolidated				
Bank borrowings	7,018	7,329	-	<b>14,347</b>
Trade and other payables	5,417	1,746	132	<b>7,295</b>
	<u>12,435</u>	<u>9,075</u>	<u>132</u>	<b><u>21,642</u></b>
Parent				
Trade and other payables	68	-	-	<b>68</b>
	<u>68</u>	<u>-</u>	<u>-</u>	<b><u>68</u></b>
<b>31 December 2006</b>				
Consolidated				
Bank borrowings	243	10,048	-	<b>10,291</b>
Trade and other payables	3,912	228	36	<b>4,176</b>
	<u>4,155</u>	<u>10,276</u>	<u>36</u>	<b><u>14,467</u></b>
Parent				
Trade and other payables	170	-	-	<b>170</b>
	<u>170</u>	<u>-</u>	<u>-</u>	<b><u>170</u></b>

# Oriental Technologies Investment Limited – Annual Report 2007

## Notes to and forming part of the financial statements for the year ended 31 December 2007

### 3 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

#### Credit Risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. In extending credit terms to customers, the Group has carefully assessed creditworthiness and financial standing of each customer. Management also closely monitors all outstanding debts and periodically reviews the collectibility of trade debtors. The maximum exposure to credit risk is presented by the carrying amount of each financial asset.

#### Capital Management

The objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure, including any payment of dividend, return of capital to shareholders, raising additional capital, or selling assets to reduce debt. Further discussion on the Group's capital position is set out in Note 33 to these financial statements.

The Group monitors capital on the basis of debt to equity, which is net debt divided by equity. The debt to equity ratios at 31 December were as follows:

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Borrowings	14,347	10,291	-	-
Trade and other payables	7,295	4,176	574	676
Less: Cash at Bank	(2,177)	(4,101)	(303)	(199)
Net Debt	19,465	10,366	271	477
Equity	18,490	17,176	9,386	9,214
Net Debt / Equity %	105%	60%	3%	5%

### 4 ACCOUNTING ESTIMATES AND JUDGEMENTS

#### Critical judgements

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 effects both current and future periods.

**4 ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)**

Judgments made by management 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 to these financial statements includes details about specific estimates made to determine whether there has been any impairment to goodwill.

**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.

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 5 SEGMENT REPORTING (continued)

### Primary reporting format - Geographical segments

2007

	Europe	Australia	China	Other	Total continuing operations	Inter-segment eliminations/Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>							
Sales to external customers	38,223	16,393	7,164	6,119	67,899	-	67,899
Total sales revenue	38,223	16,393	7,164	6,119	67,899	-	67,899
Other revenue/income	-	-	-	-	-	353	353
Total segment revenue/income	38,223	16,393	7,164	6,119	67,899	353	68,252
<b>Result</b>							
Segment result	4,371	1,875	819	699	7,764	(6,414)	1,350
Profit before income tax							1,350
Income tax expense							-
Net profit for the year							1,350

2006

	Europe	Australia	China	Other	Total continuing operations	Inter-segment eliminations/Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>							
Sales to external customers	32,201	11,845	1,981	4,049	50,076	-	50,076
Total sales revenue	32,201	11,845	1,981	4,049	50,076	-	50,076
Other revenue/income	-	-	-	-	-	1,010	1,010
Total segment revenue/income	32,201	11,845	1,981	4,049	50,076	1,010	51,086
<b>Result</b>							
Segment result	4,975	1,863	188	634	7,660	(5,501)	2,159
Loss before income tax							2,159
Income tax expense							(102)
Net loss for the year							2,057

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 financial statements 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 expenses for the assets; and

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

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## 5 SEGMENT REPORTING (continued)

(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 to these financial statements 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.

## 6 REVENUE

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>From continuing operations</b>				
Sale of goods	67,899	50,076	-	-
Interest	65	32	16	7
Dividend from subsidiary	-	-	655	531
	<b>67,964</b>	<b>50,108</b>	<b>671</b>	<b>538</b>

## 7 OTHER INCOME

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Foreign currency gain	221	13	2	40
Gain on liquidation of foreign subsidiary	-	845	-	-
Other	94	120	3	-
	<b>315</b>	<b>978</b>	<b>5</b>	<b>40</b>

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

<b>8</b>	<b>EXPENSES</b>				
	Profit/(Loss) before income tax includes the following specific expenses:				
	<i>Depreciation expense</i>				
	Land use rights	<b>23</b>	24	-	-
	Buildings	<b>225</b>	259	-	-
	Plant and equipment	<b>1,663</b>	1,844	-	-
		<b>1,911</b>	2,127	-	-
	Employee benefits (including defined contribution superannuation expense )	<b>3,126</b>	2,432	<b>500</b>	78
	<i>Finance Costs</i>				
	Interest paid/payable	<b>824</b>	681	<b>2</b>	3
	Defined contribution superannuation expense	<b>5</b>	6	<b>5</b>	6
	Other Expenses:				
	Loss on liquidation of foreign subsidiary	-	-	-	2,184
	Technical and advisory fees	<b>107</b>	222	<b>75</b>	154
	General & administrative costs	<b>808</b>	558	<b>347</b>	205
	Bad and doubtful debts	-	12	-	-
	Bank Charges	<b>12</b>	41	-	-
	Loss on sale of fixed assets	-	31	-	31
	Foreign currency loss	-	398	-	50
	Other expenses	<b>7</b>	9	-	-
		<b>934</b>	1,271	<b>422</b>	2,624

### 9 PRIOR PERIOD ADJUSTMENT

The calculation of the foreign exchange reserve recognised as part of the loss on liquidation of a Yangzhou Huayang Battery Company Limited, in the previous financial year, was overstated by \$1,045,000. This has been adjusted by correcting the respective comparative balances for the year ended 31 December 2006 in accordance with AASB 108. This resulted in a decrease in the foreign exchange reserve of \$1,045,000 and a reciprocal increase in profit attributable to members of the parent entity.



# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 11 EARNINGS/(LOSS) PER SHARE

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

	<b>Consolidated</b>	
	<b>2007</b>	2006
	<b>\$'000</b>	\$'000
<i>Basic loss per share</i>		
Profit from continuing operations	<b>1,350</b>	2,057
Profit from continuing operations attributable to minority interests	<b>(998)</b>	(712)
	<hr/>	<hr/>
Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate basic loss per share	<b>352</b>	1,345
	<hr/> <hr/>	<hr/> <hr/>
<i>Diluted earnings per share</i>		
Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate basic loss per share	<b>352</b>	1,345
	<hr/>	<hr/>
Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate diluted loss per share	<b>352</b>	1,345
	<hr/> <hr/>	<hr/> <hr/>
	<b>Consolidated</b>	
	<b>2007</b>	2006
	<b>Number</b>	Number
<b>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</b>	<b>116,884,005</b>	116,884,005
Adjustments for calculation of diluted earnings per share:		
- options	<b>2,300,341</b>	-
	<hr/>	<hr/>
<b>Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share</b>	<b>119,184,346</b>	116,884,005
	<hr/> <hr/>	<hr/> <hr/>

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 12 AUDITORS' REMUNERATION

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Assurance Services</b>				
<i>Audit services</i>				
Amounts paid/payable to BDO for audit or review of the financial report for the entity or any entity in the Group	-	118,112	-	118,112
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	-	9,029	-	9,029
Amounts paid/payable to RSM Bird Cameron Partners for audit or review of the financial report for the entity or any entity in the Group	<b>105,174</b>	7,100	<b>105,174</b>	7,100
Amounts paid/payable to subsidiary auditors who are un-related to RSM Bird Cameron Partners for audit or review of the financial report for the entity or any entity in the Group	<b>86,048</b>	43,854	<b>86,048</b>	43,854
	<b>191,222</b>	178,095	<b>191,222</b>	178,095
<i>Other assurance services</i>				
Amounts paid/payable to BDO for non-audit assurance services performed for the entity or any entity in the group:				
- Providing RSM Bird Cameron Partners access to audit files	<b>1,330</b>	-	<b>1,330</b>	-
Amounts paid/payable to RSM Bird Cameron Partners for non-audit assurance services performed for the entity or any entity in the group:				
- Accounting advice in respect of disposal of Yangzhou Hua Yang Battery Company Limited	<b>6,584</b>	-	<b>6,584</b>	-
- Other	<b>756</b>	-	<b>756</b>	-
	<b>8,670</b>	-	<b>8,670</b>	-
Total remuneration for assurance services	<b>199,892</b>	178,095	<b>199,892</b>	178,095
<b>Taxation Services</b>				
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	<b>3,550</b>	3,000	<b>3,550</b>	3,000

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 13 CASH AND CASH EQUIVALENTS

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash at bank and in hand	<b>2,177</b>	4,101	<b>303</b>	199
	<b>Per annum %</b>	Per annum %	<b>Per annum %</b>	Per annum %
Interest rates for cash at bank and in hand	<b>2.1</b>	1.0	<b>6.4</b>	3.9

### 14 TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Trade receivables	<b>10,546</b>	3,967	-	-
Other debtors	<b>546</b>	1,131	<b>14</b>	39
	<b>11,092</b>	5,098	<b>14</b>	39

Included in the Group's trade receivable balances are debtors with a carrying amount of \$1,613,000 (2006 \$509,000) which are past due at 31 December but not impaired as there has not been a significant change in credit quality and management believes that these amounts are recoverable. These overdue amounts relate to major customers for whom there is not a recent history of default. The Group does not hold any collateral over these amounts receivable.

Ageing at 31 December of these past due amounts is as follows:

1 month	<b>1,392</b>	446	-	-
1 to 2 months	<b>203</b>	17	-	-
2 to 3 months	<b>16</b>	36	-	-
Over 3 months	<b>2</b>	10	-	-
	<b>1,613</b>	509	-	-

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

US dollar	<b>6,153</b>	1,205	-	-
Euro	<b>1,900</b>	424	-	-
Renminbi	<b>3,025</b>	3,430	-	-
	<b>11,078</b>	5,059	-	-
Australian dollar	<b>14</b>	39	<b>14</b>	39
	<b>11,092</b>	5,098	<b>14</b>	39

At 31 December 2007, the Group had a concentration of credit risks, as 79% of total trade receivables was due from the Group's five largest customers. Credit evaluations and monitoring until settlement are performed on these customers.

