ORIENTAL TECHNOLOGIES INVESTMENT LIMITED

ABN 13 060 266 248

ANNUAL REPORT

31 DECEMBER 2008

ORIENTAL TECHNOLOGIES INVESTMENT LIMITED

ANNUAL REPORT 2008

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# CHAIRMAN'S REPORT

## Financial Results

Shareholders will see from the 2008 Annual Report that loss after tax, attributable to the members of the parent entity for the year ended 31 December 2008, totalled $291,000. Profit after tax for the year ended 31 December 2007 totalled $352,000.

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

- The loss for the year ended 31 December 2008 is reported after deducting an expense totalling $664,000 for the extinguishing of the redeemable floating notes during the year ended 31 December 2008; and
- 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.

## Review

The 2008 results were affected by the onset of the global financial tsunami. The Company's Yangzhou manufacturing plant had been performing very well in the first half but the sudden down turn in export orders in the second half severely hit profitability and the operation had to curtail production and expenses. A market promotion was carried out to win additional domestic customers, which has had some success.

## Prospects

Overall, 2009 will be a very difficult year. However, management will strive to maintain operational profitability.

Gerard McMahon
Chairman
27 March 2009

## REVIEW OF OPERATIONS AND OUTLOOK

The Company is pleased to report its results for the year ended 31 December 2008.

Net loss attributable to the members of Oriental Technologies Investment Limited for the year ended 31 December 2008 was $291,000 (2007 $352,000 profit). Revenue for 2008 was $76.8 M, an increase of 12.5% over the previous period (2007 $68.3M).

Apollo's operation during 2008 was a year of fluctuations. Sales and profit during the first six months was phenomenally high due to strong market demand and reasonable selling prices – which were linked with market lead prices and loyal customers.

The sudden downturn began in September, when sales order volumes reduced significantly.

The total sales volume ordered in the second half of the year decreased by 30% compared with same period in 2007. The selling price, which was in our favour during the first half of the year, dramatically turned. This change to the selling price was directly due to a lower lead market price, resulting in Apollo accumulating higher inventory costs and was clearly reflected in Chinese domestic sales figures.

Necessary measurements to reduce costs were enforced. Employee costs were cut by 5% and working times shortened significantly.

However, within last two months prior to December the situation deteriorated further. During this period, demand from traditional markets was too weak to keep Apollo's operations fully utilized.

These occurrences have been common to many export orientated businesses due to the ongoing global financial down turn, and Apollo has suffered with many others.

To alleviate this situation, from the beginning of 2009 Apollo started to import its partial lead. All scrap plates normally sold to third parties are now being fully recovered within the plant.

Bank loans were reorganized to account for higher interest costs and give Apollo more flexibility to utilise these loans.

A market promotion was carried out to win additional customers. Inventory made for the domestic market, and with higher costs in 2008, was promoted and sales orders for cheaper inventory were filled. Total wages paid by YABC to all YABC's management staff, including YABC's directors, was reduced.

A number of measures have been enforced to reduce production costs. For instance, to utilize less costly electricity the day shift was cut to save the peak hour power costs and only the afternoon and night shifts remain.

Overall, 2009 will be a very tough year. However, management will attempt to keep the business profitable.

27 March 2009

Xinsheng Wang
Managing Director

## DIRECTORS' REPORT

The Directors of Oriental Technologies Investment Limited present their report on the Company for the financial year ended 31 December 2008.

### Directors

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

| | |
|---|---|
| Gerard McMahon | Non Executive Chairman |
| Lawrence Luo-Lin Xin | Executive Deputy Chairman |
| Xinsheng Wang | Managing Director |
| George Su Su | Non-Executive Director |

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 35 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 Guangnan (Holdings) Limited (appointed 22 June 2000), a company listed on the Hong Kong Stock Exchange.

Mr McMahon was a director of The Quaypoint Corporation Limited (formerly Techwayson Holdings Limited) (appointed 10 May 2006 and retired 28 November 2008), a company listed on the Hong Kong Stock Exchange.

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

*Lawrence Luo-Lin Xin*

Executive Deputy Chairman
Member of Audit Committee

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

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

Mr Xin is a director of Sinolink Worldwide Holdings Limited (Hong Kong Stock Exchange) (appointed 7 June 2002), Enerchina Holdings Limited (Hong Kong Stock Exchange) (appointed 24 April 2001), and Mori Denki Mfg.Co,Ltd (Tokyo Stock Exchange) (appointed 28 June 2007).

*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 the 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 Su Su*

Non Executive Director

Mr Su is Managing Director of Silk Road Capital Group Ltd, a Sydney based business advisory company specialized in cross border transactions between Australia and China.

He also serves on the board of Macquarie Bank's China property fund.

Mr Su became non-executive director of the Company in September 2007 after serving as managing director since 1998. He was instrumental in the strategic transfer of the Company's manufacturing operation to China.

Mr Su held senior positions in a Chinese government controlled investment company before joining the Company. Currently based in Sydney, he has more than 23 years business experiences in China and the Asia Pacific region having worked in Beijing, Hong Kong, Singapore and Shanghai previously.

Born and grew up in Beijing, Mr Su was educated in China and USA.

## Company Secretary

Mr Ian Morgan *B Bus CA ACIS MAICD F Fin* was appointed Company Secretary on 31 December 2003. Mr Morgan is an experienced Chartered Company Secretary and Chartered Accountant, with over 25 years experience in corporate administration. Mr. Morgan provides secretarial services to a range of listed and unlisted companies, and is company secretary of other publicly listed companies.

## 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.

## 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 (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 26 of these financial statements.

| Name | Number of options granted during the year | | Number of options vested during the year | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Directors** | | | | |
| Gerard McMahon | - | 3,000,000 | - | 3,000,000 |
| Lawrence Luo-Lin Xin | - | 3,000,000 | - | 3,000,000 |
| Xinsheng Wang | - | 3,000,000 | - | 3,000,000 |
| George Su Su, | - | 1,000,000 | - | 1,000,000 |
| **Company Secretary** | | | | |
| Ian Morgan | - | 500,000 | - | 500,000 |
| | - | 10,500,000 | - | 10,500,000 |

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 8). 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.

## 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.

## 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) $ | | | |
| **Directors** | | | | | | | | | | | | |
| Gerard McMahon | 2008 | 35,000 | - | - | 35,000 | 3,150 | - | - | - | 38,150 | - | - |
| | 2007 | 29,502 | - | - | 29,502 | 2,655 | - | - | 120,000 | 152,157 | - | 78.9 |
| Lawrence Luo-Lin Xin | 2008 | - | - | - | - | - | - | - | - | - | - | - |
| | 2007 | - | - | - | - | - | - | - | 120,000 | 120,000 | - | 100.0 |
| Steve S Xin (resigned 31 | 2008 | - | - | - | - | - | - | - | - | - | - | - |
| August 2007) | 2007 | - | - | - | - | - | - | - | - | - | - | - |
| Patrick TK Ma (resigned 31 | 2008 | - | - | - | - | - | - | - | - | - | - | - |
| August 2007) | 2007 | - | - | - | - | - | - | - | - | - | - | - |
| Chunyang Qiu (resigned 31 | 2008 | - | - | - | - | - | - | - | - | - | - | - |
| August 2007) | 2007 | - | - | - | - | - | - | - | - | - | - | - |
| George Su Su, (Managing | 2008 | 18,000 | - | - | 18,000 | 1,620 | - | - | - | 19,620 | - | - |
| Director until 31 August 2007) | 2007 | 36,000 | - | - | 36,000 | 3,240 | - | - | 40,000 | 79,240 | - | 50.5 |
| **Executives** | | | | | | | | | | | | |
| Xinsheng Wang (appointed | 2008 | 107,655 | - | - | 107,655 | - | - | - | - | 107,655 | - | - |
| Managing Director 31 August 2007) | 2007 | - | - | - | - | - | - | - | 120,000 | 120,000 | - | 100.0 |
| Bo Peng (Vice President) | 2008 | 35,885 | - | - | 35,885 | - | - | - | - | 35,885 | - | - |
| | 2007 | 31,789 | - | - | 31,789 | - | - | - | - | 31,789 | - | - |
| Mi Yang (Financial Controller) | 2008 | 10,766 | - | - | 10,766 | - | - | - | - | 10,766 | - | - |
| | 2007 | 9,537 | - | - | 9,537 | - | - | - | - | 9,537 | - | - |

