

DataDot Technology Ltd
ABN 54 091 908 726

Appendix 4E

Results for announcement to the market for the year to 30 June 2006

			30 June 2006
			\$
Revenues from ordinary activities	up	59% to	9,463,577
Loss from ordinary activities after tax attributable to members	down	72% to	(1,430,100)
Net loss for the period attributable to members	down	72% to	(1,430,100)
		30 June 2006	30 June 2005
Net Tangible Assets / (Liabilities) per security		1.49 cents	1.70 cents

Dividend

The Directors recommend that no dividend be paid. No dividends have been paid or declared during the period.

Comments by directors

Sales revenue for the year was \$9,463,577 (2005: \$5,957,454), representing an increase of 59% on the previous year. The growth in current year revenues is largely attributable to organic growth in 3 of the 4 market segments.

Summarised operating results are as follows:

	<i>2006</i>		<i>2005</i>	
	<i>Revenues</i>	<i>Results</i>	<i>Revenues</i>	<i>Results</i>
	\$	\$	\$	\$
<i>Geographic segments</i>				
Australasia	4,888,260	789,452	4,058,844	(59,716)
USA	2,096,745	(122,897)	658,878	(852,166)
Europe	398,403	(78,331)	464,345	(130,061)
South Africa	1,302,535	25,288	859,150	(51,790)
	8,685,943	613,512	6,041,217	(1,093,733)
Consolidated entity adjustments	(92,765)	-	(261,777)	-
Non-segment unallocated revenues and expenses	870,399	(1,967,023)	178,014	(3,607,227)
Finance costs	-	(231,480)	-	(437,544)
Share of profit of joint venture	-	154,891	-	-
	9,463,577	(1,430,100)	5,957,454	(5,138,504)

Appendix 4E

Group operating expenses reduced from \$9,843,764 in the 2005 financial year to \$8,610,963 in the 2006 financial year. The change relates principally to a decrease in the employee benefits expense of \$961,796. This reduction occurred because share-based payments expensed during the year were significantly less than the previous year. During the 2006 year share-based payments totalled \$745,515 (2005: \$2,457,846).

The Group's net loss for the year after income tax is \$1,430,100 (2005: \$5,138,504), representing a reduction of 72% in the Group's loss from the previous year.

The Groups' Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA) is disclosed below. Excluding the effect of share-based payments, the Group would have reported a positive EBITDA of \$42,787 for the 2006 financial year.

	2006	2005
	\$	\$
Loss after income tax	-1,430,100	-5,138,504
Add back:		
Income Tax Expense	-	-
Interest Expense	231,480	437,545
Depreciation and amortisation expense	495,892	477,305
Loss before interest, tax, depreciation and amortisation	<u>-702,728</u>	<u>-4,223,654</u>
Share-based payments	<u>745,515</u>	<u>2,457,846</u>
Earnings /(Loss) before interest, tax, depreciation, amortisation and share-based payments	<u>42,787</u>	<u>-1,765,808</u>

There was a decrease in cash and cash equivalents in the year ended 30 June 2006 of \$2,838,198 (2005: increase of \$4,266,852). The increase in cash outflow in comparison with the prior year is caused by a number of factors. Operating activities consumed \$1,542,338 (2005: \$3,504,626). This reduction in comparison to 30 June 2005 is largely due to an increase in cash generated from sales and, to a lesser extent, a reduction in interest paid for the year.

Cash outflows from investing activities during the year ended 30 June 2006 increased to \$1,428,061 (2005: \$367,871), which was mainly attributable to investing in the joint venture, DataTrace DNA Pty Ltd.

There was a significant reduction in cash flows from financing activities for the year ended 30 June 2006 due to the prior year containing the proceeds from the IPO.

Strategically, the company pursued a mix of market development, product delivery and diversification strategies in 2006 that have improved its reach and competitiveness and established a strong platform for future revenue growth. Three extensive motor vehicle dealer networks were contracted in the US and were recording promising sales by year end. We worked closely with overseas authorities who want to use microdots to reduce vehicle theft, including a European task force that has submitted a draft EU Directive on Whole-of-Vehicle-Marking (WOVM) to Brussels; New Zealand, which is in the process of implementing its mandatory WOVM policy; and the government of Taiwan, which became the second nation, after New Zealand, to announce adoption of a mandatory WOVM policy using microdots. We developed two new spray application techniques for DataDotDNA, a robotic applicator and an aerosol pressure pack, which will provide access to new global markets in vehicle, marine and retail applications.

Audit

The report is based on accounts which have been audited.

Annual General Meeting

The Company's annual general meeting will be held on 26 October 2006. Further details will be provided to shareholders in due course.

DataDot Technology Ltd

2006 Annual Report

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Corporate Information

ABN 54 091 908 726

This annual report covers both DataDot Technology Limited as an individual entity and the consolidated entity comprising DataDot Technology Limited and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 5 to 23. The directors' report is not part of the financial report.

Directors

I.F. Brown (Chairman)
I.P. Allen (Chief Executive Officer)
P.J. Housden
A.W. Grant
J.F. Richards
C.M. Stott

Company Secretary

G.J. Loughlin

Registered office

Unit 9
19 Rodborough Road
Frenchs Forest NSW 2086
Phone (02) 8977 4900
Fax (02) 9975 4700

Auditors

PKF
Level 10
1 Margaret Street
Sydney NSW 2000

Bankers

National Australia Bank
96 High Street
Fremantle WA 6160

Share Register

Ordinary shares and Options

Registries Ltd
Level 2
28 Margaret Street NSW 2000
Phone (02) 9290 9600
Fax (02) 9279 0664

Convertible notes

Unit 9
19 Rodborough Road
Frenchs Forest NSW 2086
Phone (02) 8977 4900
Fax (02) 9975 4700

Stock Exchange

The Company is listed on the Australian Stock Exchange.
The Home Exchange is Sydney.

Other information

DataDot Technology Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Chairman's Letter

Dear Shareholder,

Your Board is pleased to report that 2006 has been a very significant year for DataDot Technology Ltd.

Operationally, the major development was a rise in Group revenue of 59%, which more than recovered the revenue decline of the previous year while broadening the company's client base and lowering its concentration risk. Each of our subsidiary companies in Australia, USA and South Africa improved its sales and revenue figures. DataTrace DNA Pty Ltd, our 50/50 joint venture with CSIRO formed in November 2005, also recorded its first sales by year end.

Strategically, the company pursued a mix of market development, product delivery and diversification strategies in 2006 that have improved its reach and competitiveness and established a strong platform for future revenue growth. New markets were established in Austria, Romania and Brazil. Three extensive motor vehicle dealer networks were contracted in the US and were recording promising sales by year end. We worked closely with overseas authorities who want to use microdots to reduce vehicle theft, including a European task force that has submitted a draft EU Directive on Whole-of-Vehicle-Marking (WOVM) to Brussels; New Zealand, which is in the process of implementing its mandatory WOVM policy; and the government of Taiwan, which has publicly announced an intention to examine mandatory WOVM policy using microdots. We developed two new spray application techniques for DataDotDNA, a robotic applicator and an aerosol pressure pack, which will provide access to new global markets in vehicle, marine and retail applications. And in DataTrace DNA Pty Ltd we established a significant further research program to perfect DataTraceDNA solutions across a range of high-volume, global products.

On the supply side of the business the potential for market growth of the company's core product, DataDotDNA, has been limited until now by the available methods of applying DataDotDNA, and in particular by the manual spray method used to apply DataDotDNA to vehicles. For post-production WOVM this manual spray method is ideal. But at the point of manufacture, where best practice standards require completion of each assembly line task in 35-40 seconds, manual application requiring 5-7 minutes is unacceptably slow. Similarly, in the vehicle aftermarket, and in the marine and retail markets, the inconvenience of requiring an air hose and regulated air supply to apply DataDotDNA has severely limited sales opportunities. It has been due to this application inflexibility that the company has been unable until now to expand either upstream into the assembly line OE market or downstream into the aftermarket and retail market. Both of these market barriers have been overcome by the breakthrough in application techniques developed in 2006.

The company's robotic applicator – the DataDot Automated Applicator Cell (DAAC) - is now ready for the prove-out that will precede commercial deployment. To facilitate this step the company has been awarded an AusIndustry *Commercial Ready* grant of \$1.5 million, supported by a further grant of \$500,000 from the National Motor Vehicle Theft Reduction Council, to establish the technical feasibility of using the DAAC to apply WOVM. The company has received expressions of interests from both an Australian automotive industry company and an overseas manufacturing for the prove-out phase of the DAAC.

We expect the prove-out trial will be completed in the first half of 2007, at which point the DAAC will have the demonstrated capacity to apply 7,000 DataDotDNA to vehicles both on the assembly line during manufacture, and at import centres after manufacture, at one-tenth the time taken by manual application and at significantly lower unit cost. In conjunction with our associated development of a portable, turnkey process to manufacture DataDotDNA, one that meets the just-in-time requirements of vehicle manufacturers, your Board is confident that the DAAC is the platform that will take WOVM to a new level of OE market penetration globally.

For the retail market the company has developed a pressure pack delivery system that can apply DataDotDNA easily and affordably to a wide range of assets in the home and at work. Extensive testing

throughout 2006 confirms that re-packaging DataDotDNA in this convenient delivery system will open numerous market segments including motorcycles, vehicle parts and accessories, marine, household and personal assets.

On the demand side of its core DataDotDNA business the company has intensified its liaison with government, police, insurers and other authorities to promote awareness of the benefits of universal WOVM. New Zealand has already announced a mandatory WOVM policy that is likely to generate substantial business volumes for the company and Taiwan is well advanced in adopting a similar policy. The Government of Austria publicly supported mandatory WOVM during its recent tenure as Chairman of the European Commission, and authorities from Austria, Netherlands and other EU nations are now pressing for adoption of a draft EU Directive on WOVM. The Republic of South Africa is currently developing a WOVM Standard as a precursor to WOVM legislation. And the Australasian Police Ministers Conference is formally considering a move towards mandatory WOVM, both to reduce vehicle crime and eliminate an illegal source of terrorist funding.

The company has also maintained very close ties with the Russian Government, both directly and via its state-owned Russian distributor, Machinoimport. In 2006 DataDot Technology products and systems were endorsed by the Russian Parliament, the Duma, and are being progressively endorsed by government agencies responsible for crime prevention and anti-terrorism. This has been a long-term investment in relationship building that your directors are confident will yield positive commercial results.

In the months since DataTraceDNA Pty Ltd was formed in November 2005 an exclusive distribution arrangement has been agreed for China, where the distributor is working closely with Government authorities on a product authentication project for consumer goods. To date, \$1 million of a \$10 million licensing fee has been paid by the distributor, the balance to be paid in September 2007. The company has also concluded the first sale of DataTraceDNA for commercial application, specifically in the gaming industry, by embedding DataTraceDNA in the molecular structure of genuine products to distinguish them from counterfeit substitutes.

Most activity in DataTraceDNA Pty Ltd is still at the level of applied research of specific commercial applications, conducted in conjunction with the CSIRO and often involving the R&D personnel of potential global clients. Specific projects currently underway include covert product authentication for barcodes; paper and fabric labels; packaging of cigarettes, cosmetics and alcohol; government documents and tax stamps; publications; works of art; and paint. The company is also active in further developing the patented properties of DataTraceDNA as an agent for managing the homogeneity of bulk materials such as concrete and explosives.

Your directors are confident that developing these new methods of DataDotDNA application, and customising DataTraceDNA for commercial application, will generate significant growth and yield for the company. Accordingly, we have since June 30 raised an additional \$7.665 million through the placement of ordinary shares specifically to fund manufacture of DataDotDNA in New Zealand to meet locally the demand created by mandatory WOVM, to prove the technical feasibility of the DAAC, to further develop DataTraceDNA and for related working capital requirements.

All the detail in this letter might prompt any shareholder to question the ability of the company, its management and staff to stay focussed and complete the many opportunities that have been identified and presented. I can assure you that the Board and Management are working closely together to ensure that the priorities identified in the strategic plan are given due attention and support. Your directors believe we can go forward into the next year with confidence that all the hard work of the previous years will come to fruition.

In December I was privileged to be appointed to the Board as a non-executive director and Chairman, which increased the number of non-executive directors to three and so allowed for a further strengthening of the company's governance policies. In particular, we were able to adopt best practice in constituting the membership of the Audit Committee exclusively with non-executive directors and in establishing a Remuneration and Nomination Committee.

I would like to thank my fellow directors for their valued contributions to these important Standing Committees and for their work on the full Board, and thank the CEO and his team for their dedicated contribution over the year.

I.F.Brown
Chairman

11th September 2006

Directors' Report

Your directors submit their report for the year ended 30 June 2006.

1 Directors and Company Secretary

The directors of the Company at any time during or since the end of the financial year are:

Mr Ian Brown ANZIIIF, FAIM, CIP
Chairman, Independent Non-Executive Director
Aged 63

Mr Brown joined the Board as a non-executive director and Chairman on 21 December 2005, upon his retirement as Deputy Chief Executive Officer of Insurance Australia Group Ltd (IAG). He is also Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee. Mr Brown has over 40 years experience in the insurance sector, at various times holding the positions of General Manager - Western Underwriters Ltd, Manager Western Australia – QBE Insurance Ltd, General Manager - New Zealand Security & General Insurance, Managing Director – SGIO Insurance Ltd, Chief General Manager International and Corporate Services – IAG, and Acting CEO – IAG. Mr Brown is currently Chairman of the Australian and New Zealand Institute of Insurance and Finance and is a former President of the Insurance Council of Australia. He is currently on the Boards of IAG subsidiaries in China, Thailand and Singapore and of IAG Reinsurance Ltd. As Mr Brown was appointed to the Board since the last General Meeting, he offers himself for re-election as a Director at the 2006 Annual General Meeting in accordance with the Company's constitution.

Mr Ian Allen AICD
Chief Executive Officer
Aged 57

Mr Allen is a joint founder of the Company and is responsible for the commercialisation of the DataDot technology around the world. Mr Allen has over 30 years experience in the management of businesses in Australia, primarily in the insurance field. In 1978, he founded National Credit Union Insurance Brokers, a business which he ran until 1996 and which offered insurance and financial planning services to credit union members throughout Australia. In 1996, he founded the National Asset Register, Australia's first asset identification and asset registration company which became DataDot Technology in 2002. Mr Allen is a member of the Remuneration and Nomination Committee. He was appointed a Director on 9 March 2000.

Mr Alan Grant
Independent Non-Executive Director
Aged 66

Mr Grant has worked in the international banking and finance industries for over 48 years, holding management positions with the Commercial Banking Company of Sydney Ltd, Associated Securities Ltd, British Acceptance Ltd and Granco Finance. Mr Grant is the principal of Trans State Finance Pty Ltd, a commercial finance consultancy and broking company. He has held the position of chairman with a number of public companies including Miniskips NZ Ltd and Blue Line Cruises Ltd. Mr Grant is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee. He was appointed a Director on 22 November 2004. Mr Grant's current term as director expires in 2006.

Directors' Report (Continued)

Mr Peter Housden B.Com (Hons), FCPA, AICD **Independent Non-Executive Director**

Aged 59

Mr Housden has over 35 years experience in corporate life including 16 years on listed company boards. He is currently a director of Sino Gold Ltd and Advanced Surgical Design & Manufacture Ltd and previously was acting chairman and chair of the audit committee for Kaz Group Ltd. He has been an executive director of RGC Ltd, of Australia Chemical Holdings Ltd and held senior management positions with MIA Group Ltd, Metal Manufacturers Ltd, Esso Australia Ltd and BHP Ltd. Mr Housden is a member of the Audit Committee. He was appointed a Director of the Board on 22 November 2004. Mr Housden's current term as director expires in 2007.

Mr John Richards Dip Acc, CA, AICD **Commercial Director**

Aged 73

Prior to joining the Company Mr Richards was the Managing Partner of Kendalls Chartered Accountants, a position he held for some 40 years. He was appointed a Director on 9 March 2000. During the year Mr Richards was a member of the Audit Committee until 21 December 2005. Mr Richards' current term as director expires in 2008.

Mr Chris Stott B. Ec., AICD **Chief Operating Officer**

Aged 55

Before joining the Company Mr Stott held senior management positions with Credit Union Services Corporation (Australia) Ltd., including General Manager, Funds Management (Unit Trusts and Superannuation) and Executive Director, Bridges Personal Investment Service. Prior to these positions he was with the South Australian Government for 9 years. Mr Stott was appointed a Director of the Board on 14 December 2000 and his current term as director expires in 2007.