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 14 TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

#### 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:

2007	Floating	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Non-	Total
	rates							interest	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	-	-	-	-	-	-	-	10,546	10,546
Other receivables	-	-	-	-	-	-	-	546	546
	-	-	-	-	-	-	-	11,092	11,092
Weighted average interest rate	-	-	-	-	-	-	-	-	-
2006	Floating	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	> 5 years	Non-	Total
	rates							interest	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade receivables	-	-	-	-	-	-	-	3,967	3,967
Other receivables	-	-	-	-	-	-	-	1,131	1,131
	-	-	-	-	-	-	-	5,098	5,098
Weighted average interest rate	-	-	-	-	-	-	-	-	-

### 15 INVENTORIES (CURRENT)

At cost	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Raw Materials	5,563	2,712	-	-
Work in progress	2,865	1,697	-	-
Finished goods	2,353	1,220	-	-
	10,781	5,629	-	-

The cost of inventories recognised as an expense amounted to \$60,134,000 (2006: \$42,416,000).

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 16 OTHER FINANCIAL ASSETS (NON-CURRENT)

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Shares in subsidiaries (refer Note 17)	-	-	10,034	10,034
Write down to recoverable amount	-	-	(367)	(367)
	-	-	9,667	9,667

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

#### Impairment of investment in subsidiary

During the year ended 31 December 2006, the parent company transferred \$851,000 being the impairment provision previously recognised against its investment in Yangzhou Hua Yang Battery Co Limited to the loss on liquidation of foreign subsidiary.

### 17 CONTROLLED ENTITIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding **		Equity holding **	
			2007 %	2006 %	2007 \$'000	2006 \$'000
Orientech Pty Limited	Australia	Ordinary	100.00	100.00	873	873
Yangzhou Apollo Battery Co Limited *	China	Ordinary	55.57	55.57	9,161	9,161
					<u>10,034</u>	<u>10,034</u>

\* This subsidiary is incorporated and operates within the Peoples Republic of China ("PRC") and is 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 Yangzhou Apollo Battery Co Limited 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.

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 18 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
<i>Land usage rights</i>				
At cost	1,121	1,121	-	-
Accumulated depreciation	(112)	(89)	-	-
	<b>1,009</b>	1,032	-	-
<i>Buildings - Leasehold</i>				
At cost	5,530	4,996	-	-
Accumulated depreciation	(647)	(422)	-	-
	<b>4,883</b>	4,574	-	-
Total land and buildings	<b>5,892</b>	5,606	-	-
<i>Plant and equipment</i>				
At cost	12,902	12,255	-	-
Accumulated depreciation & impairment	(3,112)	(1,396)	-	-
	<b>9,790</b>	10,859	-	-
Plant and equipment under construction	525	365	-	-
Total plant and equipment	<b>10,315</b>	11,224	-	-
Total non-current property, plant and equipment	<b>16,207</b>	16,830	-	-
<i>Total land Usage Rights</i>				
Carrying amount at beginning of financial year	1,032	1,108	-	-
Depreciation	(23)	(24)	-	-
Effect of movement in foreign exchange	-	(52)	-	-
Carrying amount at end of financial year	<b>1,009</b>	1,032	-	-
<i>Total Buildings - Leasehold</i>				
Carrying amount at beginning of financial year	4,574	5,493	-	-
Additions	-	405	-	-
Disposals	-	(1,317)	-	-
Depreciation	(225)	(259)	-	-
Impairment loss reversal	-	113	-	-
Effect of movement in foreign exchange	-	(241)	-	-
Reclassification from construction in progress	534	380	-	-
Carrying amount at end of financial year	<b>4,883</b>	4,574	-	-
<i>Total Plant &amp; Equipment</i>				
Carrying amount at beginning of financial year	10,859	12,672	-	31
Additions	749	3,429	-	-
Disposals	(136)	(5,482)	-	(31)
Depreciation	(1,663)	(1,843)	-	-
(Impairment loss)/Impairment loss reversal	(192)	2,032	-	-
Effect of movement in foreign exchange	-	(585)	-	-
Reclassification from construction in progress	173	636	-	-
Carrying amount at end of financial year	<b>9,790</b>	10,859	-	-
<i>Total Construction in Progress</i>				
Carrying amount at beginning of financial year	365	266	-	-
Additions	867	1,129	-	-
Effect of movement in foreign exchange	-	(14)	-	-
Reclassification to buildings leasehold	(534)	(380)	-	-
Reclassification to plant & equipment	(173)	(636)	-	-
Carrying amount at end of financial year	<b>525</b>	365	-	-

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 18 PROPERTY, PLANT AND EQUIPMENT (continued)

#### Land and Buildings

In the opinion of Directors and based upon a bank valuation for lending purposes, the market value of land usage rights and buildings at 31 December 2007 is approximately RMB 79 million or AUD 12 million (2006 approximately RMB 60 million or AUD 10 million).

