

DataDot Technology Ltd

2005 Annual Report

DATADOT TECHNOLOGY LTD
ABN 54 091 908 726

DIRECTORS:

P.J. Housden (Chairman)
I.P. Allen (Chief Executive Officer)
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

BANKER:

National Australia Bank
96 High Street
Fremantle WA 6160

SHARE REGISTRY:

Ordinary shares

Registries Ltd
Level 2
28 Margaret Street NSW 2000
Phone (08) 9279 0677
Fax (08) 9279 0664

Convertible notes and Options

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.

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DATADOT TECHNOLOGY LTD CHAIRMAN'S LETTER

Dear Fellow Shareholder,

The year ending in June 2005 included significant milestones in the development of DataDot Technology Ltd.

Most notable was the IPO for \$10 million, which was over-subscribed, and subsequent listing of the Company on the ASX in January 2005.

Our conversion into a listed public company has led to numerous changes in policy, operations and personnel. Two independent directors have joined the Board, an Audit Committee has been established, and the entire range of governance, operating and risk management policies and practices has been reviewed by the Board and brought to a level suitable for an ASX listed company of our size. Compliance with these new standards has been strengthened by the appointment of experienced managers to the positions of Company Secretary and Chief Financial Officer.

Your Board has recently reviewed the Company's strategic direction and confirmed that the settings outlined in our recent prospectus remain unchanged. These are based on continued growth in our core business, DataDotDNA, and roll-out of our new product, DataTraceDNA.

In relation to DataDotDNA, the key drivers of market growth continue to strengthen: independent monitoring of vehicle theft consistently shows substantial reductions where DataDotDNA has been fitted; some insurance companies are now offering reduced premiums for vehicles fitted with DataDotDNA; police services are pressing for mandatory fitting of DataDotDNA to all vehicles in Australia, in the same way that the New Zealand Government has recently adopted a policy of mandatory Whole-of-Vehicle-Marking; and the Company now has available a robotic application to spray DataDotDNA that will meet the logistical demands of high-volume vehicle assembly lines. Clearly our DataDotDNA growth strategy is underpinned by promising developments in both demand and supply.

In relation to the new luminescent marker product, DataTraceDNA, we have recently extended our research partnership with the CSIRO by forming a 50/50 joint venture company, DataTraceDNA Pty Ltd, to commercialise the product. Your Board is confident that there is a substantial world-wide market for an indelible and affordable marker of bulk materials that can be easily read. DataTraceDNA has these properties. We are confident too that the joint venture is the right vehicle to take DataTraceDNA to market because it will combine DataDot Technology's marketing and distribution strengths with the CSIRO's international standing for scientific excellence. Further developments are likely from this joint venture.

Your Board is mindful that as this new market develops, so the Company's reliance on a single product will diminish and its revenue base will broaden. This will strengthen the Company through diversification of product.

The Company's results for the period to 30 June 2005 were below expectation due to a number of significant sales contract negotiations being deferred. The directors remain confident of the Company's revenue growth potential from DataDotDNA in the automotive, marine and similar market segments. New contracts are being discussed with one such sale being the Lexus HID anti-theft programme in the USA announced in August 2005.

The Company has maintained its financial support of emerging regional markets beyond Australia. In maintaining this strategy directors have clearly signalled their confidence in the opportunities for revenue growth from growing geographic markets in Russia, New Zealand, Europe, USA, India, Central and South America.

Your Board is committed to growing the business to achieve positive operating cash flow in as short a time as possible. This will be achieved through careful cost management but with a clear focus on investing funds

where required to achieve the Company's strategic vision to be the leading provider of innovative marking solutions, setting new standards for identifying and tracking assets worldwide.

I would like to thank my fellow directors and all employees for their dedication during this period of change. It is people and culture which make a difference and the efforts of every employee of DataDot Technology are essential for the success of the Company. I look forward to the future of the business with confidence and excitement.