The qualifications and experience of the officer holding the position of Company Secretary as at the date of this report is:

Mr Graham Loughlin B.A.(Hons), AICD **Company Secretary**

Aged 56

Mr Loughlin joined the Company in December 2004 as Manager of Corporate Strategic Development and Company Secretary. He was previously General Manager, Strategy and Business Development, of Credit Union Services Corporation (Australia) Ltd and a director of several of its subsidiary companies, a Member of the Australian Payments System Council and Member of the Australian Housing Council. He was for 10 years a non-Executive Director of Data Advantage Ltd and Credit Reference Association of Australia. Mr Loughlin was formerly Executive Assistant to the Premier and Treasurer of South Australia.

Directors' Report (Continued)

2 Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Name	Board Meetings		Audit Committee Meetings		Remuneration & Nomination Committee Meetings	
	Number held whilst a Director	Number participated in	Number held whilst a Director	Number participated in	Number held whilst a Director	Number participated in
I Brown	3	3	1	1	1	1
I Allen	6	4	-	-	2	2
A Grant	6	5	2	2	2	2
P Housden	6	6	2	2	1	1
J Richards	6	6	1	1	-	-
C Stott	6	5	-	-	-	-

3 Principal Activities of the Consolidated Entity

The principal activities of the consolidated entity during the course of the financial year were;

- development, manufacture and distribution of asset-based identification technologies, principally DataDotDNA, that allow assets and their component parts to be uniquely marked and identified; and
- management under a management services agreement of the business activities of DataTrace DNA Pty Ltd, a joint venture company owned equally by DataDot Technology Ltd and CSIRO that is exclusively licensed to commercially exploit the bulk materials identification and mixing analysis properties of DataTrace DNA, the intellectual property rights to which are owned by the CSIRO.

No other significant change in the nature of these activities occurred during the year.

4 Review of Results and Operations

In its first full year since publicly listing the Group has increased and broadened its revenue base, contained its cost base, diversified its product set and opened new markets.

The Group's net loss for the year after income tax is \$1,430,100 (2005: \$5,138,504), representing a reduction of 72% in the Group's loss from the previous year.

Included in these figures are:

- non-recurring gain on director loans forgiven of \$Nil (2005: \$748,077);
- share-based payments expense of \$745,515 (2005: \$2,457,846);
- non-recurring sale of licence fee of \$750,000 (2005: \$Nil)

Net loss from continuing operations, excluding loans forgiven, share-based payments and non-recurring sale of licence fee is (\$1,434,585) [2005: (\$3,428,735)], representing a 58% annual improvement (see table below).

Directors' Report (Continued)

	<u>2006</u>	<u>2005</u>	<i>Change</i>
	\$	\$	%
Net loss from total operations	(1,430,100)	(5,138,504)	72% <i>improvement</i>
Add-back director loans forgiven	-	(748,077)	
Add-back licence fee	(750,000)	-	
Subtract share-based payments	745,515	2,457,846	70% <i>improvement</i>
Adjusted net loss from continuing operations	<u>(1,434,585)</u>	<u>(3,428,735)</u>	58% <i>improvement</i>

Sales revenue for the year was \$9,463,577 (2005: \$5,957,454), representing an increase of 59% on the previous year. The growth in current year revenues is largely attributable to organic growth in 3 of the 4 market segments.

Summarised operating results are as follows:

	<i>Revenues</i>	<i>Results</i>	<i>Revenues</i>	<i>Results</i>
	\$	\$	\$	\$
<i>Geographic segments</i>				
Australasia	4,888,260	789,452	4,058,844	(59,716)
USA	2,096,745	(122,897)	658,878	(852,166)
Europe	398,403	(78,331)	464,345	(130,061)
South Africa	1,302,535	25,288	859,150	(51,790)
	<u>8,685,943</u>	<u>613,512</u>	<u>6,041,217</u>	<u>(1,093,733)</u>
Consolidated entity adjustments	(92,765)	-	(261,793)	-
Non-segment unallocated revenues and expenses	870,399	(1,967,023)	1,034,779	(3,607,227)
Finance costs	-	(231,480)	-	(437,544)
Share of profit of joint venture	-	154,891	-	-
	<u>9,463,577</u>	<u>(1,430,100)</u>	<u>6,814,203</u>	<u>(5,138,504)</u>
Consolidated entity sales and loss from ordinary activities before income tax expense	<u>9,463,577</u>	<u>(1,430,100)</u>	<u>6,814,203</u>	<u>(5,138,504)</u>

Group operating expenses reduced from \$9,843,764 in the 2005 financial year to \$8,610,963 in the 2006 financial year. The change relates principally to a decrease in the employee benefits expense of \$961,806. This reduction occurred because share-based payments expensed during the year were significantly less than the previous year. During the 2006 year share-based payments totalled \$745,515 (2005: \$2,457,846).

Excluding the effect of the share-based payments, employment costs increased by approximately \$750,000. The increase in employee benefits is attributable both to moderate increases in remuneration and the employment of additional personnel.

Directors' Report (Continued)

The Groups' Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA) is disclosed below. Excluding the effect of share-based payments, the Group would have reported a positive EBITDA of \$42,787 for the 2006 financial year.

	2006	2005
	\$	\$
Loss after income tax	(1,430,100)	(5,138,504)
Add back:		
Income Tax Expense	-	-
Interest Expense	231,480	437,545
Depreciation and amortisation expense	495,892	477,305
Loss before interest, tax, depreciation and amortisation	<u>(702,728)</u>	<u>(4,223,654)</u>
Share-based payments	<u>745,515</u>	<u>2,457,846</u>
Earnings /(Loss) before interest, tax, depreciation, amortisation and share-based payments	<u><u>42,787</u></u>	<u><u>(1,765,808)</u></u>

On 31st October 2005 the company established a joint venture company, DataTrace DNA Pty Ltd, with the CSIRO. The Company provides management services to DataTrace DNA Pty Ltd under a Management Services Agreement. Management fees charged to DataTrace DNA Pty Ltd were \$711,000. The Company's and Group's share of profit from the joint venture was \$154,891.

The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2006 of \$2,838,198 (2005: increase of \$4,266,852). The cash outflow in comparison with the prior year cash inflow is caused by a number of factors:

- Operating activities consumed \$1,542,338 (2005: \$3,504,626). This reduction in comparison to 30 June 2005 is largely due to an increase in cash generated from sales and, to a lesser extent, a reduction in interest paid for the year.
- Cash outflows from investing activities during the year ended 30 June 2006 increased to \$1,428,061 (2005: \$367,871), which was mainly attributable to investing in the joint venture, DataTrace DNA Pty Ltd.
- There was a significant reduction in cash flows from financing activities for the year ended 30 June 2006 due to the prior year containing the proceeds from the IPO.

The asset and capital structure is provided below:

	2006	2005
	\$	\$
Debts:		
Interest bearing loans and borrowings	1,671,389	2,269,044
Other loans – non interest bearing	498,795	759,243
Cash and short term deposits	(1,169,581)	(4,024,831)
Net Debt	<u>1,000,603</u>	<u>(996,544)</u>
Total equity	<u>2,725,994</u>	<u>2,310,991</u>
Total capital employed	<u><u>3,726,597</u></u>	<u><u>1,314,447</u></u>
Gearing	36.71%	-

Directors' Report (Continued)

The profile of the Group's debt finance is as follows:

	2006	2005
	\$	\$
Current		
Obligations under finance leases and hire purchase contracts	408,957	281,858
Bank loan	35,886	-
Noteholder loans	845,000	319,469
Other loans – non interest bearing	61,273	165,137
	<u>1,351,116</u>	<u>766,464</u>
Non-current		
Obligations under finance leases and hire purchase contracts	308,105	732,717
Bank loan	73,441	-
Noteholder loans	-	935,000
Other loans – non interest bearing	437,522	606,997
	<u>819,068</u>	<u>2,274,714</u>
	<u>2,170,184</u>	<u>3,041,178</u>

The amount of the Group's debt has decreased over the last year. The Group anticipates that its debts will decrease over the coming year once the noteholder loans are either repaid or converted into ordinary shares.

There has been an increase in cash used to purchase plant and equipment for 30 June 2006 to \$316,408 from \$191,849.

5 Significant changes in the state of affairs

Over the course of the year, holders of convertible notes valued at \$409,469 elected to convert their notes to 3,751,276 fully paid ordinary shares. The remaining convertible notes mature in May and June 2007, are valued at \$845,000 and convert to an additional 3,591,648 fully paid ordinary shares.

Over the course of the year, the Company has capitalised \$695,803 in intangible assets for costs incurred on the development of the DataDot Automated Applicator Cell (DAAC). Approximately 94% of these costs were external to the Group. The Company has been awarded an AusIndustry *Commercial Ready* grant of \$1.5 million. The Company has received under the grant \$385,898 of which \$347,620 has been treated as deferred income and recognised as a non-current liability. Upon the completion of the DAAC project, this deferred income will be released to the income statement over the expected useful life of the DAAC by equal annual instalments.

The Company has maintained its development programme and has capitalised \$132,414 of other development expenditure during the year.

Fully paid ordinary share capital increased during the year as follows:

Directors' Report (Continued)

Conversion of convertible notes

<i>Conversion date</i>	<i>Number of convertible notes</i>	<i>Conversion price per convertible note \$</i>	<i>Value of convertible notes \$</i>	<i>Uplift factor on conversion</i>	<i>Number of shares issued on conversion</i>	<i>Increase in share capital</i>
17/08/2005	90,909	0.15	13,636	1.92912012	175,374	13,636
26/08/2005	300,000	0.15	45,000	1.92912012	578,736	45,000
01/09/2005	10,000	0.15	1,500	1.92912012	19,291	1,500
06/09/2005	62,216	0.15	9,332	1.92912012	120,022	9,332
01/12/2005	1,250,000	0.20	250,000	1.92912012	2,411,400	250,000
17/01/2006	171,428	0.35	60,000	1.92912012	330,705	60,000
08/03/2006	40,000	0.50	20,000	1.92912012	77,165	20,000
13/03/2006	20,000	0.50	10,000	1.92912012	38,582	10,000
	<u>1,944,553</u>		<u>\$ 409,469</u>		<u>3,751,276</u>	<u>409,469</u>

Exercise of options

<i>Exercise Date</i>	<i>Number of options</i>	<i>Exercise price</i>	<i>Funds raised \$</i>	<i>Number of shares issued on exercise of option</i>	
12/04/2006	500,000	0.20	100,000	500,000	100,000
22/05/2006	1,000,000	0.15	150,000	1,000,000	150,000
23/05/2006	1,000,000	0.15	150,000	1,000,000	150,000
01/06/2006	50,000	0.25	12,500	50,000	12,500
	<u>2,550,000</u>		<u>\$ 412,500</u>	<u>2,550,000</u>	<u>412,500</u>

Share-based payments

Share-based payments relating to 2006 financial year credited to equity 745,515

6 Dividends

The Directors recommend that no dividend be paid. No dividends have been declared or paid during the period.

Directors' Report (Continued)

7 Events Subsequent to Reporting Date

Between 1 July 2005 and the date of this report the following material transactions have occurred. The Company has:

- Issued a further 18,250,000 ordinary shares at 42 cents per share.
- Granted options over 1,000,000 unissued ordinary shares to employees under the Company's Employee Share Option Plan.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in subsequent financial years.

8 Likely Developments

It is anticipated that principal activities of the consolidated entity will remain unchanged.

In particular, the Company expects in 2007 to complete the feasibility prove-out of its DAAC, which is the final development step to be completed before commercial deployment of this robotic solution for DataDotDNA application. It also expects to commence widespread distribution of DataDotDNA to new market segments via a hand-held, pressure pack aerosol spray.

Government-mandated whole-of-vehicle-marking is expected to commence in New Zealand and there are indications of orders for both DataDotDNA and DataTraceDNA due to other government endorsements of these products for specific applications in the automotive, aviation and pharmaceutical industries.

In relation to DataTraceDNA, it is likely that in 2007 the company will significantly increase its field testing of commercial application in conjunction with leading international companies in the fields of polymers, inks, concrete, explosives and fibres. Our policy is not to name these development partners because the value to them of DataTraceDNA used as a covert authentication agent with their products would be compromised if their identities were disclosed.

9 Corporate Governance Statement

This statement outlines the main corporate governance policies of the Company. These policies comply with the ASX Corporate Governance Council recommendations, unless otherwise stated. The policies are published on the Company's website.

9.1 Board of Directors

Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

Directors' Report (Continued)

The board has delegated responsibility for operation and administration of the Company to the Chief Executive Officer and executive management. Responsibilities are delineated by formal authority delegations.

These roles are documented in board approved policy statements.

Board processes

To assist in the execution of its responsibilities, the board has established an Audit Committee and a Remuneration and Nomination Committee. These two committees have written mandates and operating procedures, which are reviewed annually.

The board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

Independent professional advice and access to company information

Under the Company's Board Charter, each director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense.

Composition of the board

The names of the directors of the Company in office at the date of this report are disclosed in the Directors' Report on pages 5 & 6.

The Constitution of the Company specifies the number of directors shall be not less than three nor more than ten. The board may at any time appoint a director to fill a casual vacancy and at each annual general meeting, one-third of directors, not including the managing director, together with any director appointed since the last annual general meeting retire from office and may stand for re-election.

The composition of the board is reviewed regularly by the Remuneration and Nomination Committee to ensure that the range of expertise and experience of board members is appropriate for the activities and operations of the consolidated entity. Where, through whatever cause, it is considered that the board would benefit from the services of a new director with particular skills, the board would then appoint the most suitable candidate who must stand for re-election at a general meeting of shareholders.

The board currently consists of six directors of whom three, Mr A. Grant, Mr P. Housden and the Chairman, Mr I. Brown, are independent. None of these three independent directors is a substantial shareholder of the Company, or a former or current executive or customer of the Company, or adviser or supplier to the Company, and has no material contractual relationship with the Company or consolidated entity other than as a director of the Company.

The board is of the view that its current composition serves the interests of shareholders for the following reasons:

- the combined knowledge, skills and experience of directors is adequate, having regard to:
 - the demands of the Company's size, market knowledge and board responsibilities;
 - the integrity and transparency of the Company's documented governance policies;
 - the fact that independent directors comprise the whole membership of the audit committee; and
 - the fact that independent directors constitute a majority of the members of the Remuneration and Nomination Committee.
- it is not at present in the interests of shareholders to incur the expense of additional directors.

Directors' Report (Continued)

Board evaluation

Under the Company's policy of Board and Director Evaluation, both individual and collective performance evaluations were conducted during the reporting period. The method of performance evaluation included both individual director discussions with the Chairman and board discussions of the matters contained in the Chairman's report of those discussions. Evaluation was made against the criteria of personal contribution, collective efficacy and procedural adequacy that are specified in the policy. The Remuneration and Nomination Committee monitors different evaluation methodologies in its quest for continuous improvement.

9.2 Remuneration Report

Directors' and Senior Executives' Remuneration

During the year the Board established a Remuneration and Nomination Committee comprising three directors, two of whom are independent directors. The Committee's charter is to review and make recommendations to the Board in relation to:

- Executive remuneration and incentive policy
- The remuneration of the CEO, executive directors and all direct reports of the CEO;
- Executive incentive plans;
- The remuneration of non-executive directors;
- Retention, performance assessment and termination policies and procedures for non-executive directors, the CEO, executive directors and all direct reports of the CEO;
- Establishment and oversight of employee and executive share plans and share option plans;
- Superannuation arrangements;
- The disclosure of remuneration in DDT's publications, including ASX filings and the Annual Report;
- Board composition, having regard to necessary and desirable competencies;
- Boards succession plans; and
- Evaluation of Board performance.

The Remuneration and Nomination Committee has commissioned an outside expert to review the company's remuneration policy, both for executives and independent directors, including remuneration levels, market relativity, performance-related remuneration and remuneration packaging. The Committee expects to receive the results of this review in September and will report its evaluation and decisions at the Annual General Meeting in October.

Under the present policy the remuneration of the Chief Executive Officer is determined by the board on the recommendation of the Remuneration and Nomination Committee. Remuneration of other key executives is determined by the Chief Executive Officer in accordance with the policies established by the Remuneration and Nomination Committee, having taken into account information obtained via reputable industry remuneration surveys and / or independent consultant reports. This also includes participation in share option schemes, incentive performance packages, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The Remuneration and Nomination Committee is responsible for making recommendations on remuneration policies and packages applicable to board members and senior executives of the consolidated entity. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Directors' Report (Continued)

The Constitution specifies that the aggregate remuneration of directors, other than salaries paid to executive directors, shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is divided between those directors as the board agrees, taking into account information obtained via reputable industry remuneration surveys and / or independent consultant reports

Options may be granted to executives and other employees in accordance with terms of the Employee Share Option Plan.