### 19 INTANGIBLE ASSETS

<i>Goodwill</i>	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
At deemed cost	-	-	-	-
Less Accumulated impairment losses	-	-	-	-
	-	-	-	-
<i>Goodwill reconciliation</i>				
Balance at start of year	-	494	-	-
Transferred to gain on liquidation of foreign subsidiary	-	(494)	-	-
Balance at end of year	-	-	-	-

### 20 TRADE AND OTHER PAYABLES

<b>CURRENT</b>	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
Unsecured liabilities	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Trade payables	<b>6,648</b>	3,536	-	-
Sundry payables	<b>515</b>	604	<b>68</b>	170
Amount payable to wholly owned subsidiary	-	-	<b>506</b>	506
	<b>7,163</b>	4,140	<b>574</b>	676
<b>NON CURRENT</b>				
Unsecured liabilities				
Sundry payables	<b>132</b>	36	-	-
	<b>132</b>	36	-	-

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 21 BORROWINGS (CURRENT)

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
Secured	\$'000	\$'000	\$'000	\$'000
Bank loans	14,347	10,291	-	-
<b>Total current interest-bearing liabilities</b>	<b>14,347</b>	<b>10,291</b>	<b>-</b>	<b>-</b>

(i). <i>Bank loans</i>	Consolidated Entity			Consolidated Entity		
	2007			2006		
	RMB	Effective Interest Rate	Expiry Date	RMB	Effective Interest Rate	Expiry Date
	'000	pa		'000	pa	
	10,000	6.570%	15/06/08	1,500	5.496%	05/01/07
	10,000	6.426%	04/01/08	10,000	5.580%	24/05/07
	8,000	6.426%	15/02/08	5,000	5.580%	07/06/07
	10,000	6.570%	05/06/08	10,000	5.850%	08/06/07
	10,000	6.570%	12/06/08	10,000	4.875%	15/06/07
	12,000	6.121%	15/02/08	10,000	5.850%	20/06/07
	17,000	7.020%	27/08/08	17,000	6.120%	19/08/07
	5,000	6.306%	13/03/08	-	-	-
	10,000	6.306%	10/03/08	-	-	-
	<u>92,000</u>			<u>63,500</u>		
\$'000	<u>14,347</u>			<u>10,291</u>		

(ii). <i>Assets pledged as security</i>	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Collateralized by land use rights	1,009	1,032	-	-
Collateralized by buildings leasehold	4,883	4,574	-	-
	<b>5,892</b>	<b>5,606</b>	<b>-</b>	<b>-</b>

(iii). *Subsequent to 31 December 2007 and at the date of this report, bank loans payable were as follows:*

	RMB	Effective Interest Rate	Expiry
	'000	pa	
	10,000	5.475%	05/06/08
	10,000	5.475%	08/06/08
	10,000	5.475%	12/06/08
	10,000	5.475%	15/06/08
	5,000	5.475%	18/06/08
	8,000	5.749%	25/07/08
	12,000	5.749%	15/08/08
	17,000	5.850%	26/08/08
	10,000	6.536%	11/01/09
	<u>92,000</u>		
\$'000	<u>14,347</u>		

Assets pledged by the consolidated entity as security have not changed since 31 December 2007.

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 21 BORROWINGS (CURRENT) (continued)

(iv). *Financing arrangements*

The following financing facilities were available at balance date.

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
<b>Credit stand-by arrangements</b>				
<b>Bank loans</b>				
Total facilities:				
Used at balance date	14,347	10,291	-	-
Unused at balance date	12,320	-	-	-
	<u>26,667</u>	<u>10,291</u>	<u>-</u>	<u>-</u>

(v). *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:

#### 2007

	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
Bank loans	-	14,347	-	-	-	-	-	-	14,347
	<u>-</u>	<u>14,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,347</u>
Weighted average interest rate		6.5%	-	-	-	-	-	-	6.5%

#### 2006

	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
Bank loans	-	10,291	-	-	-	-	-	-	10,291
	<u>-</u>	<u>10,291</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,291</u>
Weighted average interest rate		5.7%	-	-	-	-	-	-	5.7%

(vi). *Fair value*

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

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
<b>On-balance sheet</b>				
Bank loans	14,347	10,291	-	-
	<u>14,347</u>	<u>10,291</u>	<u>-</u>	<u>-</u>

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 22 PROVISIONS (CURRENT)

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Employee benefits	24	15	24	15
Land Tax	101	-	-	-
	<u>125</u>	<u>15</u>	<u>24</u>	<u>15</u>

### 23 ISSUED CAPITAL

	2007	2006		
	Shares	\$'000	\$'000	\$'000
<b>Share capital</b>				
<i>Ordinary shares - no par value</i>				
Fully paid and authorised	<u>116,884,005</u>	<u>27,892</u>	27,892	27,892
	<u>116,884,005</u>	<u>27,892</u>	27,892	27,892

#### Movements in ordinary share capital

Date	Details	Number of shares	\$'000
1-Jan-06	Opening balance	116,884,005	27,892
31-Dec-06	Closing balance	<u>116,884,005</u>	<u>27,892</u>
1-Jan-07	Opening balance	116,884,005	27,892
31-Dec-07	Closing balance	<u>116,884,005</u>	<u>27,892</u>

#### 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 28 to these financial statements.

#### 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.

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 24 RESERVES AND ACCUMULATED LOSSES

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(a) Other Reserves</b>				
General reserve	361	208	-	-
Foreign currency translation reserve	(548)	(522)	-	-
Share option reserve	424	4	424	4
	<b>237</b>	<b>(310)</b>	<b>424</b>	<b>4</b>
<b>(i) General reserve</b>				
Balance at start of year	208	775	-	-
Transfer to gain on liquidation of foreign subsidiary	-	(717)	-	-
Transfer from accumulated losses	275	-	-	-
Transfer to minority interests	(122)	-	-	-
Transfer to foreign currency translation reserve	-	(3)	-	-
Currency translation differences	-	153	-	-
Balance at end of year	<b>361</b>	<b>208</b>	<b>-</b>	<b>-</b>

In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), wholly foreign owned enterprises established in the PRC must maintain statutory reserves for specific purposes. The Board of Directors of Yangzhou Apollo Battery Co Ltd ("YABC") determine, on an annual basis, the amount of these annual appropriations to statutory reserves. During the year ended 31 December 2007, 10% of YABC's profit reported, by the statutory financial statements required by the laws and regulations of the PRC, was appropriated to reserves. At 31 December 2007, this general reserve related entirely to YABC. During the year ended 31 December 2006, that part of the general reserve relating to Yangzhou Huayang Battery Co Limited ("YHBC") was transferred to the gain on liquidation of a foreign subsidiary.