Remuneration Report (AUDITED) (continued)

| | | Short-term | | | | Post-employment | Other long term | Termination benefits | Share-based payments | Total $ | Proportion of remuneration performance related % | Value of options as proportion of remuneration % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & fees $ | Cash bonus $ | Non-monetary benefits $ | Total | Super-annuation benefits $ | $ | | Options and rights $ | | | |
| Ian Morgan (Company Secretary)[1] | 2008 | - | - | - | - | - | - | - | - | - | - | - |
| | 2007 | - | - | - | - | - | - | - | 20,000 | 20,000 | - | 100.0 |
| Total compensation: key management personnel (consolidated) | 2008 | 207,306 | - | - | 207,306 | 4,770 | - | - | - | 212,076 | - | - |
| | 2007 | 106,828 | - | - | 106,828 | 5,895 | - | - | 420,000 | 532,723 | - | 78.8 |
| Total compensation: key management personnel (company) | 2008 | 53,000 | - | - | 53,000 | 4,770 | - | - | - | 57,770 | - | - |
| | 2007 | 65,502 | - | - | 65,502 | 5,895 | - | - | 420,000 | 491,397 | - | 85.5 |

End of Audited Section of Directors' Report

[1] For the year ended 31 December 2008, the Company also paid $35,000 excluding GST (2007 $35,170) to an entity related to Mr. Morgan for the provision of company secretarial services.

## Share Options

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

Each employee share option is convertible into one share.

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

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

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

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

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

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

Options were issued to, and are held by:

| | Number of Options Held 1 January 2008 | Exercised | Granted | Expired | Number of Options Held 31 December 2008 |
|---|---|---|---|---|---|
| Series 2 options | 200,000 | - | - | - | 200,000 |
| Series 3 options | 10,500,000 | - | - | - | 10,500,000 |
| | 10,700,000 | - | - | - | 10,700,000 |

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).

*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

| | Number of ordinary shares | | | Number of options | | |
|---|---|---|---|---|---|---|
| Director | Beneficial | Non-Beneficial | Total | Beneficial | Non-Beneficial | Total |
| Gerard McMahon | 300,000 | - | 300,000 | 3,000,000 | - | 3,000,000 |
| Lawrence Luo-Lin 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, 6 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 | 6 | 6 | 3 | 3 |
| Lawrence Luo-Lin Xin | 6 | 6 | 3 | 3 |
| Xinsheng Wang | 6 | 5 | - | - |
| George Su Su | 6 | 6 | - | - |

## Directors' Report (continued)
## 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.

## Non Audit Services

Details of amounts paid to the Auditor for non Audit services provided during the year are set out in Note 11 of 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 APES 110 Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

## Operating Results

Net loss attributable to members of Oriental Technologies Investment Limited for the financial year was $291,000 (2007 $352,000 profit).

## Dividends

The Directors do not recommend the payment of a dividend (2007 $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 32 of 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.

## Directors' Report (continued)
## 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.

## 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 (2007 $19,987) 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.

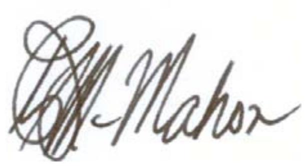
## Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 22 and forms part of the directors' report for the financial year ended 31 December 2008.

## Rounding Off 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



Gerard McMahon
Chairman of the Board

27 March 2009

## 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 2008. The Company is a small company with limited operations. Accordingly the Board considers that many of the corporate governance guidelines intended to apply to larger companies are not practical for the Company.

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

*Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.*

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.

*Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.*

The Managing Director reviews the performance of senior executives.

*Recommendation 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.*

The Principle 1 information required by the Guide is disclosed above.

### 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 two non-executive independent Directors, including the Chairman, the executive Deputy Chairman; and one executive Managing Director.

There is not a majority of independent directors. The Board considers that the Board's structure is still appropriate to the Company's size; and each Director-independent or not- brings an independent judgement to bear on Board decisions.

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.

*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: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.*

The non-executive Chairman reviews the performance of the executive Deputy Chairman and Managing Director.

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

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

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.

*Recommendation 2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.*

The Principle 2 information required by the Guide is disclosed above.

## Principle 3: Promote ethical and responsible decision making

*Recommendation 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:*

- *The practices necessary to maintain confidence in the company's integrity*
- *The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders*
- *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 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.*

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

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

Designated Officers may not deal:

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

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

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

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

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

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

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

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

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

If an employee, who is not a Designated Officer, 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 Companies should provide the information indicated in the Guide to reporting on Principle 3.*

The Principle 3 information required by the Guide is disclosed above.

## Principle 4: Safeguard integrity in financial reporting

*Recommendation 4.1 The board should establish an audit committee.*

The Company has established an audit committee.

*Recommendation 4.2 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 one non-executive independent Director (Mr Gerard McMahon) and the executive Deputy Chairman (Mr Lawrence 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; non-executive Director; Managing Director; External Auditor and Company Secretary.

*Recommendation 4.3 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 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.*

The Principle 4 information required by the Guide is disclosed above.

## Principle 5: Make timely and balanced disclosure

*Recommendation 5.1: Companies should 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 and disclose those policies or a summary of those policies.*

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 ASX Limited Listing Rules, and the Corporations Act 2001.

*Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.*

The Principle 5 information required by the Guide is disclosed above.

## Principle 6: Respect the Rights of Shareholders

*Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.*

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:

- Placement of market announcements on the Company's web-site http://www.orientech.com.au/;
- The annual and interim financial reports (for those shareholders who have requested a copy);
- Disclosures to the Australia Securities 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: Companies should provide the information indicated in the Guide to reporting on Principle 6.*

The Principle 6 information required by the Guide is disclosed above.

## Principle 7: Recognise and Manage Risk

*Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

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

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

*Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.*

The Managing Director manages the Company's material business risks and reports to the Audit Committee.

### 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.

*Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

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

*Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.*

The Principle 7information required by the Guide is disclosed above.

## Principle 8: Remunerate Fairly and Responsibly

*Recommendation 8.1: The board should establish a remuneration committee.*

The Board would establish a Remuneration Committee, as required.

*Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

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

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

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.

When constituted, the Company's Remuneration Committee would comprise two non-executive independent Directors. 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.

*Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.*

The Principle 8 information required by the Guide is disclosed above.

# RSM Bird Cameron Partners

Chartered Accountants

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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of Oriental Technologies Investment Limited for the year ended 31 December 2008, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

W E Beauman
Partner

Sydney
Dated: 27 March 2009.

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | Consolidated Entity 2008 $'000 | Consolidated Entity 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|---|
| Revenue | 6 | 76,707 | 67,964 | 1,694 | 671 |
| Other income | 7 | 131 | 315 | 486 | 5 |
| Changes in inventories of finished goods and work in progress | | (4,311) | 5,152 | - | - |
| Raw materials and consumables used | | (63,072) | (65,286) | - | - |
| Employee benefits expense | 8 | (3,708) | (3,126) | (58) | (500) |
| Depreciation expense | 8 | (2,253) | (1,911) | - | - |
| Finance costs | 8 | (1,196) | (824) | - | (2) |
| Other expenses | 8 | (1,674) | (934) | (935) | (422) |
| Profit/(Loss) before income tax | | 624 | 1,350 | 1,187 | (248) |
| Income tax expense | 9 | (263) | - | - | - |
| Profit/(Loss) for the year | | 361 | 1,350 | 1,187 | (248) |
| Profit attributable to minority equity interest | | (652) | (998) | - | - |
| (Loss) / Profit attributable to members of the parent entity | 22 | (291) | 352 | 1,187 | (248) |

| | Notes | Cents | Cents |
|---|---|---|---|
| **Basic (Loss) / Earnings per share** | | | |
| (Loss) / Profit from continuing operations attributable to the ordinary equity holders of the Company | 10 | (0.2) | 0.3 |
| (Loss) / Profit from discontinued operations | | - | - |
| (Loss) / Profit attributable to the ordinary equity holders of the Company | | (0.2) | 0.3 |
| **Diluted (Loss) / Earnings per share** | | | |
| (Loss) / Profit from continuing operations attributable to the ordinary equity holders of the Company | 10 | (0.2) | 0.3 |
| (Loss) / Profit from discontinued operations | | - | - |
| (Loss) / Profit attributable to the ordinary equity holders of the Company | | (0.2) | 0.3 |

The accompanying notes form part of these financial statements.