P.J. Housden
Chairman

24 August 2005

DATADOT TECHNOLOGY LTD DIRECTORS' REPORT

The directors present their report together with the financial report of DataDot Technology Ltd ("the Company") and of the consolidated entity, being the Company and its controlled entities for the year ended 30 June 2005 and the auditor's report thereon.

1 Directors and Company Secretary

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

**Mr Peter Housden B.Com (Hons), FCPA, AICD
Chairman, Independent Non-Executive Director
Aged 58**

Mr Housden has 33 years experience in corporate life including 13 years on listed company boards. Within the past three years, Mr Housden was acting chairman and chair of the audit committee for Kaz Group Ltd. Previous to that he was an executive director of RGC Ltd, of Australia Chemical Holdings Ltd and he held senior management positions with MIA Group Ltd, Metal Manufacturers Ltd, Esso Australia Ltd and BHP Billiton Ltd. Mr Housden is a member of the Board Audit Committee. He was appointed a Director and Chairman of the Board on 22 November 2004. Mr Housden's current term as director expires in 2007.

**Mr Ian Allen AICD
Chief Executive Officer
Aged 56**

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 40 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 was appointed a Director on 9 March 2000.

**Mr Alan Grant
Independent Non-Executive Director
Aged 65**

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 Board Audit Committee. He was appointed a Director on 22 November 2004. Mr Grant's current term as director expires in 2006.

**Mr John Richards Dip Acc, CA
Commercial Director
Aged 72**

Prior to joining the Company, Mr Richards was the managing partner of Kendalls Chartered Accountants, a position he held for some 40 years. Mr Richards is a member of the Board Audit Committee. He was appointed a Director on 9 March 2000. Mr Richards' current term as director expires in 2005.

**Mr Chris Stott B Econ
Chief Operating Officer
Aged 54**

Prior to joining the Company, Mr Stott held senior management positions with Credit Union Services Corporation (Australia) Ltd and with the South Australian Government. Mr Stott was appointed a Director on 14 December 2000. Mr Stott's current term as director expires in 2007.

Mr Andrew Blew

Appointed 3 November 2003, resigned 23 September 2004.

Mr Brent McLaws

Appointed 9 March 2000, resigned 22 November 2004.

Mr Richard Walker

Appointed 12 August 2004, resigned 18 October 2004.

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)**Company Secretary****Aged 55**

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, a director of several of its subsidiary companies and a Member of the Australian Payments System Council and 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 previously Executive Assistant to the Premier and Treasurer of South Australia.

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	
	Number held whilst a Director	Number participated in	Number held whilst a Director	Number participated in
P Housden	4	4	3	3
I Allen	10	10		
A Grant	4	3	3	3
J Richards	10	10	3	3
C Stott	10	10		
A Blew	2	-		
B McLaws	6	1		
R Walker	2	-		

3 Principal Activities of the Consolidated Entity

The principal activities of the consolidated entity during the course of the financial year were the development, manufacture and distribution of asset-based identification technologies, principally microdots, that allow assets, and their component parts, to be uniquely marked and identified.

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

4 Review of Results and Operations

The operating loss after income tax of the consolidated entity for the 12 months ended 30 June 2005 was \$2,680,658 (2004 loss : \$1,551,458).

Revenue from operating activities reduced from \$8,519,685 in the 2004 financial year to \$5,779,424 in the 2005 financial year. The reduction is principally as a result of one key Australian customer ceasing to apply DataDotDNA to their products as from January 2004 and a significant start-up sale to the Russian market which occurred in August 2003.

Revenue from non-operating activities increased from \$765 in the 2004 financial year to \$1,034,779 in the 2005 financial year. The increase relates principally to certain key directors and executives forgiving loans to the Company amounting to \$748,077 and to the Company generating interest income of \$178,030, following its IPO capital raising.

Operating expenses increased from \$6,717,067 in the 2004 financial year to \$7,364,074 in the 2005 financial year. The change relates principally to an increase in employee benefits expense and depreciation and amortisation expense.