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(ii) Foreign currency translation reserve</b>				
Balance at start of year	(522)	452	-	-
Transfer from general reserve	-	3	-	-
Transfer to gain on liquidation of foreign subsidiary (refer Note 9)	-	(1,045)	-	-
Currency translation differences	(47)	68	-	-
Transfer to minority interests	21	-	-	-
Balance at end of year	<b>(548)</b>	<b>(522)</b>	<b>-</b>	<b>-</b>

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.

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>(iii) Share Option Reserve</b>				
Balance at start of year	4	4	4	4
Share based payments	420	-	420	-
Balance at end of year	<b>424</b>	<b>4</b>	<b>424</b>	<b>4</b>

The share option reserve is used to recognise the fair value of options issued to employees but not exercised.

<b>(b) Accumulated Losses</b>				
Balance at start of year	(18,014)	(19,382)	(18,682)	(16,555)
Transfer to general reserve	(275)	-	-	-
Transfer to minority interests	122	23	-	-
Net profit/(loss) for the year	352	1,345	(248)	(2,127)
Balance at end of year	<b>(17,815)</b>	<b>(18,014)</b>	<b>(18,930)</b>	<b>(18,682)</b>

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 25 MINORITY INTERESTS

Minority interests in:	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Share capital	7,201	7,201	-	-
General reserve	146	24	-	-
Foreign currency translation reserve	(21)	-	-	-
Accumulated profits	850	383	-	-
	<u>8,176</u>	<u>7,608</u>	<u>-</u>	<u>-</u>

## 26 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:

2007	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
<i>Fixed rate</i>							
Interest-bearing loans and borrowings	(11,696)	(2,651)	-	-	-	(14,347)	6.5%
Cash at bank and on hand	2,177	-	-	-	-	2,177	2.1%
<hr/>							
2006	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
<i>Fixed rate</i>							
Interest-bearing loans and borrowings	(7,536)	(2,755)	-	-	-	(10,291)	5.7%
Cash at bank and on hand	4,101	-	-	-	-	4,101	1.0%

Refer to Note 3 to these financial statements for further information about financial instrument policies and objectives.

Refer Note 21 to these financial statements for a summary of used and unused interest bearing loan facilities; and details of loan fair values.

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 27 CASH FLOW INFORMATION

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
<b>Reconciliation of profit/(loss) after income tax to net cash flow from operating activities</b>				
Profit/(Loss) after income tax for the year	<b>1,350</b>	2,057	<b>(248)</b>	(2,127)
Non-cash flows in profit				
Depreciation	<b>1,911</b>	2,127	-	-
Property, plant and equipment impairment (gain)/loss recognised in profit/(loss) during the year	<b>192</b>	-	-	31
Gain on liquidation of foreign subsidiary	-	(845)	-	-
Share option expenses	<b>420</b>	-	<b>420</b>	-
Net exchange differences	<b>(473)</b>	(95)	<b>(2)</b>	10
Changes in assets and liabilities				
(Increase)/Decrease in trade debtors	<b>(6,579)</b>	(1,807)	-	-
(Increase)/Decrease in other debtors	<b>584</b>	(592)	<b>25</b>	(18)
(Decrease)/Increase in receivables provision	-	(10)	-	-
(Increase)/Decrease in inventories	<b>(5,152)</b>	(3,422)	-	-
(Increase)/Decrease in investments	-	-	-	2,184
Increase/(Decrease) in trade & other payables	<b>3,119</b>	958	<b>(101)</b>	(28)
(Decrease)/Increase in current tax liability	-	(93)	-	-
(Decrease)/Increase in other provisions	<b>109</b>	-	<b>8</b>	-
(Increase) in deferred tax asset/(Decrease) in deferred tax liability	-	73	-	-
Net cash (outflow)/inflow from operating activities	<b>(4,519)</b>	(1,649)	<b>102</b>	52

# Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

## 28 SHARE-BASED PAYMENTS

### Remuneration Report

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Share-based payments expense recognised during the financial year</b>				
Options issued	<b>420,000</b>	-	<b>420,000</b>	-
	<b>420,000</b>	-	<b>420,000</b>	-

Details of options outstanding during the financial year are as follows:

#### 2007

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
<b>Series 2 Options</b>									
Refer Note 28 (a) below									
18-May-05	5 years ending 17 May 2010	9.9 cents per share	200,000	-	-	-	-	200,000	200,000
<b>Series 3 Options</b>									
Refer Note 28 (b) below									
16-November-07	5 years ending 15 November 2012	7.0 cents per share	-	10,500,000	-	-	-	10,500,000	10,500,000
Total			200,000	10,500,000	-	-	-	10,700,000	10,700,000

Weighted average exercise price	9.9 cents per share	7.0 cents per share	7.1 cents per share	7.1 cents per share
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#### 2006

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
<b>Series 2 Options</b>									
18-May-05	5 years ending 17 May 2010	9.9 cents per share	200,000	-	-	-	-	200,000	200,000
Total			200,000	-	-	-	-	200,000	200,000

Weighted average exercise price	9.9 cents per share	9.9 cents per share	9.9 cents per share
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**28 SHARE-BASED PAYMENTS (continued)**

The weighted average share price at the date of exercise of the options was 7.1 cents for the year ended 31 December 2007 (2006: 9.9 cents).