## BALANCE SHEETS AS AT 31 DECEMBER 2008

| | | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | Note | $'000 | $'000 | $'000 | $'000 |
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | 12 | 8,643 | 2,177 | 2,098 | 303 |
| Trade and other receivables | 13 | 7,182 | 11,092 | 14 | 14 |
| Inventories | 14 | 6,471 | 10,781 | - | - |
| Total current assets | | 22,296 | 24,050 | 2,112 | 317 |
| Non-current assets | | | | | |
| Other financial assets | 15 | - | - | 9,161 | 9,667 |
| Property, plant and equipment | 17 | 26,288 | 16,207 | - | - |
| Total non-current assets | | 26,288 | 16,207 | 9,161 | 9,667 |
| Total assets | | 48,584 | 40,257 | 11,273 | 9,984 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 18 | 5,387 | 7,163 | 36 | 574 |
| Short-term borrowings | 19 | 19,433 | 14,347 | - | - |
| Short term provisions | 20 | - | 125 | - | 24 |
| Total current liabilities | | 24,820 | 21,635 | 36 | 598 |
| Non-current liabilities | | | | | |
| Trade and other payables | 18 | - | 132 | - | - |
| Total non-current liabilities | | - | 132 | - | - |
| Total liabilities | | 24,820 | 21,767 | 36 | 598 |
| Net assets | | 23,764 | 18,490 | 11,237 | 9,386 |
| EQUITY | | | | | |
| Issued capital | 21 | 28,556 | 27,892 | 28,556 | 27,892 |
| Reserves | 22 | 3,595 | 237 | 424 | 424 |
| Accumulated Losses | 22 | (18,359) | (17,815) | (17,743) | (18,930) |
| Parent entity interest | | 13,792 | 10,314 | 11,237 | 9,386 |
| Minority equity interest | 23 | 9,972 | 8,176 | - | - |
| Total equity | | 23,764 | 18,490 | 11,237 | 9,386 |
| Net tangible assets per share (cents) | | 18.8 | 15.8 | 8.9 | 8.0 |

The accompanying notes form part of these financial statements.

## CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

| | Note | Consolidated Entity 2008 $'000 | Consolidated Entity 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash receipts from customers | | 89,342 | 60,943 | - | - |
| Cash paid to suppliers and employees | | (73,089) | (64,772) | (384) | (566) |
| Interest received | | 85 | 134 | 29 | 15 |
| Dividend received | | - | - | 2,150 | 655 |
| Finance costs | | (1,196) | (824) | - | (2) |
| Income taxes paid | | (450) | - | - | - |
| **Net cash (outflow) / inflow from operating activities** | 25 | (14,692) | (4,519) | 1,795 | 102 |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (6,733) | (1,615) | - | - |
| Proceeds from sale of property, plant and equipment | | 90 | 137 | - | - |
| **Net cash outflow from investing activities** | | (6,643) | (1,478) | - | - |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | - | 4,444 | - | - |
| Dividend paid by controlled entity to outside equity interests | | (1,657) | (390) | - | - |
| **Net cash (outflow) / inflow from financing activities** | | (1,657) | 4,054 | - | - |
| Net increase/(decrease) in cash and cash equivalents | | 6,392 | (1,943) | 1,795 | 102 |
| Net foreign exchange differences | | 74 | 19 | - | 2 |
| Cash and cash equivalents at beginning of year | | 2,177 | 4,101 | 303 | 199 |
| **Cash at the end of the financial year** | 12 | 8,643 | 2,177 | 2,098 | 303 |

The accompanying notes form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

| | Issued capital $'000 | Accumulated Losses $'000 | Other reserves $'000 | Total $'000 | Minority interest (Note 23) $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| CONSOLIDATED ENTITY | | | | | | |
| At 1 January 2007 | 27,892 | (18,014) | (310) | 9,568 | 7,608 | 17,176 |
| 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) |
| At 31 December 2007 | 27,892 | (17,815) | 237 | 10,314 | 8,176 | 18,490 |
| (Loss) / Profit for the year ended 31 December 2008 | - | (291) | - | (291) | 652 | 361 |
| Foreign currency translation differences | - | - | 3,104 | 3,104 | 2,801 | 5,905 |
| Transfer between reserves | - | (253) | 253 | - | - | - |
| Share issue | 664 | - | - | 664 | - | 664 |
| Dividend paid by controlled entity to outside equity interests | - | - | - | - | (1,657) | (1,657) |
| Other | - | - | 1 | 1 | - | 1 |
| Total income and expense for the year recognised directly in equity | 664 | (253) | 3,358 | 3,769 | 1,144 | 4,913 |
| At 31 December 2008 | 28,556 | (18,359) | 3,595 | 13,792 | 9,972 | 23,764 |
| PARENT | | | | | | |
| At 1 January 2007 | 27,892 | (18,682) | 4 | 9,214 | - | 9,214 |
| 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 |
| At 31 December 2007 | 27,892 | (18,930) | 424 | 9,386 | - | 9,386 |
| Profit for the year ended 31 December 2008 | - | 1,187 | - | 1,187 | - | 1,187 |
| Share issue | 664 | - | - | 664 | - | 664 |
| Total income and expense for the year recognised directly in equity | 664 | - | - | 664 | - | 664 |
| At 31 December 2008 | 28,556 | (17,743) | 424 | 11,237 | - | 11,237 |

The accompanying notes form part of these financial statements.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

## 1 CORPORATE INFORMATION

The financial report of Oriental Technologies Investment Limited for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 27 March 2009 and covers Oriental Technologies Investment Limited as an individual entity as well as the consolidated entity consisting of Oriental Technologies Investment Limited and its subsidiary 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 Securities 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 to Note 27 of 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 entity 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

The consolidated financial statements comprise 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 16 of these financial statements. All controlled entities have a December financial year end.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Basis of Consolidation (continued)

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.

Minority interests in the results and equity of the 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 and liabilities and contingent liabilities assumed in business combinations are initially measured at their fair values at acquisition date. Any excess of the cost of acquisition over the fair value of the Group's share of identifiable net assets acquired would be recorded as goodwill. 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 subsidiary 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 re-translated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign Currency Translation (continued)

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.

At the reporting date, the assets and liabilities of the overseas subsidiary 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Income Tax (continued)

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.

Oriental Technologies Investment Limited and its Australian wholly-owned subsidiary Orientech Pty Ltd implemented the tax consolidation legislation for the period to 25 September 2008, when Orientech Pty Ltd was de-registered. Oriental Technologies Investment Limited was 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 was in place until 25 September 2008.

(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 that 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 in 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 all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### (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:

(i). Expenditures for the assets are being incurred;
(ii). Borrowing costs are being incurred; and
(iii). 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% (2007 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.

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 29 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.

## 3 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

Activities undertaken by Oriental Technologies Investment Limited and its subsidiary 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 19 of 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. There was a Group foreign currency loss for the year ended 31 December 2008 totalling $73,000 (2007 $221,000 gain). By hedging foreign currency exposure using forward foreign currency contracts, Yangzhou Apollo Battery Co Limited (YABC) generated a foreign currency gain for the year ended 31 December 2008 totalling $72,000 (2007 $216,000 gain).

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

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Bank | | | | |
| US dollars | 146 | 123 | 12 | 11 |
| Euros | 814 | 275 | - | - |
| Renminbi | 5,597 | 1,487 | - | - |
| | 6,557 | 1,885 | 12 | 11 |
| Trade & other receivables | | | | |
| US dollars | 812 | 6,153 | - | - |
| Euros | 4,045 | 1,900 | - | - |
| Renminbi | 2,311 | 3,025 | - | - |
| | 7,168 | 11,078 | - | - |
| Trade & other payables | | | | |
| US dollars | (2) | (469) | - | - |
| Renminbi | (5,349) | (6,624) | - | - |
| | (5,351) | (7,093) | - | - |
| Net foreign exchange exposure | 8,374 | 5,870 | 12 | 11 |

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 2008 would have been AUD 40,000 (2007 AUD 295,000) 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, but there would be no impact on other equity reserves.

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 2008 would have been AUD 206,000 (2007 AUD 111,000) 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, but there would be no impact on other equity reserves.

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 2008 would have been AUD 41,000 (2007 AUD 106,000) 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, but there would be no impact on other equity reserves.