Details of the nature and amount of each major element of the emoluments of each director of the Company and the officers of the Company and consolidated entity receiving the highest emoluments during the year are disclosed in Tables 1 to 3 following:

Directors' Report (Continued)

Remuneration of directors and named executives

Table 1: Directors' remuneration for the year ended 30 June 2006

		Primary Benefits				Post employment			Equity	Total	% performance related
		Salary & Fees	Cash STI	LTI	Non monetary benefits	Superannuation	Life insurance	Retirement	Options		
I. Brown *	2006	29,118	-	-	-	2,621	-	-	-	31,739	-
Chairman											
I. Allen	2006	375,000	-	-	62,358	33,750	-	-	242,445	713,553	-
Chief Executive	2005	305,003	-	-	111,578	27,450	-	-	273,528	717,559	-
J. Richards	2006	178,352	-	-	62,634	12,201	7,850	-	81,451	342,488	-
Commercial Director	2005	94,757	-	-	70,615	103,238	-	-	91,894	360,504	-
C. Stott	2006	171,378	-	-	56,054	70,500	-	-	137,441	435,373	-
Chief Operating Officer	2005	228,400	-	-	39,561	44,100	-	-	921,953	1,234,014	-
P. Housden **	2006	45,872	-	-	-	4,128	-	-	19,738	69,738	-
Non-executive	2005	33,257	-	-	-	2,993	-	-	22,268	58,518	-
A. Grant	2006	-	-	-	-	40,000	-	-	16,448	56,448	-
Non-executive	2005	-	-	-	-	24,103	-	-	18,556	42,659	-

* Appointed 21 December 2005.

** Resigned as Chairman 21 December 2005.

Directors' Report (Continued)

Remuneration of directors and named executives continued

Table 2: Remuneration of the 5 named Group executives who received the highest remuneration for the year ended 30 June 2006

		Primary Benefits				Post employment			Equity	Total	% performance related
		Salary & Fees	Cash STI	LTI	Non monetary benefits	Superannuation	Life insurance	Retirement	Options		
B. McLaws *	2006	188,542	33,794	-	3,929	-	-	-	81,451	307,716	10.08
President (DataDot Technology USA Inc.)	2005	165,388	-	-	10,185	-	-	-	91,894	267,467	-
S. Cutler * & **	2006	213,327	49,901	-	16,224	-	-	-	-	279,452	17.86
President – Finance & Operations (DataDot Technology USA Inc.)	2005	218,022	-	-	31,528	-	-	-	-	249,550	
G. Loughlin	2006	218,000	-	-	-	-	-	-	28,918	246,918	-
Company Secretary and Strategic Dev Mgr (DataDot Technology Ltd)	2005	127,167	-	-	-	-	-	-	19,327	146,494	-

G. George ****	2006	80,696	131,567	-	19,124	7,263	-	-	11,085	249,735	52.68
Manager, Research and Development (DataDot Technology Ltd)	2005	68,344	116,000	-	32,693	6,516	-	-	9,663	233,216	49.74
R. Parsons	2006	150,000	-	-	21,269	13,500	-	-	-	184,769	-
General Manager (DataDot Technology Australia Pty Ltd)	2005	140,671	-	-	19,230	24,167	-	-	383,050	567,118	-

* Incentive is equal to 2% of the trading profit of DataDot Technology USA Inc multiplied by the percentage amount of trading profit divided by gross expenses. The incentive is calculated on a quarterly basis and is not cumulative.

** A related party entity of Mr. S. Cutler earned commissions on sales – see note 30 for details.

*** Appointed 1 December 2004

**** Cash STI for G George are paid under a royalty agreement and are paid to a related entity of G George. The royalty agreement terminates on G George ceasing employment with the parent company.

Directors' Report (Continued)

Remuneration of directors and named executives continued

Table 3: Remuneration of the 5 named Company executives who received the highest remuneration for the year ended 30 June 2006

Mr. G Loughlin and Mr. G George are employed by the parent company and their remuneration for the year ended 30 June 2006 is disclosed in Table 2 on the preceding page.

			Primary Benefits			Post employment			Equity Options	Total	% performance related
			Salary & Fees	Cash STI	LTI	Non monetary benefits	Superannuation	Life insurance			
J. Kraft	2006		119,266	-	-	22,268	10,734	-	-	152,268	-
VP - Product Development DataTrace DNA	2005	*	49,694	-	-	7,418	4,472	-	-	61,584	-
G. Twemlow	2006		124,508	-	-	-	11,206	-	-	135,704	-
VP - Business Development DataTrace DNA	**										
M. James	2006		84,659	-	-	-	7,619	-	-	92,278	-
Chief Financial Officer	***										

* Appointed 1 February 2004

** Appointed 28 October 2005

*** Appointed 1 December 2005

Directors' Report (Continued)

During and since the end of the financial year an aggregate of 1,000,000 share options were granted to the following executives of the company:

<i>Executives</i>	<i>Grant Date</i>	<i>Grant number</i>	<i>Value per option at grant date</i>	<i>Number of ordinary shares under option</i>	<i>Value of options granted during or since end of financial year</i>
			\$		\$
G. Loughlin	5-Aug-05	200,000	0.1446	200,000	28,918
G. Loughlin	4-Aug-06	500,000	0.1955	500,000	97,750
M. James	4-Aug-06	250,000	0.1955	250,000	48,875
S. Cutler	4-Aug-06	250,000	0.1955	250,000	48,875

No share options were granted to directors during or since the end of the financial year.

For details on the valuation of the options, including models and assumptions, please refer to Note 17. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

9.3 Audit Committee

The Audit Committee has a documented charter, approved by the board. All members must be independent non-executive directors. The Chairman may not be Chairman of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

- Mr A Grant (Chairman) – Independent Non-Executive
- Mr P Housden, B.Com (Hons), FCPA, AICD – Independent Non-Executive
- Mr I Brown, ANZIIF, FAIM, CIP – Independent Non-Executive
- Mr J Richards, Dip. Acc., CA – Executive, replaced by Mr I Brown on 21 December 2005.

The external auditors and the Chief Financial Officer are invited to Audit Committee meetings at the discretion of the committee. The committee met twice during the year and committee members' attendance record is disclosed in the table of Directors' meetings on page 7. The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the Company's financial reports for the year ended 30 June 2006 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

9.4 Risk Management

Under a documented Risk Management Policy the board oversees the establishment, implementation and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing strategic, operational, financial reporting and compliance risks for the consolidated entity, taking into account the consolidated entity's stage of development. The Chief Executive Officer and the Chief Financial Officer have declared, in writing to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Directors' Report (Continued)

Under the same policy, a nominated risk management committee, comprising executive management, reports to the board semi-annually on the status of risks through integrated risk management programs that aim to ensure risks are identified, assessed and appropriately managed.

Internal control framework

The board acknowledges that it is responsible for the overall internal control framework and accordingly has implemented a cost effective internal control system. The system is based upon policies, guidelines, delegations and reporting as well as the selection and training of qualified personnel. The board believes the current control framework to be suitable for the Company's current operations. There is no internal audit function as the cost would significantly outweigh the benefits given the size of the current operations.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under Commonwealth or State legislation. However, the board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

9.5 Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The board reviews the Company's published Code of Conduct annually and processes are in place to promote and communicate these policies.

In accordance with the Corporations Act 2001 and the Company's constitution, directors must keep the board advised of any interest that could potentially conflict with those of the Company. Any transactions with directors are formally approved by the board. The Director concerned does not participate in discussion or approval of the transaction. Details of director related entity transactions with the Company and consolidated entity are set out in Note 30.

Director Dealings in Company Shares

Directors and employees may acquire shares in the Company, but are prohibited from dealing in Company shares whilst in the possession of price sensitive information that has not been made public. The Company's published Share Trading policy recommends trading be restricted to specified trading windows and requires disclosure of trading activity.

Code of Conduct

The Company's published Code of Conduct sets out the Company's responsibilities to shareholders, customers, suppliers, employees, other stakeholders and the wider community. It prescribes minimum principles and standards of conduct that the Company expects of directors, employees, contractors and consultants engaged in its service.

9.6 Continuous and periodic disclosure to ASX

The Company's published Disclosure Compliance policy prescribes the Company's disclosure obligations under the ASX Listing Rules and establishes the procedures and individual responsibilities that will ensure compliance.

The policy adopts five per cent of the base amount (e.g. total revenue, total expenses, and total assets) as the threshold for materiality where it can be measured quantitatively, and requires consideration of strategic position, reputation, ability to carry on business and legal compliance as qualitative criteria for determining materiality under the Listing Rules governing continuous disclosure.

The Company Secretary is responsible for all communications with the ASX.

Directors' Report (Continued)

9.7 *Communication with shareholders*

The board provides shareholders with information under a comprehensive Shareholder Communication Policy. Within that policy:

- periodic disclosure of financial results is achieved by announcing them to the ASX, posting them on the Company's website and issuing media releases;
- continuous disclosure of all material matters that may affect the price of the Company's securities is achieved by announcing them to the ASX, posting them on the Company's website, and issuing media releases;
- the annual report is distributed to all shareholders. The board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. Half-year financial statements prepared in accordance with the requirements of Accounting Standards in Australia and the Corporations Act 2001 are lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange Ltd. The financial statements are sent to any shareholder who requests them;
- the Board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals;
- the external auditor is requested to attend the annual general meeting to answer any questions concerning the audit and the content of the auditor's report.

10 Unissued Shares Under Option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise price	Number of shares
23/07/2009	\$0.15	500,000
31/12/2009	\$0.15	4,495,000
23/07/2009	\$0.20	3,500,000
31/12/2009	\$0.25	17,300,000
7/8/2011	\$0.42	1,000,000
		<u>26,795,000</u>

Of these, 7,350,000 options were granted to nominees of KTM Capital Pty Ltd, the underwriter of the Company's initial public offering. These options have an exercise price of \$0.25 and expire on 31 December 2009. These options expire on the earlier of their expiry date and a date referable to the date the director or employee ceases to be employed by the Company.

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue.

Directors' Report (Continued)

Details of ordinary shares issued during or since the end of the financial year as a result of exercise of an option are:

<i>Issuing entity</i>	<i>Number of ordinary shares issued</i>	<i>Amount paid for shares</i>	<i>Amount unpaid on shares</i>
DataDot Technology Limited	500,000	\$100,000	\$Nil
DataDot Technology Limited	1,000,000	\$250,000	\$Nil
DataDot Technology Limited	1,000,000	\$250,000	\$Nil
DataDot Technology Limited	50,000	\$25,000	\$Nil

700,000 options lapsed during or since the end of the financial year as a result of employees ceasing to be employed by the company. The options that lapsed during or since the end of the financial year had a value of \$175,000.

11 Directors' Interests

The relevant interest of each director in the shares and options over shares issued by the Company, as notified by the directors to the Australian Stock Exchange in accordance with the Corporations Act 2001, at the date of this report is as follows:

Name of Director	Interest in Shares	Interest in Options
I Brown	-	-
I Allen	18,431,300	3,685,000
P Housden	120,000	300,000
A Grant	40,000	250,000
J Richards	4,495,000	1,238,000
C Stott	120,000	6,584,000

12 Indemnification and Insurance of Officers and Auditors

No indemnities have been given to any person who is or has been an officer or auditor of the consolidated group.

During the year, the Company has paid insurance premiums in respect of directors' and officers' liability insurance contracts. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

13 Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 24 and forms part of the Directors' Report for the year.

Directors' Report (Continued)

14 Payments to auditor for non-audit services

During the year ended 30 June 2006, the following payments were made to the Company's auditor, PKF, as remuneration for services other than audit services:

Taxation services	\$66,890
-------------------	----------

The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act.

The directors are satisfied that the provision of the non-audit services did not compromise the auditor independence requirements of the Corporations Act because the services provided were compliance assurance services only and as such did not involve the auditor in company direction or management.

Dated at Sydney this 11th day of September 2006.

Signed in accordance with a resolution of the Directors:



P.J. Housden
Director



Chartered Accountants
& Business Advisers

Auditors Independence Declaration under section 307C of the Corporations Act 2001

To the Directors of DataDot Technology Limited -

As lead engagement partner, I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2006, there have been:

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

PKF

**Arthur Milner
Partner**

**Sydney
11 September 2006**

Income Statement

FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		\$	\$	\$	\$
Continuing operations					
Sale of goods		7,854,457	5,424,178	-	-
Rendering of services		717,648	-	717,648	-
Licence fees		771,123	355,246	750,050	260,976
Royalties		-	-	369,792	81,365
Finance revenue		120,349	178,030	124,848	176,690
Revenue	4(a)	<u>9,463,577</u>	<u>5,957,454</u>	<u>1,962,338</u>	<u>519,031</u>
Cost of sales	4(e), (f)	(2,546,748)	(2,108,943)	(5,304)	(174,311)
Gross profit		<u>6,916,829</u>	<u>3,848,511</u>	<u>1,957,034</u>	<u>344,720</u>
Other income	4(b)	109,143	856,749	28,635	856,749
Employee benefits expense	4(g)	(5,273,024)	(6,234,830)	(2,855,202)	(4,040,077)
Administrative expenses	4(f), (h)	(1,164,367)	(1,452,061)	(699,895)	(882,278)
Advertising and promotional expenses		(303,110)	(460,587)	(37,745)	(27,722)
Occupancy expenses	4(f)	(497,198)	(446,590)	2,311	(1,854)
Travel expenses		(502,207)	(320,355)	(189,754)	(113,142)
Finance costs	4(c)	(231,480)	(437,545)	(110,854)	(322,410)
Depreciation and amortisation expense	4(d)	(495,892)	(477,305)	(146,029)	(122,502)
Bad and doubtful debts		(143,685)	(14,491)	(670,529)	(6,836,226)
Share of profit of joint venture	14	154,891	-	-	-
Loss before income tax expense		<u>(1,430,100)</u>	<u>(5,138,504)</u>	<u>(2,722,028)</u>	<u>(11,144,742)</u>
Income tax expense	5	-	-	-	-
Net loss for the year		<u>(1,430,100)</u>	<u>(5,138,504)</u>	<u>(2,722,028)</u>	<u>(11,144,742)</u>
Loss attributable to minority interest		-	-	-	-
Loss attributable to members of the parent	6	<u>(1,430,100)</u>	<u>(5,138,504)</u>	<u>(2,722,028)</u>	<u>(11,144,742)</u>
Earnings per share (cents per share)	6				
- basic for loss attributable from continuing operations attributable to ordinary equity holders of the parent		(1.2)	(6.3)		

Balance Sheet

AS AT 30 JUNE 2006

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
ASSETS					
Current Assets					
Cash and cash equivalents	8	1,169,581	4,024,831	396,127	3,668,175
Trade and other receivables	9	2,345,700	936,680	922,902	131,184
Inventories	10	395,062	374,320	-	4,248
Prepayments		35,999	-	5,945	-
Other financial assets	11	153,171	112,724	120,671	112,724
Total Current Assets		4,099,513	5,448,555	1,445,645	3,916,331
Non-Current Assets					
Trade and other receivables	12	26,648	-	26,648	-
Other financial assets	13	-	-	183,250	183,250
Investment accounted for using the equity method	14	1,209,997	-	1,055,106	-
Plant and equipment	15	965,087	1,132,292	380,444	275,114
Intangible assets	16	907,831	350,000	907,831	350,000
Total Non-Current Assets		3,109,563	1,482,292	2,553,279	808,364
TOTAL ASSETS		7,209,076	6,930,847	3,998,924	4,724,695
LIABILITIES					
Current Liabilities					
Trade and other payables	18	1,645,790	1,459,474	828,006	474,871
Interest bearing loans and borrowings	19	1,289,843	601,327	907,494	362,222
Provisions	20	275,986	210,316	197,414	146,217
Total Current Liabilities		3,211,619	2,271,117	1,932,914	983,310
Non-Current Liabilities					
Interest bearing loans and borrowings	19	381,546	1,667,717	210,192	1,092,856
Other-non current liabilities	21	785,142	606,997	432,489	97,478
Provisions	20	104,775	74,025	73,540	46,717
Total Non-Current liabilities		1,271,463	2,348,739	716,221	1,237,051
TOTAL LIABILITIES		4,483,082	4,619,856	2,649,135	2,220,361
NET ASSETS		2,725,994	2,310,991	1,349,789	2,504,334
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	22	16,695,271	15,127,788	16,695,271	15,127,788
Accumulated losses	22	(13,996,674)	(12,861,479)	(15,345,482)	(12,623,454)
Reserves	22	27,397	44,682	-	-
Parent interests		2,725,994	2,310,991	1,349,789	2,504,334
Minority interests	22	-	-	-	-
TOTAL EQUITY	22	2,725,994	2,310,991	1,349,789	2,504,334

Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2006

	<i>Attributable to equity holders of the parent</i>			<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
	<i>Issued Capital</i>	<i>Accumulated losses</i>	<i>Foreign currency translation reserve</i>			
CONSOLIDATED	\$	\$	\$	\$	\$	\$
At 1 July 2004	581,500	(7,722,975)	122,986	(7,018,489)	-	(7,018,489)
Currency translation differences	-	-	(78,304)	(78,304)	-	(78,304)
Total income and expense for period recognised directly in equity	-	-	(78,304)	(78,304)	-	(78,304)
(Loss) for the period	-	(5,138,504)	-	(5,138,504)	-	(5,138,504)
Total income / expense for the period	-	(5,138,504)	(78,304)	(5,216,808)	-	(5,216,808)
Issue of share capital	12,088,442	-	-	12,088,442	-	12,088,442
Cost of share-based payments	2,457,846	-	-	2,457,846	-	2,457,846
At 30 June 2005	15,127,788	(12,861,479)	44,682	2,310,991	-	2,310,991
Adjustment on application of AASB 132 and AASB 139	-	294,905	-	294,905	-	294,905
Currency translation differences	-	-	(17,285)	(17,285)	-	(17,285)
Total income and expense for period recognised directly in equity	-	-	(17,285)	(17,285)	-	(17,285)
(Loss) for the period	-	(1,430,100)	-	(1,430,100)	-	(1,430,100)
Total income / expense for the period	-	(1,430,100)	(17,285)	(1,447,835)	-	(1,447,835)
Issue of share capital	821,968	-	-	821,968	-	821,968
Cost of share-based payments	745,515	-	-	745,515	-	745,515
At 30 June 2006	16,695,271	(13,996,674)	27,397	2,725,994	-	2,725,994

Statement of Changes in Equity (continued)
FOR THE YEAR ENDED 30 JUNE 2006

	<i>Attributable to equity holders of the parent</i>			<i>Total</i>	<i>Minority interest</i>	<i>Total equity</i>
	<i>Issued Capital</i>	<i>Accumulated losses</i>	<i>Foreign currency translation reserve</i>			
PARENT	\$	\$	\$	\$	\$	\$
At 1 July 2004	581,500	(1,478,712)	-	(897,212)	-	(897,212)
Currency translation differences	-	-	-	-	-	-
Total income and expense for period recognised directly in equity	-	-	-	-	-	-
(Loss) for the period	-	(11,144,742)	-	(11,144,742)	-	(11,144,742)
Total income / expense for the period	-	(11,144,742)	-	(11,144,742)	-	(11,144,742)
Issue of share capital	12,088,442	-	-	12,088,442	-	12,088,442
Cost of share-based payments	2,457,846	-	-	2,457,846	-	2,457,846
At 30 June 2005	15,127,788	(12,623,454)	-	2,504,334	-	2,504,334
Adjustment on application of AASB 132 and AASB 139	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-
Total income and expense for period recognised directly in equity	-	-	-	-	-	-
(Loss) for the period	-	(2,722,028)	-	(2,722,028)	-	(2,722,028)
Total income / expense for the period	-	(2,722,028)	-	(2,722,028)	-	(2,722,028)
Issue of share capital	821,968	-	-	821,968	-	821,968
Cost of share-based payments	745,515	-	-	745,515	-	745,515
At 30 June 2006	16,695,271	(15,345,482)	-	1,349,789	-	1,349,789

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006

	<i>Note</i>	<i>CONSOLIDATED</i>		<i>PARENT</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Cash flows from operating activities					
Cash receipts in the course of operations		8,445,147	5,945,987	1,396,963	214,759
Cash payments in the course of operations		(9,828,555)	(9,013,068)	(3,106,080)	(2,661,208)
Interest paid		(197,208)	(437,545)	(104,603)	(322,410)
Receipt of government grant	4(b)	38,278	-	38,278	-
Net cash (used in) operating activities	8	(1,542,338)	(3,504,626)	(1,775,442)	(2,768,859)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		348,701	108,672	261,117	108,672
Interest received	4(a)	120,349	178,030	124,848	176,690
Amounts advanced to related parties		-	(112,724)	-	(112,724)
Purchase of plant and equipment	15	(361,408)	(191,849)	(213,648)	(60,425)
Purchase of intangible assets	16	(828,217)	(350,000)	(828,217)	(350,000)
Purchase of investment accounted for using the equity method	14	(1,055,106)	-	(1,055,106)	-
Receipt of government grant	21	347,620	-	347,620	-
Loans to controlled and jointly controlled entities	12, 13	-	-	(560,210)	(1,593,343)
Net cash (used in) investing activities		(1,428,061)	(367,871)	(1,923,596)	(1,831,130)
Cash flows from financing activities					
Proceeds from issue of shares	22	412,500	11,500,001	412,500	11,500,001
Transaction costs from issue of shares	22	-	(1,019,885)	-	(1,019,885)
Proceeds from borrowings		219,392	783,288	96,717	705,000
Repayment of related party loans		(157,202)	(2,768,159)	-	(2,768,159)
Repayment of finance lease payments		(342,489)	(355,896)	(82,227)	(152,690)
Net cash provided by financing activities		132,201	8,139,349	426,990	8,264,267
Net increase / (decrease) in cash held		(2,838,198)	4,266,852	(3,272,048)	3,664,278
Cash at beginning of year		4,024,831	(132,724)	3,668,175	3,897
Effect of exchange rate on cash holdings in foreign currencies		(17,052)	(109,297)	-	-
Cash at end of year	8	1,169,581	4,024,831	396,127	3,668,175

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

1 CORPORATE INFORMATION

The financial report of DataDot Technology Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 11th September 2006.

DataDot Technology Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

(b) Statement of compliance

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

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy. Therefore no impact.	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy. Therefore no impact.	1 January 2006	1 July 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy. Therefore no impact.	1 January 2007	1 July 2007
New standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy. Therefore no impact.	1 January 2007	1 July 2007
2005-11	Amendments to Australian Accounting Standards AASB 101: <i>Presentation of Financial Statements</i> , AASB 112: <i>Income Taxes</i> , AASB 132: <i>Financial Instruments: Presentation</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> ; & AASB 141: <i>Agriculture</i>	No change to accounting policy. Therefore no impact.	31 Dec 2005	1 July 2006
2006-1	Amendments to Australian Accounting Standards AASB 121: <i>The Effects of Changes in Foreign Exchange Rates</i>	No change to accounting policy. Therefore no impact.	31 Dec 2006	1 July 2007
2006-2	Amendments to Australian Accounting Standards AASB 1: <i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards</i>	No change to accounting policy. Therefore no impact.	30 June 2006	1 July 2005

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of DataDot Technology Limited and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent the portion of profit or loss and net assets in DataDot Technology (UK) Ltd, DataDot Technology (Asia) Pty Ltd and DataDot Technology South Africa (Pty) Ltd not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

Under AIFRS, the excess of accumulated losses over equity attributable to minority interests is to be adjusted against the Company's ownership interest unless the minority interest has a binding obligation to, and is able to, make good the losses.

(d) Significant accounting judgements, estimates and assumptions

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Impairment of intangibles with indefinite useful lives

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 16.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options granted during or since the end of the financial year is determined by an external valuer using a binomial model, using the assumptions detailed in note 17.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

(ii) Rendering of services

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(iii) Royalties

Revenue is recognised when the underlying goods are sold. Fixed rate manufacturing royalties are recognised over the period of the underlying agreement.

(iv) Licence Fee

Revenue is recognised when the Group has an unconditional entitlement to the fee.

vi) Interest income

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ending 30 June 2005

Interest revenue is recognised as it accrues, taking into account the interest rates applicable to the financial assets.

(f) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be met.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which substantially transfer to the Group all the risks and benefits incidental to ownership of the leased item, are capitalised at the 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 recognised as an expense in profit or loss.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(i) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Accounting policies applicable for the year ending 30 June 2005

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials – purchase cost on the weighted average cost; and

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

(l) Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

Accounting policies applicable for the year ending 30 June 2005

For current financial assets, refer to note 2(j) and note 2(t) for the impairment accounting policy.

For non-current financial assets, refer to note 2(t) for the impairment accounting policy.

(m) Foreign currency translation

Both the functional and presentation currency of DataDot Technology Limited and its Australian subsidiaries are Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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 the fair value was determined.

The functional currencies of the overseas subsidiaries are:

<i>Name of overseas subsidiaries</i>	<i>Functional currency</i>
DataDot Technology USA Inc	United States Dollars (US\$)
DataDot Technology (UK) Ltd	Great Britain Pound (GBP£)
DataDot Technology South Africa (Pty) Ltd	South African Rand (ZAR)

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of DataDot Technology Limited at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.

(n) Interest in a jointly controlled entity

The Group has an interest in a joint venture that is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled entity involves the establishment of a separate entity.

The Group's investment in its jointly controlled entity is accounted for under the equity method of accounting in the consolidated financial statements.

The financial statements of the joint venture are used by the Group to apply the equity method. The reporting dates of the joint venture and the Group are identical and both use consistent accounting policies.

The investment in the joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the joint venture.

Where there has been a change recognised directly in the joint venture equity the Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

(o) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated over the useful life of the asset using a combination of straight-line basis and diminishing value method. The estimated useful lives of the plant and equipment are over 2 to 4 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income.

(iii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(r) Investments and other financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Investments and other financial assets (continued)

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Loans that have been fully impaired are not carried at amortised costs.

(s) Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Intangible assets (continued)

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Development Costs
<i>Useful lives</i>
Finite (2005: Finite)
<i>Amortisation method used</i>
Amortised over the period of expected future sales from the related project on a straight-line basis (2005: Amortised over the period of expected future sales from the related project on a straight line basis).
<i>Internally generated or acquired</i>
Internally generated
<i>Impairment testing</i>
Annually for assets not yet available for use and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end (2005: Annually for assets not yet available for use and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(t) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Accounting policies applicable for the year ending 30 June 2005

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(v) Interest-bearing loans and borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest bearing loans and borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Accounting policies applicable for the year ending 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued. Bills of exchange and promissory notes were carried at the principal amount plus deferred interest. Debentures were carried at the present value of the liability being the principal amount less debenture discount. Interest was recognised on an effective yield basis.

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Employee Leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(y) Share-based payment transactions

(i) Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange rights over shares (equity-settled transactions).

The Employee Share Option Plan (ESOP) provides benefits to directors and all employees.

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for shares issued during or since the end of the 2006 financial year has been determined by an external valuer using a binomial model, further details of which are given in note 17.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 6).

(z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. SEGMENT INFORMATION

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by differences arising from operating in other economic environments.

Geographical segments

The Group's geographical segments are determined based on the location of the Group's assets.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Non segment revenues and unallocated items mainly comprise interest-earning assets and revenue, interest-bearing liabilities and expenses and corporate assets and expenses.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity's business segments operate geographically as follows:

- Manufacturing facilities and sales offices in Australia, United States of America, United Kingdom and South Africa.
- Distributors appointed in various countries in North and Central America, Europe, Asia and New Zealand.

The table on the following page presents revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2006 and 30 June 2005.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

3. SEGMENT INFORMATION (continued)

	<i>Australasia</i>	<i>USA</i>	<i>Europe</i>	<i>South Africa</i>	<i>Total</i>
Year ended 30 June 2006	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	4,129,550	2,075,672	346,723	1,302,535	7,854,480
Other revenues from external customers	717,648	21,073	-	-	738,721
Inter-segment sales	41,062	-	51,680	-	92,742
Total segment revenue	4,888,260	2,096,745	398,403	1,302,535	8,685,943
Inter-segment elimination					(92,765)
Non segment revenue					
Interest revenue					120,349
Other					750,050
Total consolidated revenue					9,463,577
Result					
Segment Results	789,452	(122,897)	(78,331)	25,288	613,512
Unallocated expenses					(1,967,023)
Loss before tax and finance costs					(1,353,511)
Finance costs					(231,480)
Share of profit of joint venture					154,891
Loss before income tax and minority interest					(1,430,100)
Income tax expense					-
Net loss for the year					(1,430,100)
Assets and liabilities					
Segment Assets	2,272,873	726,290	147,581	409,266	3,556,010
Investment in joint venture					1,209,997
Unallocated assets					2,443,069
Total assets					7,209,076
Segment liabilities	1,071,609	172,618	408,539	181,182	1,833,948
Unallocated liabilities					2,649,134
Total liabilities					4,483,082
Other segment information					
Capital expenditure	73,231	18,052	1,514	54,962	361,408
Depreciation	245,474	41,786	18,062	22,509	413,474
Amortisation	-	-	-	-	60,386
Allowance for doubtful debts	133,838	8,339	-	1,508	143,685
Impairment losses recognised in profit or loss	27,759	81,451	-	-	745,515
	407,071	131,576	18,062	24,017	1,363,060

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

3. SEGMENT INFORMATION (continued)

	<i>Australasia</i>	<i>USA</i>	<i>Europe</i>	<i>South Africa</i>	<i>Total</i>
Year ended 30 June 2005	\$	\$	\$	\$	\$
Revenue					
Sales to external customers	3,642,086	505,265	417,677	859,150	5,424,178
Other revenues from external customers	260,976	94,270	-	-	355,246
Inter-segment sales	155,783	59,343	46,667	-	261,793
Total segment revenue	4,058,845	658,878	464,344	859,150	6,041,217
Inter-segment elimination					-261,777
Non-segment revenues					
Interest revenue					178,014
Total consolidated revenue					5,957,454
Result					
Segment Results	(59,716)	(852,166)	(130,061)	(51,790)	(1,093,733)
Unallocated revenue and expenses					(3,607,227)
Loss before tax and finance costs					(4,700,960)
Finance costs					(437,544)
Loss before income tax and minority interest					(5,138,504)
Income tax expense					-
Net loss for the year					(5,138,504)
Assets and liabilities					
Segment Assets	1,660,714	591,193	101,176	291,986	2,645,069
Unallocated assets					4,285,778
Total assets					6,930,847
Segment liabilities	1,523,027	165,320	558,302	152,869	2,399,518
Unallocated liabilities					2,220,338
Total liabilities					4,619,856
Other segment information					
Capital expenditure	261,178	89,319	5,250	10,001	365,748
Depreciation	245,597	47,547	18,141	4,017	437,803
Share-based payments	584,587	91,894	-	-	2,457,846
Other non-cash expenses	830,184	139,441	18,141	4,017	2,895,649

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

3. SEGMENT INFORMATION (continued)

The number of segments reported has been reduced from five, disclosed in the 2005 Annual Report, to four. Directors believe that the current disclosure accurately reflect current management reporting lines and provides greater clarity to users. The 2005 comparative segment reporting note has been restated to reflect current reporting lines.