The weighted average remaining contractual life of share options outstanding at 31 December 2007 was 4 years and 10 months (2006: 3 years 5 months).

**(a) Series 2 Options 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.

**(b) Fair value of Series 3 options granted**

The fair value of options 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 years ended 31 December 2007 (2006 Nil) were as follows:

<b>Series 3 options</b>	
Weighted average fair value	4.00 cents
Grant date	16 November 2007
Share price at grant date	7.0 cents
Exercise price	7.0 cents
Expected volatility	60.0%
Expected dividend yield	Nil%
Risk free interest rate	6.27%

## Oriental Technologies Investment Limited – Annual Report 2007

### Notes to and forming part of the financial statements for the year ended 31 December 2007

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#### 28 SHARE-BASED PAYMENTS (continued)

Series 3 options were granted for no consideration; have a 5 year life; and are exercisable commencing the grant date

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.

#### 29 RELATED PARTY TRANSACTIONS

The Group consists of Oriental Technologies Investment Limited and its subsidiaries Orientech Pty Limited and Yangzhou Apollo Battery Co Limited. The ownership interests in these subsidiaries are set out in Note 17 to these financial statements.

Oriental Technologies Investment Limited, the parent entity, operates as a funding and management company for its subsidiaries 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 2007 owned:

- i). 100% of the issued ordinary shares of Orientech Pty Ltd in Australia (2006 100%);  
and
- ii). 55.57% of Yangzhou Apollo Battery Co Limited in China (2006 55.57%).

##### 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  
Xinsheng Wang (appointed 31 August 2007)  
George Su Su  
Patrick Ting Keung Ma (resigned 31 August 2007)  
Chunyang Qiu (resigned 31 August 2007)  
Steve Shulin Xin (resigned 31 August 2007)

##### Related party transactions with Directors

- i). Remuneration, retirement benefits and service agreements

An annual technical assistance fee relating to the operation in the Yangzhou Apollo Battery Co Limited ("YABC") 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.

## Oriental Technologies Investment Limited – Annual Report 2007

### Notes to and forming part of the financial statements for the year ended 31 December 2007

#### 29 RELATED PARTY TRANSACTIONS (continued)

Total fees paid and payable to RIDL during the year amounted to \$90,000 (2006 \$120,000). During the year ended 31 December 2006, YABC also paid an entity related to Mr. Lawrence Xin Rmb 2,500,000 (\$414,425) for technical advice.

ii). 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 2007 was 55,500,000 (2006: 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 2007 was 10,000,000 (2006 Nil).

No ordinary shares were acquired or disposed of by Directors or their Director related entities during the financial year (2006 Nil).

#### Movements in securities

The movement during the reporting period in the number of securities of Oriental Technologies Investment Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

Director	Securities	Number Held at 1 January 2007	Number Acquired	Number Sold	Number Held at 31 December 2007
Gerard McMahon	Series 3 unquoted options	-	3,000,000	-	3,000,000
Lawrence Lulin Xin	Ordinary fully paid shares	55,500,000	-	-	55,500,000
	Series 3 unquoted options	-	3,000,000	-	3,000,000
Xinsheng Wang	Series 3 unquoted options	<sup>1</sup>	3,000,000	-	3,000,000
George Su Su	Series 3 unquoted options	-	1,000,000	-	1,000,000
Patrick Ting Keung Ma	Ordinary fully paid shares	55,500,000	-	-	55,500,000 <sup>1</sup>
Steve Shulin Xin	Ordinary fully paid shares	55,500,000	-	-	55,500,000 <sup>1</sup>
<b>Company Secretary</b>					
Ian Morgan	Series 3 unquoted options	-	500,000	-	500,000

<sup>1</sup> Number held at date of appointment or resignation, as applicable (31 August 2007).

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

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### 29 RELATED PARTY TRANSACTIONS (continued)

The terms and conditions of the grant of series 3 options are outlined in Note 28 to these financial statements.

A company related to Mr Xinsheng Wang, Indeveno Industries Pty Ltd, is a minority shareholder of YABC. Indeveno Industries Pty Ltd controls 44.43% of YABC's total paid-up capital.

Transactions with related parties

	Consolidated Entity		Parent Entity	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Dividend revenue</b>				
Subsidiaries	-	-	654,904	531,364
<b>Outstanding balances</b>				
The following balances are outstanding at reporting date in relation to transactions with related parties:				
<b>Non-current payables (loans from related parties)</b>				
Wholly owned subsidiary	-	-	505,906	506,183

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.

## Oriental Technologies Investment Limited – Annual Report 2007

Notes to and forming part of the financial statements for the year ended 31 December 2007

### 30 CAPITAL AND LEASING COMMITMENTS

	Consolidated Entity		Parent Entity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Contracted but not provided net of deposit paid in financial statements:				
Within one year	368	168	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	<b>368</b>	168	-	-

Capital expenditure commitments mainly comprise mould costs; construction costs for sewerage disposal and electricity works.