In addition, the Group is exposed to foreign currency risk primarily through maintaining certain Euro bank deposits and trading derivative financial instruments, forward foreign exchange contracts. As at 31 December 2008, YABC had:

(i). Euro deposits amounting to approximately AUD 187,000 (2007 Nil); and
(ii). A fair value totalling AUD 321,000 (2007 Nil) for forward foreign exchange contracts.

At 31 December 2008, the Group had entered into forward foreign exchange contracts to sell Euros, with their notional amount analysed by maturity as follows:

| | 2008 €000 | 2008 $000 | 2007 €000 | 2007 $000 |
|---|---|---|---|---|
| Short Position with maturity | | | | |
| Within 3 months | 1,700 | 3,469 | - | - |
| Over 3 months but within 6 months | 200 | 408 | - | - |
| | 1,900 | 3,877 | - | - |

Based on the net exposure to Euros at 31 December 2008 of approximately EUR 1,900,000 (2007 Nil), the equivalent of AUD 3,877,000 (2007 Nil), it is estimated that an appreciation/weakening of 5% (2007 Nil) in exchange rate against the Renminbi would result in an increase/decrease to the Group's net profit of approximately RMB 918,000 (2007 Nil) - the equivalent of AUD 194,000 (2007 Nil).

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at 31 December 2008 and had been applied to the Group's exposure to currency risk for all financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The stated changes represent YABC management's assessment of reasonably possible changes in foreign exchange rates over the period until 31 December 2009.

3 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

## 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 | Total |
|---|---|---|---|---|
| 31 December 2008 | $'000 | $'000 | $'000 | $'000 |
| Consolidated | | | | |
| Bank borrowings | 2,112 | 17,321 | - | 19,433 |
| Trade and other payables | 2,929 | 2,137 | - | 5,066 |
| Financial liabilities at fair value | 280 | 41 | - | 321 |
| | 5,321 | 19,499 | - | 24,820 |
| Parent | | | | |
| Trade and other payables | 36 | - | - | 36 |
| | 36 | - | - | 36 |
| 31 December 2007 | | | | |
| Consolidated | | | | |
| Bank borrowings | 7,018 | 7,329 | - | 14,347 |
| Trade and other payables | 5,417 | 1,746 | 132 | 7,295 |
| | 12,435 | 9,075 | 132 | 21,642 |
| Parent | | | | |
| Trade and other payables | 68 | - | - | 68 |
| | 68 | - | - | 68 |

## Credit Risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to YABC, resulting in a loss to the Group. YABC's credit risk is primarily attributable to trade receivables and bank balances.

The majority of the Group's sales are due upon the presentation of an invoice. The remaining sales are with credit terms ranging from 30 days to 90 days as well as on letter of credit. Included in the Group's trade receivable balance are debtors with a carrying amount of RMB 4,557,000 - equivalent to AUD 962,000 (2007 RMB 10,339,000 - equivalent to AUD 1,613,000), which are past due at 31 December 2008 but not considered impaired as there has not been a significant change in credit quality and YABC management believes that the unsecured amounts are still considered receivable. These relate to major customers for whom there is no recent history of default. At 31 December 2008, these trade receivables were aged as follows:

3 FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

| | 2008 RMB'000 | 2008 $'000 | 2007 RMB'000 | 2007 $'000 |
|---|---|---|---|---|
| Current | 22,460 | 4,745 | 57,287 | 8,933 |
| Less than 1 month overdue | 3,339 | 705 | 8,923 | 1,392 |
| 1 to 2 months overdue | 502 | 106 | 1,300 | 203 |
| 2 to 3 months overdue | 461 | 97 | 104 | 16 |
| Over 3 months overdue | 255 | 54 | 12 | 2 |
| | 4,557 | 962 | 10,339 | 1,613 |
| | 27,017 | 5,707 | 67,626 | 10,546 |

At 31 December 2008, the Group has a concentration of credit risks of 27% (2007 17%) and 80% (2007 79%) of the total trade receivables made up of the Group's largest customer and five largest customers respectively. Credit evaluations and monitoring on settlement are performed on these customers.

The Group trades only with recognised, creditworthy third parties. 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 collectability of trade debtors. The maximum exposure to credit risk is presented by the carrying amount of each financial asset.

The Group's bank balances and restricted bank balances are placed with credit-worthy banks in the People's Republic of China and Australia.

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 31 of 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 | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Borrowings | 19,433 | 14,347 | - | - |
| Trade and other payables | 5,387 | 7,295 | 36 | 574 |
| Less: Cash at Bank | (8,643) | (2,177) | (2,098) | (303) |
| Net Debt | 16,177 | 19,465 | (2,062) | 271 |
| Equity | 23,764 | 18,490 | 11,237 | 9,386 |
| Net Debt / Equity % | 68% | 105% | (18)% | 3% |

## 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.

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

There are no critical accounting estimates and assumptions about the future made by management at the reporting date other than as disclosed elsewhere in these Financial Statements.

## 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 – a Peoples Republic of China entity controlled by Oriental Technologies Investment Limited operates a lead acid battery manufacturing plant in China and makes local sales.

Europe and Australia - a Peoples Republic of China entity controlled by Oriental Technologies Investment Limited exports a broad range of its products to Europe and Australia.

5 SEGMENT REPORTING (continued)

Primary reporting format - Geographical segments

2008

| | Europe $'000 | Australia $'000 | China $'000 | Other $'000 | Total continuing operations $'000 | Inter-segment eliminations/ Unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Sales to external customers | 47,738 | 19,498 | 7,627 | 1,759 | 76,622 | - | 76,622 |
| Total sales revenue | 47,738 | 19,498 | 7,627 | 1,759 | 76,622 | - | 76,622 |
| Other revenue/income | - | - | - | - | - | 85 | 85 |
| Total segment revenue/income | 47,738 | 19,498 | 7,627 | 1,759 | 76,622 | 85 | 76,707 |
| **Result** | | | | | | | |
| Segment result | 2,063 | 843 | 330 | 76 | 3,312 | (2,688) | 624 |
| Profit before income tax | | | | | | | 624 |
| Income tax expense | | | | | | | (263) |
| Net profit for the year | | | | | | | 361 |

2007

| | Europe $'000 | Australia $'000 | China $'000 | Other $'000 | Total continuing operations $'000 | Inter-segment eliminations/ Unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| 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 |
| **Result** | | | | | | | |
| 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 |

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 has one operating controlled entity which 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;

5 SEGMENT REPORTING (continued)

(ii). Included within Note 17 of 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

(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 of 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 | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| From continuing operations | | | | |
| Sale of goods | 76,622 | 67,899 | - | - |
| Interest | 85 | 65 | 29 | 16 |
| Dividend from subsidiary | - | - | 1,665 | 655 |
| | 76,707 | 67,964 | 1,694 | 671 |

7 OTHER INCOME

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Foreign currency gain | - | 221 | 484 | 2 |
| Other | 131 | 94 | 2 | 3 |
| | 131 | 315 | 486 | 5 |

## 8 EXPENSES

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Profit/(Loss) before income tax includes the following specific expenses: | | | | |
| *Depreciation expense* | | | | |
| Land use rights | 26 | 23 | - | - |
| Buildings | 306 | 225 | - | - |
| Plant and equipment | 1,921 | 1,663 | - | - |
| | 2,253 | 1,911 | - | - |
| Employee benefits (including defined contribution superannuation expense ) | 3,708 | 3,126 | 58 | 500 |
| Defined contribution superannuation expense | 5 | 5 | 5 | 5 |
| *Finance Costs* | | | | |
| Interest paid/payable | 1,196 | 824 | - | 2 |
| Other Expenses: | | | | |
| Technical and advisory fees | 135 | 107 | 45 | 75 |
| General & administrative costs | 475 | 820 | 225 | 347 |
| Net loss on financial liabilities at fair value | 273 | - | - | - |
| Foreign currency loss | 73 | - | 1 | - |
| Expense incurred to extinguish redeemable floating notes | 664 | - | 664 | - |
| Other expenses | 54 | 7 | - | - |
| | 1,674 | 934 | 935 | 422 |

## 9 INCOME TAX EXPENSE

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Current tax expense | (52) | (104) | - | - |
| Deferred tax (expense) / benefit | (211) | 104 | - | - |
| Total income tax (expense)/ benefit in income statement | (263) | - | - | - |
| Deferred tax assets not recognised because it is not considered probable that there would be sufficient future taxable income to utilise these benefits | 3,473 | 4,105 | 1,826 | 1,728 |