Sales to the omitted Asia (including Russia) segment have been allocated as follows:

	<i>Allocated from:</i>		<i>Allocated to:</i>	
	<i>Asia (incl Russia)</i>	<i>Australasia</i>	<i>Europe</i>	
	\$	\$	\$	
Revenue				
Sales to external customers	260,976	260,976		-
Other revenues from external customers	76,922	-	76,922	
External segment revenue	<u>337,898</u>			
Results				
Segment results	1,429	1,429		-
Segment assets	153,326	153,326		-

Secondary Reporting – Business Segment

The Group operates in one business segment being the development, manufacture and distribution of asset-based identification technologies, principally microdots, which allow assets, and their component parts, to be uniquely marked and identified.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
4. REVENUE AND EXPENSES				
<i>Revenue and Expenses from Continuing Operations</i>				
(a) Revenue				
Sale of goods	7,854,457	5,424,178	-	-
Rendering of services	717,648	-	717,648	-
Licence fees	771,123	355,246	750,050	260,976
Royalties	-	-	369,792	81,365
Finance revenue	120,349	178,030	124,848	176,690
	<u>9,463,577</u>	<u>5,957,454</u>	<u>1,962,338</u>	<u>519,031</u>
<i>Breakdown of financial revenue:</i>				
Bank interest receivable	112,402	178,030	108,752	176,690
Interest receivable on related party loans:				
- controlled entity	-	-	8,149	-
- director loan	7,947	-	7,947	-
Total finance revenue (on historical cost basis)	<u>120,349</u>	<u>178,030</u>	<u>124,848</u>	<u>176,690</u>
(b) Other income				
Government grants:				
- AusIndustry commercial ready grant	38,278	-	38,278	-
- Export market development grant	70,000	-	-	-
Net gains on disposal of plant and equipment	865	108,672	(9,643)	108,672
Loans forgiven – related parties	-	113,817	-	113,817
Loans forgiven – other persons	-	634,260	-	634,260
	<u>109,143</u>	<u>856,749</u>	<u>28,635</u>	<u>856,749</u>
<p>The AusIndustry Commercial Ready grant has been awarded for the development of a robotic cell applicator.</p> <p>The Export market development grant is receivable to assist the development of export sales.</p> <p>There are no unfulfilled conditions or contingencies attaching to the grants.</p>				
(c) Finance costs				
Bank loans and overdrafts	3,372	-	2,168	-
Other loans (including convertible note interest)	121,430	324,041	91,445	302,795
Finance charges payable under finance leases and hire purchase contracts	106,678	113,504	17,241	19,615
Total finance revenue (on historical cost basis)	<u>231,480</u>	<u>437,545</u>	<u>110,854</u>	<u>322,410</u>
(d) Depreciation and amortisation included in the income statement				
Included in Depreciation and Amortisation expense:				
Depreciation	435,506	477,304	85,643	122,502
Amortisation of Development costs (see note 16)	60,386	-	60,386	-
Total depreciation and amortisation	<u>495,892</u>	<u>477,304</u>	<u>146,029</u>	<u>122,502</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
4. REVENUE AND EXPENSES (continued)				
(e) Foreign exchange differences and allowance for impairment of inventories included in income statement				
Included in cost of sales:				
Net foreign exchange differences (gain)/ loss	(29,852)	4,675	(7,973)	16,667
Allowance for impairment of inventories	18,191	-	-	-
(f) Lease payments included in income statement				
Included in occupancy expenses:				
Minimum lease payments – operating lease	290,795	282,649	-	-
Included in administrative expenses:				
Minimum lease payments – operating lease	23,514	17,452	-	445
Included in cost of sales				
Minimum lease payments – operating lease	28,081	25,470	-	-
	342,390	325,571	-	445
(g) Employee benefits expense				
Wages and salaries	4,241,729	3,434,092	1,931,509	1,386,941
Workers compensation costs	38,732	53,471	27,381	20,721
Superannuation	147,920	186,922	72,777	117,852
Long service leave provision	31,659	64,524	26,823	46,717
Annual leave provision	67,469	37,975	51,197	10,000
Share-based payments (note 17)	745,515	2,457,846	745,515	2,457,846
	5,273,024	6,234,830	2,855,202	4,040,077
(h) Research and development costs				
Research and development costs charged directly to administrative expenses in the income statement	24,538	80,738	24,538	16,733
5. INCOME TAX				
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting loss before tax from continuing operations	(1,402,084)	(5,138,504)	(2,722,028)	(11,144,742)
At the Group's statutory income tax rate of 30% (2005: 30%)				
Capital allowances	(420,625)	(1,541,551)	(816,608)	(3,343,423)
Expenditure not allowable for income tax purposes	(167,349)	-	(167,349)	-
Other	283,541	739,572	313,430	2,788,222
Other	(7,411)	128,106	(4,043)	111,341
Unused tax losses and tax offsets not recognised as deferred tax assets	311,844	673,873	674,570	443,860
Income tax expense	-	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

5. INCOME TAX (continued)

Deferred tax assets not taken to account

The potential deferred tax assets arising from unused tax losses have not been recognised as an asset because it is not probable that the future taxable profit will be available against which tax losses can be utilised.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
The amount of the deferred tax assets attributable to revenue losses not brought to account	2,835,477	2,007,077	2,129,603	1,284,675

The potential deferred tax asset will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the relevant company continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in tax legislation adversely affect the relevant company in realising the benefit.

Tax consolidation

DataDot Technology Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2003. DataDot Technology Limited is the head entity of the tax consolidated group. Members of the group have not entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. There is no agreement for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

	<i>CONSOLIDATED</i>	
	<i>2006</i>	<i>2005</i>
	\$	\$
Net loss attributable to ordinary equity holders of the parent from continuing operations	(1,430,100)	(5,138,504)
Weighted average number of ordinary shares for basic earnings per share	118,340,733	81,401,769
The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:		
Convertible Notes	3,591,648	7,342,921
Share options	25,795,000	28,345,000

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

6. EARNINGS PER SHARE (continued)

The following ordinary shares and potential ordinary shares were issued after the reporting date:

Share placement	18,250,000
Share options	1,000,000

There have been no other transactions involving ordinary shares or potential ordinary shares between reporting date and the date of these financial statements.

7. DIVIDENDS PAID AND PROPOSED

No dividends were declared or paid during the year (2005: Nil).

The Company has no franking credits available.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>
	\$	\$	\$	\$
8. CASH ASSETS				
Cash at bank and on hand	1,169,581	847,532	396,127	490,876
Short-term deposits	-	3,177,299	-	3,177,299
	<u>1,169,581</u>	<u>4,024,831</u>	<u>396,127</u>	<u>3,668,175</u>

Cash at bank earns interest at floating rates based on daily bank deposits.

Short-term deposits are made for varying periods of between one and three months, depending on the cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

8. CASH ASSETS (continued)

Reconciliation to Cash Flow Statement

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash on hand and at bank	1,169,581	847,532	396,127	490,876
Short term deposits	-	3,177,299	-	3,177,299
	<u>1,169,581</u>	<u>4,024,831</u>	<u>396,127</u>	<u>3,668,175</u>
Reconciliation of net loss after tax to net cash flows from operations				
Loss from ordinary activities after income tax	(1,402,079)	(5,138,504)	(2,722,028)	(11,144,742)
Add / (less) items classified as investing / financing activities:				
(Profit) / loss on sale of plant and equipment	(617)	(4,500)	16,535	(4,500)
Share of joint venture profit	(154,891)			
Interest received	(120,349)	(178,030)	(124,848)	(176,690)
Add / (less) non-cash items:				
Depreciation and amortisation	495,892	455,461	146,029	122,502
Loans forgiven	-	(748,077)	-	(748,077)
Share options expensed	745,515	2,457,846	745,515	2,457,846
Inventory write down	18,191			
Provision for:				
– loans to controlled entities	-	-	533,563	6,836,226
– doubtful debts	140,961	7,392	136,967	-
Net cash used in operating activities before change in assets and liabilities	(277,377)	(3,148,412)	(1,268,267)	(2,657,435)
(Increase) / decrease in trade and other debtors	(1,506,529)	(107,843)	(928,685)	(131,188)
(Increase) / decrease in other assets	(70,100)	-	(7,947)	-
(Increase) / decrease in inventory	(38,933)	(15,280)	4,248	(4,248)
(Decrease) / increase in creditors and accruals	254,181	(334,256)	347,190	(32,705)
(Decrease) / increase in provisions	96,420	101,165	78,019	56,717
	<u>(1,542,338)</u>	<u>(3,504,626)</u>	<u>(1,775,442)</u>	<u>(2,768,859)</u>

Disclosure of non-cash financing and investing activities

Refer to note 15 and 19

9. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables (i)	2,366,013	903,808	1,059,868	127,582
Allowance for doubtful debts	(140,960)	(17,675)	(136,966)	-
	<u>2,225,053</u>	<u>886,133</u>	<u>922,902</u>	<u>127,582</u>
Government grant receivable	70,000	-	-	-
Other	50,647	50,547	-	3,602
	<u>2,345,700</u>	<u>936,680</u>	<u>922,902</u>	<u>131,184</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

9. TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

(i) Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of \$140,960 (Company: \$Nil) has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Details regarding the effective interest rate and credit risk of current receivables are disclosed in note 24.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
10. INVENTORY				
Raw materials (at cost)	386,766	360,659	-	4,248
Finished goods (at cost)	8,296	13,661	-	-
Total inventories at the lower of costs and net realisable value	395,062	374,320	-	4,248

Inventory write-downs recognised as an expense totalled \$18,191 (2005: \$Nil) for the Group and \$Nil (2005: \$Nil) for the Company. This expense is included in the cost of sales line item as a cost of inventories. See note 4(e).

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$

11. OTHER FINANCIAL ASSETS (CURRENT)

Interest-bearing loans advanced to:

Directors' and executives' loans (note 30)	153,171	112,724	120,671	112,724
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12. OTHER RECEIVABLES (NON-CURRENT)

Loans to subsidiaries (i)	-	-	7,236,499	6,836,226
Allowance for impairment (ii)	-	-	(7,236,499)	(6,836,226)
Other related party (iii)	26,648	-	26,648	-
	26,648	-	26,648	-

(i) Loans to subsidiaries are interest free and are unsecured. The loans are repayable once the subsidiaries have sufficient positive cash flow to allow repayment. The loans are not based on discounting to present value on initial recognition, based on market discount rates and estimated cash flows as all subsidiary loans are impaired.

(ii) The impairment loss represents the allowance of doubtful debts on the loans to subsidiaries. This has been recognised in the income statement in the line item Bad and doubtful debts.

(iii) Other related party relates to an interest-free loan to the Joint Venture.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
13. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Shares in controlled entities at cost			183,250	183,250
Interest-bearing loans advanced to:				
Subsidiary (i)			133,290	-
Allowance for impairment (ii)			(133,290)	-
	-	-	183,250	183,250

(i) The loan to DataDot Technology (UK) Ltd is repayable on the subsidiary generating sufficient positive cash flow. Interest is earned at the commercial borrowing rate of 9.5% per annum.

(ii) The impairment loss represents the allowance of doubtful debts on the loan to DataDot Technology (UK) Ltd. This has been recognised in the income statement in the line item Bad and doubtful debts.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2005</i>	<i>2005</i>
	\$	\$	\$	\$

14. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Investment in an joint venture	1,209,997	-	1,055,106	-
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The Company has a 50% interest in DataTrace DNA Pty Ltd, which is involved in the high security authentication solutions for bulk products. The joint venture agreements were executed on the 31st of October 2005; accordingly no comparative numbers are disclosed.

DataTrace DNA Pty Ltd is a small proprietary company incorporated in Australia.

Pursuant to a shareholder agreement the company has the right to cast 50% of the votes at shareholder meetings.

There were no impairment losses relating to the investment in the joint venture.

The following table illustrates summarised financial information relating to the Group's investment in DataTrace DNA Pty Ltd:

	<i>CONSOLIDATED</i>
	<i>2006</i>
	\$
<i>Summarised financial information of jointly controlled entity:</i>	
Current assets	1,211,400
Non-current assets	1,127,902
	2,339,303
Current liabilities	(974,414)
Non-current liabilities	-
	(974,414)
Net assets	1,364,889

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

14. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD (continued)

CONSOLIDATED

	2006
	<u>\$</u>
<i>Summarised financial information of jointly controlled entity (continued):</i>	
Income	1,118,410
Expenses	808,628
<i>Share of the jointly controlled entity's profit:</i>	
Profit before income tax	154,891
Income tax expense	-
Profit after income tax	<u>154,891</u>

Contingent liabilities and capital commitments

The consolidated entity's share of the capital commitments jointly controlled entities are disclosed in note 25 and 26 respectively.

Contingent liabilities and capital commitments

No dividends were received by the Company during the year from the joint venture entity.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

15. PLANT AND EQUIPMENT

	<i>Plant and equipment</i> \$	<i>Leased plant and equipment</i> \$	<i>Leasehold Improvements</i> \$	<i>Total</i> \$
Year ended 30 June 2006				
Consolidated:				
At 1 July 2005, net of accumulated depreciation	523,703	371,965	236,624	1,132,292
Additions	346,527	160,408	8,450	515,385
Disposals	(91,797)	(160,263)	-	(252,060)
Depreciation charge for the year	(197,503)	(99,902)	(138,102)	(435,507)
Exchange adjustments	4,977	-	-	4,977
At 30 June 2006, net of accumulated depreciation	<u>585,907</u>	<u>272,208</u>	<u>106,972</u>	<u>965,087</u>
At 1 July 2005				
Cost	944,631	630,231	414,175	1,989,037
Accumulated depreciation	(420,928)	(258,266)	(177,551)	(856,745)
Net carrying amount	<u>523,703</u>	<u>371,965</u>	<u>236,624</u>	<u>1,132,292</u>
At 30 June 2006				
Cost	1,212,541	500,335	422,624	2,135,500
Accumulated depreciation	(620,201)	(234,559)	(315,653)	(1,170,413)
Net carrying amount	<u>592,340</u>	<u>265,776</u>	<u>106,971</u>	<u>965,087</u>
Parent:				
At 1 July 2005, net of accumulated depreciation	129,304	145,810	-	275,114
Additions	213,648	153,977	-	367,625
Disposals	(54,668)	(121,984)	-	(176,652)
Depreciation and amortisation	(52,141)	(33,502)	-	(85,643)
At 30 June 2006, net of accumulated depreciation	<u>236,143</u>	<u>144,301</u>	<u>-</u>	<u>380,444</u>
At 1 July 2005				
Cost	216,784	221,069	-	437,853
Accumulated depreciation	(87,480)	(75,259)	-	(162,739)
Net carrying amount	<u>129,304</u>	<u>145,810</u>	<u>-</u>	<u>275,114</u>
At 30 June 2006				
Cost	374,372	160,844	-	535,216
Accumulated depreciation	(138,228)	(16,543)	-	(154,771)
Net carrying amount	<u>236,144</u>	<u>144,301</u>	<u>-</u>	<u>380,445</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

15. PLANT AND EQUIPMENT (continued)

	<i>Plant and equipment</i> \$	<i>Leased plant and equipment</i> \$	<i>Leasehold Improvements</i> \$	<i>Total</i> \$
Year ended 30 June 2005				
Consolidated:				
At 1 July 2004, net of accumulated depreciation	454,074	505,063	367,040	1,326,177
Additions	217,402	142,903	5,443	365,748
Disposals	-	(104,172)	-	(104,172)
Depreciation charge for the year	(147,773)	(171,829)	(135,859)	(455,461)
At 30 June 2005, net of accumulated depreciation	<u>523,703</u>	<u>371,965</u>	<u>236,624</u>	<u>1,132,292</u>
At 1 July 2004				
Cost	726,776	688,854	408,733	1,824,363
Accumulated depreciation	(272,702)	(183,791)	(41,693)	(498,186)
Net carrying amount	<u>454,074</u>	<u>505,063</u>	<u>367,040</u>	<u>1,326,177</u>
At 30 June 2005				
Cost	944,631	630,231	414,175	1,989,037
Accumulated depreciation	(420,928)	(258,266)	(177,551)	(856,745)
Net carrying amount	<u>523,703</u>	<u>371,965</u>	<u>236,624</u>	<u>1,132,292</u>
Parent:				
At 1 July 2004, net of accumulated depreciation	108,739	192,226	-	300,965
Additions	60,425	140,397	-	200,822
Disposals	-	(104,171)	-	(104,171)
Depreciation and amortisation	(39,860)	(82,642)	-	(122,502)
At 30 June 2005, net of accumulated depreciation	<u>129,304</u>	<u>145,810</u>	<u>-</u>	<u>275,114</u>
At 1 July 2004				
Cost	160,006	256,834	-	416,840
Accumulated depreciation	(51,267)	(64,608)	-	(115,875)
Net carrying amount	<u>108,739</u>	<u>192,226</u>	<u>-</u>	<u>300,965</u>
At 30 June 2005				
Cost	216,784	221,069	-	437,853
Accumulated depreciation	(87,480)	(75,259)	-	(162,739)
Net carrying amount	<u>129,304</u>	<u>145,810</u>	<u>-</u>	<u>275,114</u>

The useful life of the assets was estimated as follows both for 2005 and 2006.

Plant and equipment	2 to 6 years
Leased plant and equipment	3 to 5 years
Leasehold improvements	3 to 4 years

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

15. PLANT AND EQUIPMENT (continued)

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Plant and equipment with a carrying amount of \$106,909 (2005: \$Nil) for the Group and \$106,909 (2005: \$Nil) for the parent are pledged as securities for current and non-current liabilities as disclosed in note 19.

Included in plant and equipment at 30 June 2006 is an amount of \$6,591 (2005: \$nil) relating to expenditures for a plant in the course of construction.