### 31 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 2007-2	<i>Amendments to Australian Accounting Standards arising from AASB Interpretation 12</i>	Amends AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139 as a result of issue of AASB Interpretation 12	1 January 2008	Any impact is still to be determined

### 32 KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to key management personnel of the company and the Group is set out below:

	Consolidated Entity		Parent Entity	
	2007 \$	2006 \$	2007 \$	2006 \$
Short-term employee benefits	106,828	124,895	65,502	72,000
Post-employment benefits	5,895	6,480	5,895	6,480
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payment	420,000	-	420,000	-
	<b>532,723</b>	131,375	<b>491,397</b>	78,480

**33 SUBSEQUENT EVENTS**

**(a) Share Subscription Agreement**

*Redeemable Floating Notes*

Under an arrangement entered into with China Venturetechno International Co. Limited (“CVIC”) and Red Lion Resources Limited (“RLRL”), and 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 by the issue of two Redeemable Floating Notes. Terms of these Redeemable Floating Notes included 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, at 31 December 2007 a PSP was payable only if a dividend is declared payable by the Company. The PSP would cease once the cumulative implied payment amount (“CIPA”) reaches \$20,834,841 or the expiration of 50 years, whichever is the sooner.

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

The IPA in each year would 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.

*De recognition of provision*

In 2006, the Company de-recognised the previous provision of \$1,096,000 in respect of its cash liability for the PSP.

It is the Board’s opinion, based upon a legal opinion received, that the 20% profit share right is only payable out of any dividends declared by Oriental Technologies Investment Limited. As no dividend has been declared by the Company since the commencement of the debt restructuring arrangement, no present obligation for payment exists and no provision for any profit share payment is required.

If a provision had continued to be included based on 20% of NPAT rather than dividends declared, net profit attributable to members of the parent company for the year ended 31 December 2007 would have decreased by \$70,000 to \$282,000 (2006: net profit decrease by \$269,000 to \$1,076,000); and the total provision recognised at 31 December 2007 would be \$1,435,000 (31 December 2006 \$1,365,000).

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.

*Share Subscription Agreement*

On 31 January 2008, Oriental Technologies Investment Limited, CVIC and RLRL each entered into a Share Subscription Agreement.

The terms of this Share Subscription Agreement include that, conditional upon Oriental Technologies Investment Limited issuing and allotting a total of 9,477,082 ordinary fully paid shares to CVIC and RLRL or their nominees:

**33 SUBSEQUENT EVENTS (continued)**

**(a) Share Subscription Agreement (continued)**

- i). CVIC and RLRL each agreed that the Redeemable Floating Notes be extinguished; and
- ii). CVIC and RLRL each acknowledge the full and final settlement of the Redeemable Floating Notes and interest and costs and all other claims in relation to the circumstances in which OTI issued the Redeemable Floating Notes to CVIC and RLRL.

On 1 February 2008, Oriental Technologies Investment Limited issued and allotted a total of 9,477,082 ordinary fully paid shares to CVIC and RLRL in accordance with the Share Subscription Agreement.

**(b) Yangzhou Apollo Battery Company Ltd Paid Up Capital and Going Concern Uncertainty**

On 20 January 2006, one of the shareholders of Yangzhou Apollo Battery Co Ltd (“YABC”) injected capital of USD 4.0 million into YABC. Upon completion of this capital injection, the paid-up capital of YABC increased from USD 4.1 million to USD 8.1 million.

On 23 June 2006 and 20 September 2006, certain equity holders of YABC directly injected part of their share of distributions from fellow subsidiary Yangzhou Huayang Battery Co Ltd (“YHBC”) totaling USD 5.0 million to YABC as their capital contribution. The distributions were determined in accordance with YHBC’s statutory financial statements, which are prepared under the generally accepted accounting principles in the People’s Republic of China (“PRC GAAP”). After re-stating YHBC’s financial statements under International Financial Reporting Standards, the capital injection to YABC by means of re-investment of YHBC’s distributions amounted to USD 3.9 million. Upon completion of the capital injections, the paid-up capital of YABC increased to USD 12.0 million.

According to YABC’s statutory financial statements prepared under PRC GAAP, only USD 13.1 million registered capital has been paid. According to the relevant Company Laws and Regulations of the People’s Republic of China, YABC’s registered capital of USD 20.0 million must be fully paid up within three years from the date of issuance of the operating licence. Since the registered capital has not been paid up on time, the People’s Republic of China local government authority has issued a warning notice to YABC to take remedial action, otherwise YABC’s operating licence may be withdrawn.

On 20 October 2006, YABC’s directors resolved to apply to Yangzhou Foreign Trade and Economic Department to reduce the registered capital of YABC from USD 20.0 million to USD 13.1 million.

Up to the date of this report, the application for reduction of YABC’s registered capital has not yet been finally approved by the People’s Republic of China’s local government authority.

Written advice dated 18 February 2008 and provided by the Yangzhou Foreign Trade and Economic Department provided a preliminary approval for the reduction of YABC’s registered capital from USD 20.0 million to USD 13.1 million has been received.