9 INCOME TAX EXPENSE (continued)

| | Consolidated Entity 2008 $'000 | Consolidated Entity 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **Reconciliation of the effective tax rate** | | | | |
| Profit/(Loss)from continuing operations before income tax expense | 624 | 1,350 | 1,187 | (248) |
| Prima facie tax (expense) / benefit at the Australian tax rate of 30% (2007: 30%) | (187) | (405) | (356) | 74 |
| Tax concession – China | 200 | 469 | - | - |
| Unrecognised temporary differences – China | (211) | 104 | - | - |
| Non deductible expenses | (201) | (126) | (199) | (126) |
| Exempt income | 57 | - | 645 | 196 |
| Overprovision in prior year | 126 | - | - | - |
| Non deductible losses and tax offset not recognised as a deferred tax asset | (134) | 102 | (90) | (144) |
| | (350) | 144 | - | - |
| Adjustment to reflect income tax payable at 25% (2007 24%) for YABC subsidiary in China. | 87 | (144) | - | - |
| Income tax expense at effective tax rate of 42% (2007 Nil) | (263) | - | - | - |

10 (LOSS) / EARNINGS PER SHARE

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

| | Consolidated 2008 $'000 | Consolidated 2007 $'000 |
|---|---|---|
| *Basic(loss) / earnings per share* | | |
| Profit from continuing operations | 361 | 1,350 |
| Profit from continuing operations attributable to minority interests | (652) | (998) |
| (Loss) / Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate basic (loss) / earnings per share | (291) | 352 |
| *Diluted (loss) / earnings per share* | | |
| (Loss) / Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate basic (loss) / earnings per share | (291) | 352 |
| (Loss) / Profit from continuing operations attributable to ordinary equity holders of Oriental Technologies Investment Limited used to calculate diluted (loss) / earnings per share | (291) | 352 |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic (loss) / earnings per share | 125,532,490 | 116,884,005 |
| Adjustments for calculation of diluted (loss) / earnings per share: | | |
| - options | 13,382,978 | 2,300,341 |
| Weighted average number of ordinary shares used in calculating diluted (loss) / earnings per share | 138,915,468 | 119,184,346 |

## 11 AUDITORS' REMUNERATION

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| **Assurance Services** | | | | |
| *Audit services* | | | | |
| 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 | 59,057 | 105,174 | 59,057 | 105,174 |
| 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 | 71,030 | 86,048 | 71,030 | 86,048 |
| | 130,087 | 191,222 | 130,087 | 191,222 |
| *Other assurance services* | | | | |
| Amounts paid/payable to BDO for non-audit assurance services performed for the entity or any entity in the group | - | 1,330 | - | 1,330 |
| 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 | - | 6,584 | - | 6,584 |
| - Other | - | 756 | - | 756 |
| | - | 8,670 | - | 8,670 |
| Total remuneration for assurance services | 130,087 | 199,892 | 130,087 | 199,892 |
| **Taxation Services** | | | | |
| Amounts paid/payable to RSM Bird Cameron for non-audit taxation services performed for the entity or any entity in the group: | 4,070 | - | 4,070 | - |
| Amounts paid/payable to BDO for non-audit taxation services performed for the entity or any entity in the group: | | | | |
| - Preparation and lodgement of income tax return | - | 3,550 | - | 3,550 |
| Total remuneration for taxation services | 4,070 | 3,550 | 4,070 | 3,550 |

## 12 CASH AND CASH EQUIVALENTS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash at bank and in hand | | | | |
| Unrestricted | 8,275 | 2,177 | 2,098 | 303 |
| Restricted | 368 | - | - | - |
| Total | 8,643 | 2,177 | 2,098 | 303 |
| | Per annum % | Per annum % | Per annum % | Per annum % |
| Interest rates for cash at bank and in hand | 1.6 | 2.1 | 2.4 | 6.4 |

## 13 TRADE AND OTHER RECEIVABLES (CURRENT)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | 5,707 | 10,546 | - | - |
| Other debtors | 1,475 | 546 | 14 | 14 |
| | 7,182 | 11,092 | 14 | 14 |

Included in the Group's trade receivable balances are debtors with a carrying amount of $962,000 (2007 $1,613,000) which are past due at 31 December but not considered impaired.

Refer to Note 3 of these financial statements for more details.

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

| | | | | |
|---|---|---|---|---|
| US dollar | 812 | 6,153 | - | - |
| Euro | 4,045 | 1,900 | - | - |
| Renminbi | 2,311 | 3,025 | - | - |
| | 7,168 | 11,078 | - | - |
| Australian dollar | 14 | 14 | 14 | 14 |
| | 7,182 | 11,092 | 14 | 14 |

13 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:

| 2008 | Floating rates | < 1 year | 1 - 2 years | 2 - 3 years | 3 - 4 years | 4 - 5 years | > 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Trade receivables | - | - | - | - | - | - | - | 5,707 | 5,707 |
| Other receivables | - | - | - | - | - | - | - | 1,475 | 1,475 |
| | - | - | - | - | - | - | - | 7,182 | 7,182 |
| Weighted average interest rate | - | - | - | - | - | - | - | - | - |

| 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 |
| Trade receivables | - | - | - | - | - | - | - | 10,546 | 10,546 |
| Other receivables | - | - | - | - | - | - | - | 546 | 546 |
| | - | - | - | - | - | - | - | 11,092 | 11,092 |
| Weighted average interest rate | - | - | - | - | - | - | - | - | - |

14 INVENTORIES (CURRENT)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| At cost | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Raw Materials | 1,801 | 5,563 | - | - |
| Work in progress | 2,228 | 2,865 | - | - |
| Finished goods | 2,442 | 2,353 | - | - |
| | 6,471 | 10,781 | - | - |

The cost of inventories recognised as an expense amounted to $67,383,000 (2007: $60,134,000).

## 15 OTHER FINANCIAL ASSETS (NON-CURRENT)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Investments in subsidiaries (refer Note 16 of these financial statements ) | - | - | 9,161 | 10,034 |
| Less impairment provision | - | - | - | (367) |
| | - | - | 9,161 | 9,667 |

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

### Impairment of investment in subsidiary

Orientech Pty Limited, the Company's wholly owned Australian non-operating subsidiary, was de-registered on 25 September 2008.

### Effect of disposal on financial position

| | Note | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|---|
| | | 2008 | 2007 | 2008 | 2007 |
| | | $'000 | $'000 | $'000 | $'000 |
| Investment in subsidiary written off | 16 | - | - | 873 | - |
| Reversal of investment in subsidiary previously written down | 15 | - | - | (367) | - |
| Forgiveness of amount payable to subsidiary | 18 | - | - | (506) | - |
| Net consideration on disposal | | - | - | - | - |

## 16 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 of these financial statements.

| Name of entity | Country of incorporation | Class of shares | Equity holding * | | Parent Entity | |
|---|---|---|---|---|---|---|
| | | | 2008 | 2007 | 2008 | 2007 |
| | | | % | % | $'000 | $'000 |
| Orientech Pty Limited | Australia | Ordinary | - | 100.00 | - | 873 |
| Yangzhou Apollo Battery Co Limited | China | Ordinary | 55.57 | 55.57 | 9,161 | 9,161 |
| | | | | | 9,161 | 10,034 |

Yangzhou Apollo Battery Co Limited 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.