During the year, the Group acquired plant and equipment and leasehold improvements with an aggregate value of \$153,977 (2005: \$142,903) by means of finance leases.

16. INTANGIBLE ASSETS

	<i>CONSOLIDATED</i> <i>Development costs</i> \$	<i>PARENT</i> <i>Development costs</i> \$
At 1 July 2005		
Cost (gross carrying amount)	350,000	350,000
Accumulated amortisation	-	-
Net carrying amount	<u>350,000</u>	<u>350,000</u>
Year ended 30 June 2006		
At 1 July 2005, net of accumulated amortisation	350,000	350,000
Additions	663,557	663,557
Additions – internal development	164,660	164,660
Disposals	(210,000)	(210,000)
Amortisation	(60,386)	(60,386)
At 30 June 2006, net of accumulated amortisation	<u>907,831</u>	<u>907,831</u>
At 30 June 2006		
Cost	968,217	968,217
Accumulated depreciation	(60,386)	(60,386)
Net carrying amount	<u>907,831</u>	<u>907,831</u>

Development costs have been capitalised at cost. The intangible assets have been assessed as having a finite life. Development costs relating to the DataDot Automated Applicator Cell (DAAC) of \$695,803 will be amortised once the project has been completed. All other intangible assets are amortised using the straight line method over a period of 3 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

No impairment loss was recognised for continuing operations in the 2006 financial year. The recoverable amount of the DAAC has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The average discount rate applied to cash flow projections is 11.5%.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

16. INTANGIBLE ASSETS (continued)

	<i>CONSOLIDATED</i> <i>Development costs</i> \$	<i>PARENT</i> <i>Development costs</i> \$
Year ended 30 June 2005		
At 1 July 2004, net of accumulated amortisation	-	-
Additions	99,124	99,124
Additions – internal development	250,876	250,876
At 30 June 2006, net of accumulated amortisation	350,000	350,000
At 30 June 2005		
Cost	350,000	350,000
Accumulated depreciation	-	-
Net carrying amount	350,000	350,000

17. SHARE BASED PAYMENT PLANS

Employee share option plan

The Company has an employee share option plan approved at the 2004 annual general meeting. The plan currently provides for directors and employees to receive a number of options over ordinary shares as determined by the Board, for no consideration.

Each option is convertible into one ordinary share. The exercise price of the options is determined by the board, but in respect of options to be granted from 1 July 2005, can be no less than \$0.25.

The options expire on the earlier of their expiry date and a date referable to the date the director or employee ceases to be employed by the Company.

The expense recognised in the income statement is disclosed in note 4(g).

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of and movements in share options issued during the year:

	<i>2006</i> <i>No.</i>	<i>2006</i> <i>WAEP</i>	<i>2005</i> <i>No.</i>	<i>2005</i> <i>WAEP</i>
Outstanding at beginning of the year	20,995,000	0.21	-	-
Granted during the year	700,000	0.25	20,995,000	0.21
Forfeited during the year	(700,000)	0.25	-	-
Exercised during the year	(2,550,000)	0.16	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	18,445,000	0.22	20,995,000	0.21
Share options issued 22 November 2004 to KTM Capital Pty Ltd and related parties	7,350,000	0.25	7,350,000	0.25
Total share options outstanding at the end of the year	25,795,000	0.23	28,345,000	0.22
Exercisable at the end of the year	5,150,000 (i)	0.21	6,500,000 (i)	0.17

(i) Options in escrow until 11 January 2007 total 20,645,000 (2005: 20,645,000).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

17. SHARE BASED PAYMENT PLANS (continued)

The outstanding balance as at 30 June 2006 is represented by:

- 4,995,000 options over ordinary shares with an exercise price of \$0.15 each;
- 3,500,000 options over ordinary shares with an exercise price of \$0.20 each;
- 17,300,000 options over ordinary shares with an exercise price of \$0.25 each;

The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

The following factors and assumptions were used in determining the fair value of options on grant date:

<i>Grant date</i>	<i>Expiry date</i>	<i>Fair value per option</i>	<i>Exercise price</i>	<i>Estimated Price of shares on grant date</i>	<i>Estimated volatility</i>	<i>Risk free Interest rate</i>	<i>Dividend yield</i>
		\$	\$	\$	%	%	%
22/11/2004	31/12/2009	0.17061	0.15	0.25	58	5.75	0
23/07/2004	23/07/2009	0.16967	0.15	0.25	58	5.75	0
23/07/2004	23/07/2009	0.15322	0.20	0.25	58	5.75	0
22/11/2004	31/12/2009	0.14002	0.25	0.25	58	5.75	0
11/01/2005	31/12/2009	0.13832	0.25	0.25	58	5.75	0
05/08/2005	31/12/2009	0.13832	0.25	0.25	58	5.75	0

Estimated volatility is based on the estimated price of the Company's ordinary shares over the period 10 May 2002 to 11 January 2005, over which period the Company's ordinary shares were not traded on any stock exchange. Each option entitles the holder to purchase one ordinary share in the Company. These options expire on the earlier of their expiry date and a date referable to the date the director or employee ceases to be employed by the Company. The options vest, variously, on 8 November 2004, 23 June 2005 and 11 January 2006.

<i>Note</i>	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$

18. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables (i)	744,125	174,735	418,947	28,515
Sundry creditors and accruals	834,141	1,119,602	386,802	432,772
Unearned revenue	-	-	13,584	13,584
Interest payable (ii)	6,251	-	6,251	-
Unsecured loans from:				
Key management personnel (iii)	61,273	165,137	2,422	-
	<u>1,645,790</u>	<u>1,459,474</u>	<u>828,006</u>	<u>474,871</u>

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

(ii) Interest payable is normally settled twice a year during the financial year.

(iii) The loans are unsecured and are interest free.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	<i>Maturity</i>	<i>CONSOLIDATED</i>		<i>PARENT</i>	
		<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
19. INTEREST BEARING LOANS AND BORROWINGS					
Current					
<i>Secured:</i>					
Obligations under finance leases and hire purchase contracts (note 25) (i)	<i>2007</i>	408,957	281,858	26,608	42,753
Bank loan (ii)	<i>2007</i>	35,886	-	35,886	-
<i>Unsecured:</i>					
Noteholder loans (iii)	<i>2007</i>	845,000	319,469	845,000	319,469
		<u>1,289,843</u>	<u>601,327</u>	<u>907,494</u>	<u>362,222</u>
Non-current					
<i>Secured:</i>					
Lease liabilities (i)		308,105	732,717	136,751	157,856
Bank loan (ii)	<i>2009</i>	73,441	-	73,441	-
<i>Unsecured:</i>					
Noteholder loans (iii)		-	935,000	-	935,000
		<u>381,546</u>	<u>1,667,717</u>	<u>210,192</u>	<u>1,092,856</u>

(i) Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

(ii) The bank loan is in the form of a chattel mortgage. Plant and equipment with a carrying amount of \$106,909 (2005: \$Nil) for the Group and \$106,909 (2005: \$Nil) for the parent are pledged as securities for current and non-current liabilities. The mortgage is repayable over 36 monthly periods.

(iii) The notes are convertible to ordinary shares up to the date of maturity which is 3 years from the issue date. The notes were issued at varying dates between April 2002 and June 2004 at prices varying from \$0.15 to \$0.50 per note. Noteholders may elect to redeem the notes at maturity. Notes that are not redeemed at maturity will automatically convert to ordinary shares. Interest is payable on noteholder loans at 9% pa (2005: 9% pa). The maximum number of ordinary shares that the notes on issue will convert into is 3,591,648. During the year convertibles notes with a value of \$409,469 were converted to 3,751,276 ordinary shares.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
20. PROVISIONS				
Current				
Employee benefits	<u>275,986</u>	<u>210,316</u>	<u>197,414</u>	<u>146,217</u>
Non-current				
Employee benefits	<u>104,775</u>	<u>74,025</u>	<u>73,540</u>	<u>46,717</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
21. OTHER NON-CURRENT LIABILITIES				
Unearned revenue	-	-	84,869	95,056
Unsecured loans from:				
Key management personnel (i)	-	12,891	-	2,422
Amounts payable to other parties (ii)	437,522	594,106	-	-
Government grant (iii)	347,620	-	347,620	-
	<u>785,142</u>	<u>606,997</u>	<u>432,489</u>	<u>97,478</u>

(i) The loans are unsecured and are interest free.

(ii) Included in payables to other parties is an amount of £130,991 (\$355,086) which DataDot Technology (UK) Ltd (DDUK) has borrowed on an interest free basis. The loan, which is guaranteed by the Company, is repayable on the earlier of the termination of the DDUK shareholders agreement, the DDUK licence agreement and 15 December 2012. This financial liability is carried at amortised cost using the effective interest method.

(iii) The grant relates to an asset and will be release to the income statement over the expected useful life of the relevant asset by equal annual instalments upon completion of the grant project.

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
22. CONTRIBUTED EQUITY AND RESERVES				
<i>Ordinary Shares</i>				
Issued and fully paid	<u>16,695,271</u>	<u>15,127,788</u>	<u>16,695,271</u>	<u>15,127,788</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	<i>Number</i>	\$	<i>Number</i>	\$
<i>Movement in ordinary shares on issue</i>				
At 1 July 2004	50,456,000	581,500	50,456,000	581,500
Shares issued:				
For cash at \$0.25 per share	6,000,006	1,500,001	6,000,006	1,500,001
Less : Costs of share capital raising	-	(100,675)	-	(100,675)
Pursuant to the IPO prospectus at \$0.25 per share	40,000,000	10,000,000	40,000,000	10,000,000
Less : Costs of IPO share capital raising	-	(919,210)	-	(919,210)
Conversion of convertible notes	19,228,550	1,608,326	19,228,550	1,608,326
Cost of share-based payments	-	2,457,846	-	2,457,846
At 1 July 2005	115,684,556	15,127,788	115,684,556	15,127,788
Conversion of convertible notes	3,751,276	409,468	3,751,276	409,468
Exercise of share options	2,550,000	412,500	2,550,000	412,500
Cost of share-based payments	-	745,515	-	745,515
At 30 June 2006	121,985,832	16,695,271	121,985,832	16,695,71

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
22. CONTRIBUTED EQUITY AND RESERVES (continued)				
<i>Accumulated losses</i>				
Movements in accumulated losses were as follows:				
Balance 1 July	(12,861,479)	(7,684,722)	(12,623,454)	(1,478,712)
Application of AASB 132 and AASB 139	294,905	-	-	-
Net loss for the year	(1,430,100)	(5,138,504)	(2,722,028)	(11,144,742)
Minority interest AIFRS adjustment (i)	-	(38,253)	-	-
Balance 30 June	(13,996,674)	(12,861,479)	(15,345,482)	(12,623,454)

(i) Under AIFRS, the excess of accumulated losses over equity attributable to minority interests is to be adjusted against the Company's ownership interest unless the minority interest has a binding obligation to, and is able to, make good the losses.

Reserves

Foreign currency translation reserve	27,397	44,682	-	-
<i>Foreign currency translation reserves</i>				
Balance at beginning of financial year	44,682	122,986	-	-
Exchange difference on net investment in foreign operations	(17,285)	(78,304)	-	-
Balance at end of financial year	27,397	44,682	-	-

The foreign currency translation reserve is used to record increase in the fair value exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Minority interests

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
Movements in accumulated losses were as follows:				
Interest in:				
Ordinary shares	-	-	-	-
Retained losses	-	-	-	-

Under AIFRS, the excess of accumulated losses over equity attributable to minority interests is to be adjusted against the Company's ownership interest unless the minority interest has a binding obligation to, and is able to, make good the losses.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, convertible notes, finance leases and hire purchase contracts, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk

The Group's exposure to cash flow interest rate risk is minimal due to the Group not having any long-term debt obligations with a floating interest rate.

Foreign currency risk

As a result of significant investment in wholly-owned and partly-owned controlled entities in the United States, the United Kingdom and South Africa, the Group's balance sheet can be affected significantly by movements in the US\$/A\$ exchange rates. The Group does not seek to hedge this exposure.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Commodity price risk

The Group's exposure to price risk is minimal.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes, finance leases and hire purchase contracts.

24. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

The fair values of derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using market interest rates.

The aggregate net fair value of financial assets and financial liabilities, both recognised and unrecognised at balance date, is as follows:

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

24. FINANCIAL INSTRUMENTS (continued)

	<i>Carrying amount 2006 \$</i>	<i>Net fair value 2006 \$</i>	<i>Carrying amount 2005 \$</i>	<i>Net fair value 2005 \$</i>
<i>CONSOLIDATED</i>				
<i>Financial assets</i>				
Cash	1,169,581	1,169,581	4,024,831	4,024,831
Trade receivables	2,225,053	2,225,053	886,133	886,133
Other receivables	120,647	120,647	50,547	50,547
Other financial assets (current)	153,171	153,171	112,724	112,724
Other receivables (non-current)	26,648	26,648	-	-
	3,695,100	3,695,100	5,074,235	5,074,235
<i>Financial liabilities</i>				
Trade payables	744,125	744,125	174,735	174,735
Sundry creditors and accruals	834,141	834,141	1,119,602	1,119,602
Other payables	67,524	67,524	165,137	165,137
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	717,062	717,062	1,014,575	1,014,575
Fixed rate borrowings	109,327	109,327	-	-
Noteholder loans	845,000	845,000	1,254,469	1,254,469
Non-interest bearing loan	437,252	437,252	606,997	606,997
	3,754,431	3,754,431	4,335,515	4,335,515
<i>PARENT</i>				
<i>Financial assets</i>				
Cash	396,127	396,127	490,876	490,876
Trade receivables	922,902	922,902	127,852	127,852
Other receivables	-	-	3,602	3,602
Other financial assets (current)	120,671	120,671	112,724	112,724
Other receivables (non-current)	26,648	26,648	-	-
	1,466,348	1,466,348	735,054	735,054
<i>Financial liabilities</i>				
Trade payables	418,947	418,947	28,515	28,515
Sundry creditors and accruals	386,802	386,802	432,772	432,772
Other payables	22,257	22,257	13,584	13,584
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	163,357	163,357	200,609	200,609
Fixed rate borrowings	109,327	109,327	-	-
Noteholder loans	845,000	845,000	1,254,469	1,254,469
	1,945,690	1,945,690	1,929,949	1,929,949

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

2006	Weighted average effective interest rate %	Fixed maturity rate							Non interest bearing liability \$	Total \$
		Variable interest rate \$	Less than 1 year \$	1-2 years \$	2-3 years \$	3-4 years \$	4-5 years \$	5+ years \$		
<i>CONSOLIDATED</i>										
FINANCIAL ASSETS										
Cash and cash equivalents	5%	1,169,581	-	-	-	-	-	-	-	1,169,581
Trade receivables	-	-	-	-	-	-	-	-	2,225,053	2,225,053
Other receivables	-	-	-	-	-	-	-	-	120,647	120,647
Other financial assets (current)	-	-	-	-	-	-	-	-	153,171	153,171
Other receivables (non-current)	-	-	-	-	-	-	-	-	26,648	26,648
		<u>1,169,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,525,519</u>	<u>3,695,100</u>
FINANCIAL LIABILITIES										
Trade payables	-	-	-	-	-	-	-	-	744,125	744,125
Sundry creditors and accruals	-	-	-	-	-	-	-	-	834,141	834,141
Other payables	-	-	-	-	-	-	-	-	67,524	67,524
Interest-bearing loans and borrowings:										
Obligations under finance leases and hire purchase contracts	11%		408,957	154,746	75,198	78,161	-	-	-	717,062
Fixed rate borrowings	11%		35,886	40,181	33,260					109,327
Noteholder loans	9%		845,000							845,000
Non-interest bearing loan									437,522	437,522
		<u>-</u>	<u>1,289,843</u>	<u>194,927</u>	<u>108,458</u>	<u>78,161</u>	<u>-</u>	<u>-</u>	<u>2,083,312</u>	<u>3,754,701</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

2005	Weighted average effective interest rate %	Fixed maturity rate							Non interest bearing liability \$	Total \$
		Variable interest rate \$	Less than 1 year \$	1-2 years \$	2-3 years \$	3-4 years \$	4-5 years \$	5+ years \$		
CONSOLIDATED										
FINANCIAL ASSETS										
Cash and cash equivalents	4.8%	4,024,831	-	-	-	-	-	-	-	4,024,831
Trade receivables	-	-	-	-	-	-	-	-	886,133	886,133
Other receivables	-	-	-	-	-	-	-	-	50,547	50,547
Other financial assets (current)	-	-	-	-	-	-	-	-	112,724	112,724
		<u>4,024,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,049,404</u>	<u>5,074,235</u>
FINANCIAL LIABILITIES										
Trade payables	-	-	-	-	-	-	-	-	174,735	174,735
Sundry creditors and accruals	-	-	-	-	-	-	-	-	1,119,602	1,119,602
Other payables	-	-	-	-	-	-	-	-	165,137	165,137
Interest-bearing loans and borrowings:										
Obligations under finance leases and hire purchase contracts	11%		303,162	431,854	164,170	115,389	-	-	-	1,014,575
Noteholder loans	9%		319,469	935,000						1,254,469
Non-interest bearing loan									606,997	606,997
		<u>-</u>	<u>622,631</u>	<u>1,366,854</u>	<u>164,170</u>	<u>115,389</u>	<u>-</u>	<u>-</u>	<u>2,066,471</u>	<u>4,335,515</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

25. COMMITMENTS

Finance lease payment commitments – Group as lessee

The Group has finance leases and hire purchase contracts for various items of plant and equipment and for leasehold improvements. The leases are for terms ranging 3 to 5 years.