This approval is a preliminary approval and final approval is still conditional upon receipt of any objections from YABC’s creditors, debtors, other Chinese Government authorities, or any other interested party. It is a requirement of Chinese law that YABC lodge a notice in the print media for public comment or objection about the proposed reduction in registered capital. There is then a 45 day period for receipt of any objections. YABC placed this notice in a Chinese newspaper on 20 February 2008. YABC is in the process of completing the registration necessary for the capital reduction.

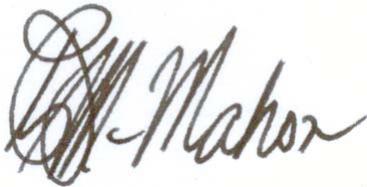
## Oriental Technologies Investment Limited – Annual Report 2007

### 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 and accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 31 December 2007 and of the performance for the year ended on that date of the company and the economic 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:

A handwritten signature in dark ink, appearing to read 'Gerard McMahon', is written over a light-colored rectangular background.

Gerard McMahon  
Chairman of the Board

31 March 2008

# RSM Bird Cameron Partners

Chartered Accountants

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## **Independent Auditor's Report To the Members of Oriental Technologies Investment Limited**

### **Report on the Financial Report**

We have audited the accompanying financial report of Oriental Technologies Investment Limited ("the company") and Oriental Technologies Investment Limited and Controlled entities ("the consolidated entity"), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 Related Party Disclosures, under the heading "remuneration report" in pages 6 to 10 of the directors' report and not in the financial report.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors are also responsible for the remuneration disclosures contained in the directors' report.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes

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evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Oriental Technologies Investment Limited and Oriental Technologies Investment Limited and Controlled Entities is in accordance with 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 2007 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).
- (c) In our opinion the remuneration disclosures that are contained in pages 6 to 10 of the directors' report comply with Accounting Standard AASB 124.



**RSM Bird Cameron Partners**  
Chartered Accountants



**W E Beauman**  
Partner

Sydney  
Dated: 31 March 2008

## Oriental Technologies Investment Limited – Annual Report 2007

### SHAREHOLDERS' INFORMATION

At 29 February 2008 issued capital was 126,361,087 ordinary shares held by 599 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 29 February 2008.

	Ordinary Shares	
	Number	% of Total
1 Red Investment & Development Ltd	55,500,000	43.92
2 Dynamic Ford Limited	23,280,000	18.42
3 Wirtz Family Investment Company LLC	9,984,000	7.90
4 Venturetechno International Co Limited	4,978,627	3.94
5 Red Lion Resources Limited	4,498,455	3.56
6 HF Stevenson (Aust) P/L	3,138,713	2.48
7 Invia Custodian Pty Limited	1,405,977	1.11
8 Mr Makram Hanna & Mrs Rita Hanna	1,232,000	0.97
9 Bernard Marie Francois Le Clezio	755,000	0.60
10 Mr Kevin John Holman	750,000	0.59
11 Mr John O Wirtz	600,000	0.47
12 Mr Adrian Robert Nijman + Mrs Jenny Ann Nijman	560,000	0.44
13 Blackmort Nominees Pty Ltd	500,000	0.40
14 Capricorn Society Ltd	450,000	0.36
15 Lady Penelope Patricia Street	437,500	0.35
16 Nomet Pty Ltd	400,000	0.32
17 Sassey Pty Ltd	398,000	0.31
18 Mr Mario Leo Volpe	370,233	0.29
19 Elcott Pty Ltd	350,000	0.28
20 Mr Raymond Francis Frew + Mrs Gillian Margaret Frew	343,000	0.27
Total top 20 Ordinary Shareholders	<u>109,931,505</u>	<u>86.98</u>

#### Distribution of Holders and Holdings at 29 February 2008

	Ordinary Shares Number of Holders	Shares Held
1 - 1,000	56	43,704
1,001 - 5,000	209	635,569
5,001 - 10,000	75	664,600
10,001 - 100,000	204	8,445,867
100,001 and over	55	116,571,347
<b>Total</b>	<b><u>599</u></b>	<b><u>126,361,087</u></b>
Holdings of less than a marketable parcel:	<u>276</u>	<u>746,173</u>

## Oriental Technologies Investment Limited – Annual Report 2007

### Shareholder Information (continued)

Substantial shareholders at 29 February 2008:

SUBSTANTIAL SHAREHOLDERS	NUMBER OF SHARES	PROPORTION OF ISSUED SHARES
Red Investment & Development Limited	55,500,000	43.92%
Dynamic Ford Limited	23,280,000	18.42%
Wirtz Family Investment Company LLC	9,984,000	7.90%
Cheng Kam Biu, Wilson	9,477,082	7.50%

### Series 3 Options

There are five option holders holding a total of 10,500,000 unquoted series 3 options on issue and each of these options may only be converted into one fully paid ordinary share during the period commencing the grant date (16 November 2007) and ending five years after the grant date. The option exercise price is 7.0 cents per ordinary share. Granting of these series 3 options was approved by the Company's shareholders at an extraordinary general meeting held on 16 November 2007. Persons holding 20% or more of these series 3 options are:

- (a) Mr. Gerard McMahon 3,000,000;
- (b) Mr Lawrence Xin 3,000,000; and
- (c) Mr. Xinsheng Wang 3,000,000.

### 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

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Facsimile:

REGISTERED OFFICE	AUDITORS
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### COMPANY SECRETARY

Ian Morgan B Bus CA ACIS F Fin MAICD