17 PROPERTY, PLANT AND EQUIPMENT

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| *Land usage rights* | | | | |
| At cost | 1,461 | 1,121 | - | - |
| Accumulated depreciation | (164) | (112) | - | - |
| | 1,297 | 1,009 | - | - |
| *Buildings - Leasehold* | | | | |
| At cost | 8,202 | 5,530 | - | - |
| Accumulated depreciation | (1,209) | (647) | - | - |
| | 6,993 | 4,883 | - | - |
| Total land and buildings | 8,290 | 5,892 | - | - |
| *Plant and equipment* | | | | |
| At cost | 23,921 | 12,902 | - | - |
| Accumulated depreciation & impairment | (5,996) | (3,112) | - | - |
| | 17,925 | 9,790 | - | - |
| Plant and equipment under construction | 73 | 525 | - | - |
| Total plant and equipment | 17,998 | 10,315 | - | - |
| Total non-current property, plant and equipment | 26,288 | 16,207 | - | - |
| *Movements in Land Usage Rights* | | | | |
| Carrying amount at beginning of financial year | 1,009 | 1,032 | - | - |
| Depreciation | (26) | (23) | - | - |
| Effect of movement in foreign exchange | 314 | - | - | - |
| Carrying amount at end of financial year | 1,297 | 1,009 | - | - |
| *Movements in Buildings - Leasehold* | | | | |
| Carrying amount at beginning of financial year | 4,883 | 4,574 | - | - |
| Additions | 6 | - | - | - |
| Depreciation | (306) | (225) | - | - |
| Effect of movement in foreign exchange | 1,583 | - | - | - |
| Reclassification from construction in progress | 827 | 534 | - | - |
| Carrying amount at end of financial year | 6,993 | 4,883 | - | - |
| *Movements in Plant & Equipment* | | | | |
| Carrying amount at beginning of financial year | 9,790 | 10,859 | - | - |
| Additions | 1,360 | 749 | - | - |
| Disposals | (90) | (136) | - | - |
| Depreciation | (1,921) | (1,663) | - | - |
| Impairment loss | - | (192) | - | - |
| Effect of movement in foreign exchange | 3,724 | - | - | - |
| Reclassification from construction in progress | 5,062 | 173 | - | - |
| Carrying amount at end of financial year | 17,925 | 9,790 | - | - |
| *Movements in Construction in Progress* | | | | |
| Carrying amount at beginning of financial year | 525 | 365 | - | - |
| Additions | 5,366 | 867 | - | - |
| Effect of movement in foreign exchange | 71 | - | - | - |
| Reclassification to buildings leasehold | (827) | (534) | - | - |
| Reclassification to plant & equipment | (5,062) | (173) | - | - |
| Carrying amount at end of financial year | 73 | 525 | - | - |

17 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 2008 is approximately RMB 83 million or AUD 18 million (2007 approximately RMB 79 million or AUD 12 million).

18 TRADE AND OTHER PAYABLES

| CURRENT | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| Unsecured liabilities | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade payables | 4,396 | 6,648 | 1 | - |
| Sundry payables | 991 | 515 | 35 | 68 |
| Amount payable to wholly owned subsidiary | - | - | - | 506 |
| | 5,387 | 7,163 | 36 | 574 |
| NON CURRENT | | | | |
| Unsecured liabilities | | | | |
| Sundry payables | - | 132 | - | - |
| | - | 132 | - | - |

During the year ended 31 December 2008, Orientech Pty Ltd was de-registered and the loan payable to this wholly owned subsidiary was forgiven. Refer to Note 15 of these financial statements for more details.

19 BORROWINGS (CURRENT)

| | Consolidated Entity 2008 $'000 | Consolidated Entity 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| Bank loans - secured | 8,872 | 9,669 | - | - |
| - unsecured | 10,561 | 4,678 | - | - |
| | 19,433 | 14,347 | - | - |

*(i). Bank loans*

| Consolidated Entity 2008 Expiry Date | Effective Interest Rate % pa | RMB'000 | AUD'000 | Consolidated Entity 2007 Expiry Date | Effective Interest Rate % pa | RMB'000 | AUD'000 |
|---|---|---|---|---|---|---|---|
| 11/01/09 | 7.470 | 10,000 | 2,112 | 15/06/08 | 6.570 | 10,000 | 1,559 |
| 10/06/09 | Variable[2] | 20,000 | 4,225 | 04/01/08 | 6.426 | 10,000 | 1,559 |
| 25/07/09 | Variable[2] | 8,000 | 1,690 | 15/02/08 | 6.426 | 8,000 | 1,248 |
| 04/08/09 | Variable[2] | 12,000 | 2,535 | 05/06/08 | 6.570 | 10,000 | 1,559 |
| 13/11/09 | 6.660 | 5,000 | 1,056 | 12/06/08 | 6.570 | 10,000 | 1,559 |
| 08/12/09 | 5.580 | 10,000 | 2,112 | 15/02/08 | 6.121 | 12,000 | 1,872 |
| 02/06/09 | 5.104 | 10,000 | 2,112 | 27/08/08 | 7.020 | 17,000 | 2,652 |
| 12/08/09 | 5.618 | 9,000 | 1,901 | 13/03/08 | 6.306 | 5,000 | 780 |
| 18/08/09 | 5.618 | 8,000 | 1,690 | 10/03/08 | 6.306 | 10,000 | 1,559 |
| | | 92,000 | 19,433 | | | 92,000 | 14,347 |

*(ii). Assets pledged as security*

| | Consolidated Entity 2008 $'000 | Consolidated Entity 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| Secured by land use rights | 1,297 | 1,009 | - | - |
| Secured by buildings leasehold | 6,993 | 4,883 | - | - |
| | 8,290 | 5,892 | - | - |

[2] 12 month Chinese Renminbi standard interest rate + 5% pa

19 BORROWINGS (CURRENT) (continued)

*(iii). Subsequent to 31 December 2008 and at the date of this report, bank loans payable were as follows:*

| Expiry Date | Effective Interest Rate % pa | RMB'000 |
|---|---|---|
| 02/06/09 | 4.05 | 10,000 |
| 10/06/09 | 4.64615 | 20,000 |
| 25/07/09 | 4.64615 | 8,000 |
| 04/08/09 | 4.64615 | 12,000 |
| 12/08/09 | 4.425 | 9,000 |
| 18/08/09 | 4.425 | 8,000 |
| 11/10/09 | 4.425 | 5,000 |
| 08/12/09 | 4.425 | 10,000 |
| 30/12/09 | 3.9825 | 5,000 |
| 02/02/10 | 3.9825 | 5,000 |
| | | 92,000 |

Assets pledged by the consolidated entity as security have not changed since 31 December 2008.

*(iv). Financing arrangements*

The following financing facilities were available at balance date.

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Credit stand-by arrangements | | | | |
| Bank loans | | | | |
| Total facilities: | | | | |
| Used at balance date | 19,433 | 14,347 | - | - |
| Unused at balance date | 634 | 12,320 | - | - |
| | 20,067 | 26,667 | - | - |

19 BORROWINGS (CURRENT) (continued)

*(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:

| 2008 | Floating rates | Fixed 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 | 8,449 | 10,984 | - | - | - | - | - | - | 19,433 |
| | 8,449 | 10,984 | - | - | - | - | - | - | 19,433 |
| Weighted average interest rate | | 6.0% | - | - | - | - | - | - | 6.0% |

| 2007 | Floating rates | Fixed 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 |
| | - | 14,347 | - | - | - | - | - | - | 14,347 |
| Weighted average interest rate | | 6.5% | - | - | - | - | - | - | 6.5% |

*(vi). Fair value*

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

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| On-balance sheet | | | | |
| Bank loans | 19,433 | 14,347 | - | - |
| | 19,433 | 14,347 | - | - |

## 20 PROVISIONS (CURRENT)

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Employee benefits | - | 24 | - | 24 |
| Land Tax | - | 101 | - | - |
| | - | 125 | - | 24 |

## 21 ISSUED CAPITAL

| Share capital | 2008 | | 2007 | |
|---|---|---|---|---|
| | Shares | $'000 | $'000 | $'000 |
| *Ordinary shares - no par value* | | | | |
| Fully paid and authorised | 126,361,087 | 28,556 | 116,884,005 | 27,892 |
| | 126,361,087 | 28,556 | 116,884,005 | 27,892 |

### Movements in ordinary share capital

| Date | Details | Number of shares | $'000 |
|---|---|---|---|
| 1-Jan-07 | Opening balance | 116,884,005 | 27,892 |
| 31-Dec-07 | Closing balance | 116,884,005 | 27,892 |
| 1-Feb-08 | Share Issue at 7 cents each fully paid share | 9,477,082 | 664 |
| 31-Dec-08 | Closing balance | 126,361,087 | 28,556 |

### 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 26 of 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.

### 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:

21 ISSUED CAPITAL (continued)

(i). CVIC and RLRL each agree 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 the Company 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; and booked an expense and increased issued capital by $664,000 using Oriental Technologies Investment Limited's market value per share (7 cents each). Refer to Note 21 of these financial statements for more details

*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 was only payable out of any dividends declared by Oriental Technologies Investment Limited. As no dividend had been declared by the Company since the commencement of the debt restructuring arrangement, no present obligation for payment existed and no provision for any profit share payment was 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; and the total provision recognised at 31 December 2007 would have been $1,435,000.

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.