Future minimum lease payments under finance leases and hire purchase contracts together with the represent value of the net minimum lease payments are as follow:

	2006		2005	
	<i>Minimum lease payments</i>	<i>Present value of lease payments</i>	<i>Minimum lease payments</i>	<i>Present value of lease payments</i>
	\$	\$	\$	\$
<i>CONSOLIDATED</i>				
Within one year	457,100	408,957	378,839	281,858
One year or later and no later than five years	339,847	308,105	793,683	732,717
Total minimum lease payments	796,947	717,062	1,172,522	1,014,575
Less amounts representing finance charges	(79,885)	-	(157,947)	-
Present value of minimum lease payments	717,062	717,062	1,014,575	1,014,575
<i>PARENT</i>				
Within one year	39,887	26,608	60,547	42,753
One year or later and no later than five years	156,680	136,751	172,380	157,856
Total minimum lease payments	196,567	163,359	232,927	200,609
Less amounts representing finance charges	(33,308)	-	(32,318)	-
Present value of minimum lease payments	163,259	163,359	200,609	200,609

Operating lease commitments – Group as lessee

The Group leases property under non-cancellable leases expiring from 3 months to 12 months. Lease payments comprise a base amount plus an incremental allowance for inflation.

In addition, the Group lease plant and equipment under non-cancellable operating leases expiring within next 14 months. Lease payments are determined at the commencement of the lease and are for a fixed amount over the term of the lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
Within one year	175,308	281,257	-	-
Later than one year but not later than five years	45,354	210,550	-	-
	220,662	491,807	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

25. COMMITMENTS (continued)

Capital expenditure commitments

At 30 June 2006 the Parent has commitments of \$2,333,864 (2005: \$Nil) relating to the development of the DataDot Automated Applicator Cell (DACC). The Parent has been awarded an AusIndustry *Commercial Ready* grant to assist in the development of the DAAC and expects to receive grant funding of \$1,166,932. The DAAC completion milestone is currently 30 June 2007.

DataTrace DNA Pty Ltd, a joint venture with the CSIRO, has a research and development agreement with the CSIRO. At 30 June 2006, DataTrace DNA Pty Ltd had commitments of \$271,845 (2005:\$Nil) for development of DataTraceDNA.

26. CONTINGENT LIABILITIES

On the 31st of October, 2005 the Parent entered into a number of agreements with the CSIRO establishing DataTrace DNA Pty Ltd as a jointly controlled entity. Under the terms of the agreement, the Parent is required to contribute working capital until the Board of the Directors of DataTrace DNA Pty Ltd determines that the joint venture entity has consistent positive cash flows to support itself. Based on the forecasts approved by the Board of Directors of DataTrace DNA, further investments are currently estimated to be \$2,300,000.

The Group has no other contingent liabilities.

27. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of DataDot Technology Limited and the subsidiaries listed in the following table.

<i>Name</i>	<i>Country of incorporation</i>	<i>% Equity interest</i>	
		<i>2006</i>	<i>2005</i>
Subsidiaries of DataDot Technology Ltd			
DataDot Technology (Australia) Pty Ltd	Australia	100	100
DataDot Technology USA Inc	United States of America	100	100
DataDot Technology (UK) Ltd	United Kingdom	72	72
DataDot Technology (Asia) Pty Ltd	Australia	50	50
DataDot Technology South Africa (Pty) Ltd (i)	South Africa	42.5	42.5
Identify Australasia Pty Ltd	Australia	100	100
DataTrace DNA Pty Ltd (formerly DataDot Bulk DNA Pty Ltd) (ii)	Australia	N/A	100
Identify New Zealand Pty Limited	New Zealand	100	100
Subsidiary of DataDot Technology USA Inc			
Mightydot Warranty Services, Inc. (iii)	United States of America	N/A	100
Subsidiary of DataDot Technology (UK) Ltd			
DataDot Technology (Europe) Ltd	United Kingdom	100	100

(i) This company is a controlled entity by virtue of common directorships and restrictive agreements which give effective control to the Company.

(ii) On 31 October 2005, DataTrace DNA Pty Ltd became a jointly controlled entity when 1 of the 2 ordinary shares was transferred to the CSIRO under the joint venture agreements.

(iii) This company was deregistered in 2005.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

27. RELATED PARTY DISCLOSURES (continued)

DataDot Technology Limited is the ultimate parent entity of the Group.

The classes of non-director related entities are wholly-owned controlled entities and partly-owned controlled entities.

The Company charges royalties and licence fees to these entities.

Inventory is sold between these entities to a limited degree, on normal terms and conditions.

Loans to these entities are interest free (except for interest charged from 1 July 2005 on the loan to DataDot Technology (UK) Ltd), are unsecured and are required to be repaid once sufficient operating cash flows permit repayment.

During the 2006 financial year, interest is charged on the loan to DataDot Technology (UK) Ltd. Previously no interest had been charged on the UK loan balance.

	<i>Consolidated</i>		<i>The Company</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
Aggregate amount of other transactions with non-director related parties:				
Revenue from sale of goods				
Wholly-owned controlled entities	-	-	309,541	37,596
Partly-owned controlled entities	-	-	60,252	43,769
Revenue from commissions				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	-
Revenue from management fees				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	-
Joint Venture entity	710,914	-	710,941	-
Purchases of inventory				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	21,252
Non-current loans receivable				
Wholly-owned controlled entities	-	-	7,015,873	6,601,041
Less : provision for doubtful debt	-	-	(7,015,873)	(6,601,041)
Partly-owned controlled entities	-	-	353,915	235,185
Less : provision for doubtful debt	-	-	(353,915)	(235,185)
Joint Venture entity	26,648	-	26,648	-

28. EVENTS SUBSEQUENT TO BALANCE DATE

Between 1 July 2006 and the date of this report the following material transactions have occurred. The Company has:

- Issued a further 18,250,000 ordinary shares at 42 cents per share.
- Granted 1,000,000 options over unissued ordinary shares to employees under the Company's Employee Share Option Plan.

The financial effects of the above transaction have not been brought to account in the financial statements for the year ended 30 June 2006.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

29. AUDITORS' REMUNERATION

The auditor of DataDot Technology Limited is PKF .

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>Amounts received or due and receivable for audit services by PKF:</i>				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	109,087	149,538	109,087	149,538
• other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	66,890	86,660	66,890	86,660
- due diligence services in respect of IPO	-	90,265	-	90,265
- other services	-	3,512	-	-
	<u>175,977</u>	<u>329,975</u>	<u>175,977</u>	<u>326,463</u>
<i>Amounts received or due and receivable by non PKF audit firms for:</i>				
• an audit or review of the financial report of subsidiaries	49,244	79,117	-	12,476
• taxation services	1,516	-	-	-
	<u>50,760</u>	<u>79,117</u>	<u>-</u>	<u>2,476</u>

30. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

I. F. Brown	Chairman (non-executive) - appointed 21 December 2005
I. Allen	Chief Executive
J. Richards	Commercial Director
C. Stott	Chief Operating Officer
P. Housden	Director (non-executive)
A. Grant	Director (non-executive)

(ii) Executives

G. Loughlin	Company Secretary and Strategic Development Manager
M. S. James	Chief Financial Officer - appointed 1 December 2005
J. Reynolds	Chief Financial Officer - appointed 14 March 2005; resigned 30 November 2005
R. Parsons	General Manager - DataDot Technology (Australia) Pty Ltd
B. McLaws	President - DataDot Technology USA Inc.
S. Cutler	President - Finance and Operations - DataDot Technology USA Inc.
P. Kibler	Managing Director - DataDot Technology (UK) Ltd
A. Blew	Managing Director - DataDot Technology South Africa (Pty) Ltd

There were no changes of key management personnel after reporting date and the date the financial report was authorised for issue.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel

Remuneration of the Chief Executive Officer is determined by the board on the recommendation and performance evaluation provided to the board by the Chairman. Remuneration of other key executives is determined by the Chief Executive Officer in accordance with the remuneration policies established by the board and taking into account information obtained via reputable industry remuneration surveys and / or independent consultant reports. This also includes participation in share option schemes, incentive performance packages, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. The board as a whole is responsible for making recommendations on remuneration policies and packages applicable to board members and senior executives of the consolidated entity. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. For the current year all packages comprised fixed remuneration and equity-based elements. Short term cash incentives were paid. Options are issued under the employee share option plan. Further details are set out in Note 17.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2004 annual general meeting, is not to exceed \$300,000, and is allocated amongst the directors as the board determines. The following table provides the details of all directors of the Company ('specified directors') and the five or more executives of the consolidated entity with the greatest authority ('specified executives') and the nature and amount of the elements of their remuneration for the year ended 30 June 2006.

Directors' remuneration is disclosed at table 1 in the Directors' Report.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel (continued)

(i) Compensation of Key Management Personnel for the year-ended 30 June 2006 (Consolidated)

Executives	Short-Term			Post Employment		Share-based Payment	Total	Total performance related
	Salary & Fees	Cash Bonus	Non monetary benefits	Superannuation	Retirement benefits	Options		%
	\$	\$	\$	\$	\$	\$	\$	
G. Loughlin	218,000	-	-	-	-	28,918	246,918	-
M. James *	84,659	-	-	7,619	-	-	92,278	-
J. Reynolds **	71,044	-	-	6,394	-	-	77,438	-
R. Parsons	150,000	-	21,269	13,500	-	-	184,769	-
B. McLaws	188,542	33,794	3,929	-	-	81,451	307,716	10.98
S. Cutler	213,327	49,901	16,224	-	-	-	279,452	17.86
P. Kibler	85,568	-	-	-	-	-	85,568	-
A. Blew	124,816	-	-	-	-	-	124,816	-
	<u>1,135,956</u>	<u>83,695</u>	<u>41,422</u>	<u>27,513</u>	<u>-</u>	<u>110,369</u>	<u>1,398,955</u>	

* Appointed 1 December 2005;

** Resigned 30 November 2005;

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel (continued)

(i) Compensation of Key Management Personnel for the year-ended 30 June 2005 (Consolidated)

<i>Executives</i>	Short-Term			Post Employment		Share-based Payment	Total	Total performance related
	Salary & Fees	Cash Bonus	Non monetary benefits	Superannuation	Retirement benefits	Options		
G. Loughlin *	127,167	-	-	-	-	19,327	146,494	-
J. Reynolds **	48,889	-	-	4,400	-	-	53,289	-
R. Parsons	140,671	-	19,230	24,167	-	383,050	567,118	-
B. McLaws	165,388	-	10,185	-	-	91,894	267,467	-
S. Cutler	218,022	-	31,528	-	-	-	249,550	-
P. Kibler	88,063	-	-	-	-	-	88,063	-
A. Blew	125,489	-	-	-	-	-	125,489	-
	<u>913,689</u>	<u>-</u>	<u>60,943</u>	<u>28,567</u>	<u>-</u>	<u>494,271</u>	<u>1,497,470</u>	<u>-</u>

* Appointed 1 December 2004.

** Appointed 14 March 2005.

Group totals for 2005 are not the same as disclosed in the 2005 report, as different individuals were disclosed in the 2005 financial year.

(ii) Compensation by category: Key Management Personnel

	<i>CONSOLIDATED</i>		<i>PARENT</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	\$	\$	\$	\$
Short-term	1,261,073	974,632	373,703	176,056
Post Employment	27,513	28,567	14,013	4,400
Termination	-	-	-	-
Share-based Payment	110,369	494,271	28,918	19,327
	<u>1,398,955</u>	<u>1,497,470</u>	<u>416,634</u>	<u>199,783</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Compensation options: Granted and vested during the year (Consolidated)

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price determined by the Board. The contractual life of each option granted is five years. There are no cash settlement alternatives. For further details relating to the options, refer to note 17.

	Vested	Granted	Grant date	Fair Value	Terms and Conditions for each Grant	Expiry date	First Exercise date	Last Exercise date
				per option at grant date	Exercise price per option			
30 June 2006				(\$) (note 17)	(\$) (note 17)			
Directors								
P. Housden	300,000	-						
A. Grant	250,000	-						
I. Allen	3,685,000	-						
J. Richards	1,283,000	-						
C. Stott	2,089,000	-						
Executives								
G. Loughlin	500,000	200,000	5 Aug 05	0.14459	0.25	31 Dec 09	11 Jan 06	31 Dec 06
B. McLaws	1,238,000	-						
Total	<u>9,345,000</u>	<u>200,000</u>						

	Vested	Granted	Grant date	Fair Value	Terms and Conditions for each Grant	Expiry date	First Exercise date	Last Exercise date
				per option at grant date	Exercise price per option			
30 June 2005				(\$) (note 17)	(\$) (note 17)			
Directors								
P. Housden		300,000	22 Nov 04	0.14002	0.25	31 Dec 09	11 Jan 06	31 Dec 09
A. Grant		250,000	22 Nov 04	0.14002	0.25	31 Dec 09	11 Jan 06	31 Dec 09
I. Allen		3,685,000	22 Nov 04	0.14002	0.25	31 Dec 09	11 Jan 06	31 Dec 09
J. Richards		1,283,000	22 Nov 04	0.14002	0.25	31 Dec 09	11 Jan 06	31 Dec 09
C. Stott		2,089,000	22 Nov 04	0.14002	0.25	31 Dec 09	11 Jan 06	31 Dec 09
C. Stott	4,495,000	4,495,000	22 Nov 04	0.17061	0.15	31 Dec 09	22 Nov 04	31 Dec 09
Executives								
G. Loughlin		300,000	5 Aug 05	0.14459	0.25	31 Dec 09	11 Jan 06	31 Dec 09
R. Parsons	2,500,000	2,500,000	23 Jul 04	0.15322	0.20	23 Jul 09	23 Jun 05	23 Jul 09
B. McLaws		1,238,000	22 Nov 04	0.14002	0.25	31 Dec 09	11 Jan 06	31 Dec 09
Total	<u>6,995,000</u>	<u>16,140,000</u>						

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Shares issued on Exercise of Compensation Options (Consolidated)

There were no shares issued on the exercise of compensation options during the year or in the preceding year.

(e) Option holdings of Key Management Personnel (Consolidated)

Vested at 30 June 2006

30 June 2006	Balance at beginning of period 01 Jul 05	Granted as remuneration	Options exercised	Net change Other #	Balance at end of period 30 Jun 06	Total	Exercisable	Not - Exercisable
Directors								
P. Housden	300,000	-	-	-	300,000	300,000	-	300,000
A. Grant	250,000	-	-	-	250,000	250,000	-	250,000
I. Allen	3,685,000	-	-	-	3,685,000	3,685,000	-	3,685,000
J. Richards	1,283,000	-	-	-	1,283,000	1,283,000	-	1,283,000
C. Stott	6,584,000	-	-	-	6,584,000	6,584,000	-	6,584,000
Executives								
G. Loughlin	300,000	200,000	-	-	500,000	500,000	500,000	-
R. Parsons	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	-
B. McLaws	1,238,000	-	-	-	1,238,000	1,238,000	-	1,238,000
Total	16,140,000	200,000	-	-	16,340,000	16,340,000	3,000,000	13,340,000

Includes forfeiture

The above options classified as Not-exercisable due to their underlying securities being in escrow until the 2nd anniversary of the Company's listing on the Australian Stock Exchange (11 January 2007).