## 22 RESERVES AND ACCUMULATED LOSSES

| | Consolidated Entity 2008 $'000 | Consolidated Entity 2007 $'000 | Parent Entity 2008 $'000 | Parent Entity 2007 $'000 |
|---|---|---|---|---|
| **(a) Other Reserves** | | | | |
| General reserve | 502 | 361 | - | - |
| Foreign currency translation reserve | 2,669 | (548) | - | - |
| Share option reserve | 424 | 424 | 424 | 424 |
| | 3,595 | 237 | 424 | 424 |
| **(i). General reserve** | | | | |
| Balance at start of year | 361 | 208 | - | - |
| Transfer from accumulated losses | 253 | 275 | - | - |
| Transfer to minority interests | (113) | (122) | - | - |
| Other | 1 | - | - | - |
| Balance at end of year | 502 | 361 | - | - |
| **(ii). Foreign currency translation reserve** | | | | |
| Balance at start of year | (548) | (522) | - | - |
| Currency translation differences | 5,789 | (47) | - | - |
| Transfer to minority interests | (2,572) | 21 | - | - |
| Balance at end of year | 2,669 | (548) | - | - |
| **(iii). Share Option Reserve** | | | | |
| Balance at start of year | 424 | 4 | 424 | 4 |
| Share based payments | - | 420 | - | 420 |
| Balance at end of year | 424 | 424 | 424 | 424 |
| **(b) Accumulated Losses** | | | | |
| Balance at start of year | (17,815) | (18,014) | (18,930) | (18,682) |
| Transfer to general reserve | (253) | (275) | - | - |
| Transfer to minority interests | (652) | 122 | - | - |
| Net profit/(loss) for the year | 361 | 352 | 1,187 | (248) |
| Balance at end of year | (18,359) | (17,815) | (17,743) | (18,930) |

(i).General reserve

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 2008, 10% (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 2008, this general reserve related entirely to YABC.

(ii).Foreign currency translation reserve

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

(iii).Share option reserve

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

## 23 MINORITY INTERESTS

| Minority interests in: | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Share capital | 7,201 | 7,201 | - | - |
| General reserve | 259 | 146 | - | - |
| Foreign currency translation reserve | 2,551 | (21) | - | - |
| Accumulated (losses) / Retained earnings | (39) | 850 | - | - |
| | 9,972 | 8,176 | - | - |

## 24 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 used. Refer to Note 3 of these financial statements for more details.

### 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.

Refer to Note 3 of these financial statements for more detail about concentration 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 some part of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Refer to Note 19 of these financial statements for more details.

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

| 2008 | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years | Total | Effective Interest Rate |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | |
| *Fixed rate* | | | | | | | |
| Interest-bearing loans and borrowings | (4,225) | (6,758) | - | - | - | (10,983) | 6.0% |
| Cash at bank and on hand | 8,643 | - | - | - | - | 8,643 | 1.6% |
| *Floating rate*[3] | | | | | | | |
| Interest-bearing loans and borrowings | (4,225) | (4,225) | - | - | - | (8,450) | Variable |

[3] 12 month Chinese Renminbi standard interest rate + 5% pa

24 FINANCIAL INSTRUMENTS (continued)

| 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 |
|---|---|---|---|---|---|---|---|
| *Fixed rate* | | | | | | | |
| 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% |

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

Refer Note 19 of these financial statements for a summary of used and unused interest bearing loan facilities; and details of loan fair values.

25 CASH FLOW INFORMATION

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 $'000 | 2007 $'000 | 2008 $'000 | 2007 $'000 |
| Reconciliation of profit/(loss) after income tax to net cash flow from operating activities | | | | |
| Profit/(Loss) after income tax for the year | 361 | 1,350 | 1,187 | (248) |
| Non-cash flows in profit | | | | |
| Depreciation | 2,253 | 1,911 | - | - |
| Property, plant and equipment impairment loss recognised in profit during the year | - | 192 | - | - |
| Share based payment expense to extinguish Redeemable Floating Notes | 663 | - | 663 | - |
| Share option expenses | - | 420 | - | 420 |
| Net exchange differences arising from: | | | | |
| Borrowings | 5,086 | (385) | - | - |
| Other | 139 | (88) | - | (2) |
| Changes in assets and liabilities | | | | |
| Decrease / (Increase) in trade debtors | 4,839 | (6,579) | - | - |
| (Increase)/Decrease in other debtors | (929) | 584 | - | 25 |
| Decrease / (Increase) in inventories | 4,311 | (5,152) | - | - |
| Increase/(Decrease) in trade & other payables | (1,906) | 3,119 | (32) | (101) |
| (Decrease)/Increase in other provisions | (125) | 109 | (24) | 8 |
| Other | - | - | 1 | - |
| Net cash inflow / (outflow) from operating activities | 14,692 | (4,519) | 1,795 | 102 |

On 25 September 2008, the Company disposed of its wholly owned subsidiary Orientech Pty Ltd. There was no net consideration arising from this disposal.

No consideration was discharged by means of cash or cash equivalents and there were no cash or cash equivalents in Orientech Pty Ltd. Refer to Note 15 of these financial statements for further information.

26 SHARE-BASED PAYMENTS

Remuneration Report

| | Consolidated Entity 2008 $ | Consolidated Entity 2007 $ | Parent Entity 2008 $ | Parent Entity 2007 $ |
|---|---|---|---|---|
| Share-based payments expense recognised during the financial year | | | | |
| Options issued | - | 420,000 | - | 420,000 |
| | - | 420,000 | - | 420,000 |

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

| 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 |
|---|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | | |
| Series 2 Options[4] | | | | | | | | | |
| 18-May-05 | 5 years ending 17 May 2010 | 9.9 cents per share | 200,000 | - | - | - | - | 200,000 | 200,000 |
| Series 3 Options[5] | | | | | | | | | |
| 16-November-07 | 5 years ending 15 November 2012 | 7.0 cents per share | 10,500,000 | - | - | - | - | 10,500,000 | 10,500,000 |
| Total | | | 10,700,000 | - | - | - | - | 10,700,000 | 10,700,000 |
| Weighted average exercise price | | | 7.1 cents per share | | | | | 7.1 cents per share | 7.1 cents per share |
| **2007** | | | | | | | | | |
| Series 2 Options | | | | | | | | | |
| 18-May-05 | 5 years ending 17 May 2010 | 9.9 cents per share | 200,000 | - | - | - | - | 200,000 | 200,000 |
| Series 3 Options | | | | | | | | | |
| 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 |

[4] Refer to Note 26 (i) of these financial statements.
[5] Refer to Note 26 (ii) of these financial statements.

26 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 2008 (2007: 7.1 cents). The weighted average remaining contractual life of share options outstanding at 31 December 2008 was 3 years and 10 months (2007: 4 years 10 months).

(i). 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.

(ii). 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 year ended 31 December 2007 were as follows:

| | Series 3 options |
|---|---|
| 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% |

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.

## 27 RELATED PARTY TRANSACTIONS

The Group consists of Oriental Technologies Investment Limited and its subsidiary Yangzhou Apollo Battery Co Limited. The ownership interest in this subsidiary is set out in Note 16 of these financial statements.

Oriental Technologies Investment Limited, the parent entity, operates as a funding and management company for its subsidiary Yangzhou Apollo Battery Co Limited. Transactions between entities within the group are 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 2008:

(i). Owns 55.57% of Yangzhou Apollo Battery Co Limited in China (2007 55.57%); and

(ii). Has no interest in Orientech Pty Ltd in Australia, which was de-registered on 25 September 2008 (2007: 100% interest).

### 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 Luo-Lin Xin
Xinsheng Wang
George Su Su

### Related party transactions with Directors

(i). Remuneration, retirement benefits and service agreements

During the year ended 31 December 2007, an annual technical assistance fee relating to the operation in the Yangzhou Apollo Battery Co Limited (YABC) was payable to Red Investment & Development Limited, a company of which Mr. Lawrence Xin are directors.

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

Total fees paid and payable to RIDL during the year ended 31 December 2007 amounted to $90,000. No amounts were paid in the current year ended 31 December 2008.

(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 2008 was 55,800,000 (2007: 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 2008 was 10,000,000 (2007 10,000,000).