Vested at 30 June 2005

30 June 2005	Balance at beginning of period 01 Jul 04	Granted as remuneration	Options exercised	Net change Other #	Balance at end of period 30 Jun 05	Total	Exercisable	Not - Exercisable
Directors								
P. Housden	-	300,000	-	-	300,000	300,000	-	300,000
A. Grant	-	250,000	-	-	250,000	250,000	-	250,000
I. Allen	-	3,685,000	-	-	3,685,000	3,685,000	-	3,685,000
J. Richards	-	1,283,000	-	-	1,283,000	1,283,000	-	1,283,000
C. Stott	-	6,584,000	-	-	6,584,000	6,584,000	-	6,584,000
Executives								
G. Loughlin	-	300,000	-	-	300,000	300,000	-	300,000
R. Parsons	-	2,500,000	-	-	2,500,000	2,500,000	2,500,000	-
B. McLaws	-	1,238,000	-	-	1,238,000	1,238,000	-	1,238,000
Total	-	16,140,000	-	-	16,140,000	16,140,000	2,500,000	13,640,000

Includes forfeiture

The above options classified as Not-exercisable due to their underlying security being in escrow until the 2nd anniversary of the Company's listing on the Australian Stock Exchange (11 January 2007).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(f) Shareholdings of Key Management Personnel (Consolidated)

Shares held in DataDot Technology Limited (number)

	<i>Balance at beginning of year</i>	<i>Purchased on market</i>	<i>Received on conversion of notes</i>	<i>Sales on market</i>	<i>Balance at end of year</i>		
30 June 2006							
Directors							
P Housden	120,000	-	-	-	120,000		
A Grant	40,000	-	-	-	40,000		
I Allen	18,431,300	-	-	-	18,431,300		
J Richards	4,545,000	-	-	-	4,545,000		
C Stott	120,000	-	-	-	120,000		
Executives							
R Parsons	-	-	-	-	-		
G Loughlin	200,000	-	-	-	200,000		
J Reynolds	5,000	-	-	-	5,000		
B McLaws	20,235,000	-	-	-	20,235,000		
S Cutler	1,729,800	-	2,411,400	2,141,200	2,000,000		
A Blew	-	-	-	-	-		
P Kibler	-	-	-	-	-		
	<u>45,426,100</u>	<u>-</u>	<u>2,411,400</u>	<u>2,141,200</u>	<u>45,696,300</u>		
	<i>Balance at beginning of year</i>	<i>Sold in private transaction prior to listing</i>	<i>Subscribed In IPO</i>	<i>Purchased on market</i>	<i>Received on conversion of notes</i>	<i>Sales on market</i>	<i>Balance at end of year</i>
30 June 2005							
Directors							
P Housden	-	-	120,000	-	-	-	120,000
A Grant	-	-	40,000	-	-	-	40,000
I Allen	20,235,000	2,000,000	-	196,300	-	-	18,431,300
J Richards	4,495,000	-	50,000	-	-	-	4,545,000
C Stott	-	-	-	120,000	-	-	120,000
Executives							
R Parsons	-	-	-	-	-	-	-
G Loughlin	-	-	100,000	100,000	-	-	200,000
J Reynolds	-	-	-	5,000	-	-	5,000
B McLaws	20,235,000	-	-	-	-	-	20,235,000
S Cutler	456,000	-	100,000	-	1,473,800	300,000	1,729,800
A Blew	-	-	-	-	-	-	-
P Kibler	-	-	-	-	-	-	-
	<u>45,421,000</u>	<u>2,000,000</u>	<u>410,000</u>	<u>421,300</u>	<u>1,473,800</u>	<u>300,000</u>	<u>45,426,100</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(g) Loans to Key Management Personnel (Consolidated)

(i) Details regarding the aggregate of loans to key management personnel are as follows:

		<i>Opening balance</i>	<i>Closing balance</i>	<i>Interest charged</i>	<i>Number in group at 30 June</i>
		\$	\$	\$	
Total					
	2006	112,724	153,171	7,947	2
	2005	29,683	112,724	-	1

(ii) Details of individuals with loans above \$100,000 in the reporting period are as follows:

	<i>Opening balance</i>	<i>Closing balance</i>	<i>Interest charged</i>	<i>Highest owing in period</i>
	\$	\$	\$	\$
30 June 2006				
Directors				
I. Allen	112,724	120,671	7,947	120,671
	<i>Opening balance</i>	<i>Closing balance</i>	<i>Interest charged</i>	<i>Highest owing in period</i>
30 June 2005	\$	\$	\$	\$
Directors				
I. Allen	-	112,724	-	112,724

Loans to Key Management Personnel are charged at 7.05% per annum. The loans are repayable within 12 months.

(h) Other transactions with Key Management Personnel

A number of specified directors and specified executives, or their personally related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its controlled entities over the year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to specified directors, specified executives and their personally-related entities, were total revenue of \$nil and total expense of \$64,507. Details of the transactions are as follows:

	<i>Transaction</i>	<i>Note</i>	<i>2006 \$</i>	<i>2005 \$</i>
Directors				
C. Stott	IT and internet services	(i)	48,400	37,498
Executives				
S. Cutler	Sales Commissions	(ii)	16,107	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

30. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(h) Other transactions with Key Management Personnel (continued)

(i) IT and internet services fees of \$48,400 (2005: 37,498) were paid by the Company to a company in which Mr Stott has an interest. Amounts were billed based on normal market rates for these types of services and were due and payable under normal payment terms.

(ii) DNA Distribution, an entity owned by S. Cutler, was responsible for selling \$31,175 of the Company's product during the year and earned commissions of \$16,107.

	2006	2005
	\$	\$
Assets and liabilities arising from the above transactions		
Current liabilities		
Trade creditors	-	14,193
Sundry creditors and accruals	16,920	-
	<u>16,920</u>	<u>14,193</u>

31. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 July 2004.

Explanation of material adjustments to the cash flow statement

There is no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

31. TRANSITION TO AIFRS (continued)

An explanation of how the transition from superseded policies to AIFRS has affected the company and consolidated entity's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

CONSOLIDATED

	Note	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$
<i>Year ended 30 June 2005</i>				
Revenue		6,814,203	-	6,814,203
Cost of goods sold		(2,130,787)	-	(2,130,787)
Expenses	(i)	(7,364,074)	(2,457,846)	(9,821,920)
Income tax expense		-	-	-
Net loss attributable to outside equity interests	(ii)	144,725	(144,725)	-
Net loss attributable to members of the parent entity		(2,535,933)	(2,602,571)	(5,138,504)

	Note	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$
<i>As at 1 July 2004</i>				<i>As at 30 June 2005</i>			
Total Assets		2,849,784	-	2,849,784	6,930,847	-	6,930,847
Total Liabilities		(9,868,273)	-	(9,868,273)	(4,619,856)	-	(4,619,856)
Net assets		(7,018,489)	-	(7,018,489)	2,310,991	-	2,310,991
Contributed equity		581,500	-	581,500	12,669,942	2,457,846	15,127,788
Reserves	(i)	122,986	-	122,986	44,682	-	44,682
Accumulated losses	(i)(ii)	(7,684,722)	(38,253)	(7,722,975)	(10,220,655)	(2,640,824)	(12,861,479)
Outside equity interests	(ii)	(38,253)	38,253	-	(182,978)	182,978	-
Total equity		(7,018,489)	-	(7,018,489)	2,310,991	-	2,310,991

(i) Under AIFRS, options granted to directors and employees are expensed over the period from date of grant to vesting date and measured at fair value.

(ii) Under AIFRS, the excess of accumulated losses over equity attributable to minority interests is to be adjusted against the Company's ownership interest unless the minority has a binding obligation to, and is able to, make good the losses.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

31. TRANSITION TO AIFRS (continued)

PARENT

	Note	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$
Year ended 30 June 2005				
Revenue		1,375,780	-	1,375,780
Cost of goods sold		(174,311)	-	(174,311)
Expenses	(i)	(9,888,365)	(2,457,846)	(12,346,211)
Income tax expense		-	-	-
Net loss attributable to members of the parent entity		(8,686,896)	(2,457,846)	(11,144,742)

	Note	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$
As at 1 July 2004				As at 30 June 2005			
Total Assets		5,730,991	-	5,730,991	4,724,695	-	4,724,695
Total Liabilities		(6,628,203)	-	(6,628,203)	(2,220,361)	-	(2,220,361)
Net assets		(897,212)	-	(897,212)	2,504,334	-	2,504,334
Contributed equity		581,500	-	581,500	12,669,942	2,457,846	15,127,788
Reserves	(i)	-	-	-	-	-	-
Accumulated losses	(i)	(1,478,712)	-	(1,478,712)	(10,165,608)	(2,457,846)	(12,623,454)
Total equity		(897,212)	-	(897,212)	2,504,334	-	2,504,334

(i) Under AIFRS, options granted to directors and employees are expensed over the period from date of grant to vesting date and measured at fair value.

Outlined below are the areas impacted upon the adoption of AIFRS.

Financial instruments

Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value. Investments in marketable securities are likely to be designated as 'available for sale' assets with any increments in the fair value recognised directly in equity until disposal.

Impairment

Impairment of assets will be determined on a discounted basis, with strict tests for determining whether cash generating operations have been impaired. The impact of a more rigorous impairment test may result in additional write downs either on transition or ongoing. Any write downs will also impact the ongoing depreciation charge (where applicable).

Income tax

Income tax will be calculated based on the 'balance sheet' approach, which may result in more deferred tax assets and liabilities and as the tax effect follows the underlying transaction, some tax effects will be recognised in equity.

Currently, the DataDot Group adopts the liability (or income statement) method of tax-effect accounting whereby income tax expense is based on the accounting profit adjusted for any permanent differences. The Australian IFRS equivalent, AASB 112 Income Tax requires all income tax balances to be calculated using the balance sheet method. Under the balance sheet method, temporary differences are identified based on the carrying amount for each asset and liability rather than the effects of timing and permanent differences between taxable income and accounting profit.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

31. TRANSITION TO AIFRS (continued)

In addition, the test for the recognition of deferred tax assets is a probable test rather than virtual certainty for tax losses and beyond reasonable doubt for timing differences under current Australian Accounting Standards.

Equity based compensation

Options over shares will be expensed over the period of service by the employee to whom the options relate. Employee benefit expense is likely to increase due to the expensing of the fair value of options over the vesting period.

The DataDot Group has established an Employee Share Option Plan under which the Company can offer its employees and executive's options as part of their remuneration packages. Australian IFRS equivalent AASB 2 Share Based Payments will require that these payments be measured at the fair value of the equity instrument. This amount will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions

Consolidated financial statements

The excess of accumulated losses over equity attributable to minority interests is to be adjusted against the Company's ownership interest only if the minority has a binding obligation to, and is able to, make good the losses.

Impact of adopting AASB132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*

The Group elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the area impacted upon adoption of AASB 132 and AASB 139, including financial impact to equity and profit.

Item	AGAAP	AIFRS	Impact	
			CONSOLIDATED	PARENT
Loans payable (note 21)	The measurement of financial liabilities at cost.	The measurement of financial liabilities at amortised cost.	Reduction of \$294,905 to 1 July 2005 accumulated losses, and restatement of loan payable to amortised cost using the effective interest method. Refer to notes 21 and 22. Interest of \$28,022 has been expensed to 2006 profit and loss in accordance with the standards and current Group policy at note 2 r(ii).	No impact as loans payable is in controlled subsidiary.

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2006

In accordance with a resolution of the directors of DataDot Technology Limited, I state that:

- 1 In the opinion of the directors:
 - (a) the financial statements and notes of the company and of the consolidated entity are 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 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.
- 3 In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 30 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Signed in accordance with a resolution of the directors:



P.J. Housden
Director

Sydney, 11th September 2006.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF DATADOT TECHNOLOGY LIMITED



Chartered Accountants
& Business Advisers

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, notes to the financial statements and the directors' declaration for both DataDot Technology Limited (the company) and its controlled entities (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

Independence

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

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Audit opinion

In our opinion the financial report of Datadot Technology Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

PKF

PKF



ARTHUR MILNER
Partner

11 September 2006

**SHAREHOLDER INFORMATION
AS AT 15 AUGUST 2006**

A. STATEMENT OF ISSUED SHARES

The total number of shareholders is 1,542.

There are 140,235,832 ordinary fully paid shares listed on the Australian Stock Exchange Ltd (ASX).

There are 42,965,000 ordinary fully paid shares restricted from trading on the ASX until 12 January 2007.

The twenty largest shareholders hold 61.338% of the Company's issued capital.

B. DISTRIBUTION OF SECURITIES

	Number of Shareholders	Number of Convertible noteholders	Number of Option holders
1 - 1,000	26	-	-
1,001 - 5,000	377	-	-
5,001 - 10,000	369	-	-
10,001 - 100,000	655	2	4
100,001 and over	<u>115</u>	<u>5</u>	<u>19</u>
	1,542	7	23

The number of shareholders holding less than a marketable parcel of ordinary shares is 48.

C. ON-MARKET BUYBACK

There is no current on-market buyback.

D. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders are as follows:

Mr Brent McLaws	20,235,000 shares
Valkyrie Nominees Pty Ltd	18,235,000 shares

E. VOTING RIGHTS

Ordinary shares – each ordinary share has one vote.

Convertible notes – there are no voting rights attached to the convertible notes.

Options over ordinary shares – there are no voting rights attached to the options over ordinary shares.

F. UNQUOTED SECURITIES

The Company has on issue 3,220,000 loan notes which are convertible into ordinary shares – refer Note 19.

These notes are held by 7 persons.

Details of holders with more than 20% of the class of securities are: Renlyn Bell Investments Pty Ltd ATF G & B Bonaccorso Family Trust holds 1,400,000 loan notes and Paul and Julie Bonaccorso hold 1,000,000 loan notes.

The Company has on issue 26,795,000 options over ordinary shares – refer Note 17.

These options are held by 23 persons.

Options over 20,645,000 ordinary shares are, if exercised, restricted from trading on the ASX until 12 January 2007.

Details of holders with more than 20% of the class of securities are: Christopher McEwan Stott holds 6,584,000 options.

**SHAREHOLDER INFORMATION
AS AT 15 AUGUST 2006**

G. USE OF IPO PROCEEDS

The following table summarises the purposes of the offer as set out in the Company's IPO prospectus and the use of such funds between the date of admission to the ASX and 30 June 2006.

	Purposes of offer as identified in the IPO Prospectus	Balance of funds remaining 1 July 2005	Utilisation of funds from 1 July 2005 to 30 June 2006
	\$	\$	\$
Fund working capital	3,155,000	1,051,465	1,092,989
Repay interest bearing debt to I Allen, J Richards and C Stott	2,500,000	(62,972)	-
Fund expansion of DDT manufacturing facility	1,500,000	1,387,000	-
Fund development of new range of DataDot products:			
Portable dry process laser imaging machine	300,000	300,000	120,000
Luminescent micro particles and spectral fingerprinting	1,100,000	890,000	845,106
Reflective dot with reader	250,000	250,000	-
Reader to accelerate reading of dots	200,000	168,087	54,469
High speed machinery to accelerate dot production	150,000	150,000	54,469
Other developments not specified above	-	(34,539)	688,217
Pay costs of the IPO	845,000	(74,210)	-
Total	10,000,000	4,024,831	2,855,250

H. TOP 20 SHAREHOLDERS APPEARING ON THE REGISTER:

Shareholder's Name	No. of Shares held	% of Capital held
Mr Brent McLaws	20,235,000	14.429
Valkyrie Nominees Pty Ltd	18,235,000	13.003
Mr Kevin Tay Hak Leong	5,469,685	3.900
Thorney Investments Pty Ltd	5,000,000	3.565
Taveanti Pty Ltd	4,495,000	3.205
HSBC Custody Nominees (Australia) Ltd	4,450,000	3.173
ANZ Nominees Ltd	3,699,983	2.638
Madam Lim Gek Kuan	3,500,000	2.496
G & J Poole Pty Ltd	3,000,000	2.139
Mrs Connie Lo Lin Sye	2,487,243	1.774
Mr Stuart Cutler	2,000,000	1.426
Invia Custodian Pty Ltd	1,800,000	1.284
Irrewarra Investments Pty Ltd	1,700,000	1.212
Lloyds & Casanove Investment Partners Ltd	1,600,000	1.141
House of Maister Services Ltd	1,600,000	1.141
Mrs Irene Trimis	1,580,000	1.127
Apollo Solutions Ltd	1,400,000	0.998
G Harvey Nominees Pty Ltd	1,400,000	0.998
City & Westminster Ltd	1,400,000	0.998
Pacific Development Capital Ltd	965,858	0.689
Top 20 Total	86,017,769	61.338