27 RELATED PARTY TRANSACTIONS (continued)

### 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:

| 2008 | Securities | Number Held at 1 January 2008 or date of appointment, if applicable | Number Acquired | Number Sold | Number Held at 31 December 2008 or date of resignation, if applicable |
|---|---|---|---|---|---|
| Director | | | | | |
| Gerard McMahon | Series 3 unquoted options | 3,000,000 | - | - | 3,000,000 |
| | Ordinary fully paid shares | - | 300,000[6] | - | 300,000 |
| Lawrence Luo-Lin 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 | 3,000,000 | - | - | 3,000,000 |
| George Su Su | Series 3 unquoted options | 1,000,000 | - | - | 1,000,000 |
| Company Secretary | | | | | |
| Ian Morgan | Series 3 unquoted options | 500,000 | - | - | 500,000 |

| 2007 | Securities | Number Held at 1 January 2007 or date of appointment, if applicable | Number Acquired | Number Sold | Number Held at 31 December 2007 or date of resignation, if applicable |
|---|---|---|---|---|---|
| Director | | | | | |
| Gerard McMahon | Series 3 unquoted options | - | 3,000,000[7] | - | 3,000,000 |
| Lawrence Luo-Lin Xin | Ordinary fully paid shares | 55,500,000 | - | - | 55,500,000 |
| | Series 3 unquoted options | - | 3,000,000[7] | - | 3,000,000 |
| Xinsheng Wang | Series 3 unquoted options | -[8] | 3,000,000[7] | - | 3,000,000 |
| George Su Su | Series 3 unquoted options | - | 1,000,000[7] | - | 1,000,000 |
| Patrick Ting Keung Ma | Ordinary fully paid shares | 55,500,000 | - | - | 55,500,000[8] |
| Steve Shulin Xin | Ordinary fully paid shares | 55,500,000 | - | - | 55,500,000[8] |
| Company Secretary | | | | | |
| Ian Morgan | Series 3 unquoted options | - | 500,000 | - | 500,000 |

[6] These shares were acquired by purchasing on-market.
[7] Options approved by the Company's members and granted on 16 November 2007.
[8] Number held at date of appointment or resignation, as applicable (31 August 2007).

## 27 RELATED PARTY TRANSACTIONS (continued)

The terms and conditions of the grant of series 3 options are outlined in Note 26 of 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 | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| **Dividend revenue** | | | | |
| Subsidiary | - | - | 1,665,093 | 654,904 |
| **Outstanding balances** | | | | |
| The following balances are outstanding at reporting date in relation to transactions with related parties: | | | | |
| **Non-current payables (loans from related parties)** | | | | |
| Wholly owned subsidiary | - | - | - | 505,906 |

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.

## 28 CAPITAL AND LEASING COMMITMENTS

| | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $'000 | $'000 | $'000 | $'000 |
| Contracted but not provided net of deposit paid in financial statements: | | | | |
| Within one year | 303 | 368 | - | - |
| Later than one year but not later than 5 years | - | - | - | - |
| Later than 5 years | - | - | - | - |
| | 303 | 368 | - | - |

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

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 31 December 2008, but have not been applied in preparing this financial report.

Revised AASB 3 Business Combinations (Financial year 2008/09) changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 31 December 2009 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 31 December 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its geographical segments (see Note 5 of these financial statements).

Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 31 December 2009 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.

Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 31 December 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The Group has not yet determined the potential effect of the revised standard on future earnings

Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the re-measurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 31 December 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.

AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 31 December 2009 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

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29 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate:

Removes from AASB 118 Revenue the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Therefore, all dividends from a subsidiary, jointly controlled entity or associate are recognised by the investor as income; and
Amends AASB 136 Impairment of Assets to include recognising a dividend from a subsidiary, jointly controlled entity or associate, together with other evidence, as an indication that the investment in the subsidiary, jointly controlled entity or associate may be impaired. .

AASB 2008-7 becomes mandatory for the Group's 31 December 2009 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

30 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 | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | $ | $ | $ | $ |
| Short-term employee benefits | 207,306 | 106,828 | 53,000 | 65,502 |
| Post-employment benefits | 4,770 | 5,895 | 4,770 | 5,895 |
| Share-based payment | - | 420,000 | - | 420,000 |
| | 212,076 | 532,723 | 57,770 | 491,397 |

31 YANGZHOU APOLLO BATTERY CO LTD PAID-UP CAPITAL

On 20 October 2006, Yangzhou Apollo Battery Co Ltd (YABC) 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.

Final approval to reduce YABC's registered capital to USD 13.1 million was received on 24 April 2008.

32 SUBSEQUENT EVENTS

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 Group's operations, the results of these operations or the Group's state of affairs in future financial years.

## 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 2008 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:

Gerard McMahon
Chairman of the Board

27 March 2009

**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"), which comprises the balance sheet as at 31 December 2008, 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.

*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

*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.

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 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.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Oriental Technologies Investment Limited on 27 March 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's Opinion*

In our opinion:

(a) the financial report of Oriental Technologies Investment Limited 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 2008 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).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 5 to 9 of the directors' report for the financial year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion the Remuneration Report of Oriental Technologies Investment Limited for the financial year ended 31 December 2008 complies with section 300A of the *Corporations Act 2001*.

RSM Bird Cameron

RSM BIRD CAMERON PARTNERS
Chartered Accountants

W E Beauman
Partner

Sydney
Dated: 31 March 2009

## SHAREHOLDERS' INFORMATION

At 28 February 2009 issued capital was 126,361,087 ordinary shares held by 578 holders.

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

### 20 Largest Holders of Ordinary Shares and their Holdings at 28 February 2009.

| | | 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 | 9,984,000 | 7.90 |
| 4 | CHINA VENTURETECHNO INTERNATIONAL CO LIMITED | 4,978,627 | 3.94 |
| 5 | RED LION RESOURCES LIMITED | 4,498,455 | 3.56 |
| 6 | H F STEVENSON (AUST) P/L | 3,138,713 | 2.48 |
| 7 | INVIA CUSTODIAN PTY LIMITED <SE & RD SUPER FUND A/C> | 1,405,977 | 1.11 |
| 8 | MR MAKRAM HANNA + MRS RITA HANNA <HANNA & CO P/L SUPER A/C> | 1,384,000 | 1.10 |
| 9 | BERNARD MARIE FRANCOIS LE CLEZIO <BMF LECLEZIO SUPER FUND A/C> | 1,056,000 | 0.84 |
| 10 | MR KEVIN JOHN HOLMAN | 830,400 | 0.66 |
| 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 <20757 ACCOUNT> | 500,000 | 0.40 |
| 14 | CAPRICORN SOCIETY LTD | 450,000 | 0.36 |
| 15 | LADY PENELOPE PATRICIA STREET | 437,500 | 0.35 |
| 16 | SASSEY PTY LTD <AVAGO SUPERANNUATION A/C> | 398,000 | 0.31 |
| 17 | MR MARIO LEO VOLPE | 370,233 | 0.29 |
| 18 | ELCOTT PTY LTD | 350,000 | 0.28 |
| 19 | MR RAYMOND FRANCIS FREW + MRS GILLIAN MARGARET FREW | 343,000 | 0.27 |
| 20 | MR PAUL ROY <NO 1 ACCOUNT> | 340,000 | 0.27 |
| | Total top 20 Ordinary Shareholders | 110,404,905 | 87.37 |

### Distribution of Holders and Holdings at 28 February 2009

| | | Ordinary Shares | |
|---|---|---|---|
| | | Number of Holders | Shares Held |
| 1 - 1,000 | | 56 | 43,704 |
| 1,001 - 5,000 | | 201 | 612,533 |
| 5,001 - 10,000 | | 72 | 634,600 |
| 10,001 - 100,000 | | 195 | 7,973,632 |
| 100,001 and over | | 54 | 117,096,618 |
| | Total | 578 | 126,361,087 |

| | | |
|---|---|---|
| Holders of less than a marketable parcel: | 341 | 1,426,692 |

## Shareholder Information (continued)

Substantial shareholders at 28 February 2009:

| 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) Dr. Xinsheng Wang 3,000,000.

### SECURITIES EXCHANGE LISTING

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

### SHARE REGISTRAR

Computershare Investor Services Pty Ltd
Level 3
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SYDNEY NSW 1115

GPO Box 7045
SYDNEY NSW 1115

Telephone: (02) 8234 5400
Investor enquiries: (within Australia) 1300 855 080
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### REGISTERED OFFICE

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### AUDITORS

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Telephone: 612 9233 8933
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### COMPANY SECRETARY

Ian Morgan *B Bus CA ACIS MAICD F Fin*