A significant aspect of operations has been the progress achieved in the year ended 30 June 2005 in laying foundations for the future, especially in relation to capital management, development of a robotic application for the Original Equipment segment of the vehicle market for DataDotDNA, and development with the CSIRO of the new generation identifier, DataTraceDNA. While such product and market developments typically have long lead times, they are central to the Company's growth strategy.

5 Significant changes in the state of affairs

During the 2005 financial year, the Company successfully listed on the Australian Stock Exchange, following its \$10 million IPO raising. As a direct result, the consolidated entity's net assets increased by \$9.2 million to \$2.2 million (2004 : deficit of \$7 million).

The IPO capital raising has enabled the consolidated entity to:

- reduce its level of interest bearing debt by \$2.6 million;
- reduce its level of non-interest bearing payables by \$1.8 million; and
- increase its cash assets held by \$3.9 million.

In July 2004, the Company raised \$705,000 from the issue of 2,820,000 convertible notes. These unsecured notes bear interest at 9% per annum, mature on 30 June 2007 and are convertible into 2,820,000 fully paid ordinary shares.

Over the course of the year, holders of convertible notes valued at \$1,608,326 elected to convert their notes to 19,228,550 fully paid ordinary shares.

Over the course of the year, the Company has accelerated its research and development programme and has capitalised \$350,000 of development expenditure, the benefits of which are anticipated to be received in future financial years.

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

Date	Transaction	\$
23/09/2004	Cash issue of 6,000,006 shares at 25 cents, less transaction costs of \$100,675	1,399,326
23/12/2004	Cash issue of 40,000,000 shares at 25 cents under the Company's IPO, less transaction costs of \$919,210	9,080,790
28/01/2005	Conversion of notes to 2,411,400 shares at a conversion price of 10.4 cents	250,000
28/01/2005	Conversion of notes to 6,108,896 shares at a conversion price of 7.7 cents	475,000
10/02/2005	Conversion of notes to 2,893,680 shares at a conversion price of 7.7 cents	225,000
17/02/2005	Conversion of notes to 1,473,800 shares at a conversion price of 10.4 cents	152,795
23/02/2005	Conversion of notes to 814,723 shares at a conversion price of 7.7 cents	63,349
2/03/2005	Conversion of notes to 321,521 shares at a conversion price of 7.7 cents	25,000
28/06/2005	Conversion of notes to 3,050,355 shares at a conversion price of 7.7 cents	237,182
28/06/2005	Conversion of notes to 482,280 shares at a conversion price of 7.7 cents	50,000
29/06/2005	Conversion of notes to 1,350,377 shares at a conversion price of 7.7 cents	105,000
30/06/2005	Conversion of notes to 321,518 shares at a conversion price of 7.7 cents	25,000
	Increase in fully paid share capital	<u>12,088,442</u>

Other than the matters referred to above, in the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review that are not otherwise disclosed in this report or the consolidated financial statements.

6 Dividends

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

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 175,374 ordinary shares following conversion of notes.
- Granted 700,000 options over 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 the consolidated entity will continue to develop, manufacture and market assets-based identification technologies.

In particular, the Company expects to progress developments for whole-of-vehicle-marking with DataDotDNA via robotic application. The DataDotDNA Automated Application Cell is a robotic solution for assembly line DataDotDNA application that is expected to achieve cycle times as low as 40 seconds. This represents a significantly faster and more cost effective solution as compared to the current hand-spray application method.

In addition, the Company expects to accelerate commercialisation of DataTraceDNA. In joint venture with the CSIRO (the Australian Government's Scientific and Industrial Research Organisation), the Company has developed DataTraceDNA, a new technology which involves a highly secure method for identifying bulk materials and industrial products. DataTraceDNA is the subject of a provisional patent application lodged by CSIRO. DataTraceDNA can either be incorporated homogeneously in solid or liquids or applied to the

surface of solid materials and products. Alternatively, DataTraceDNA can either be incorporated in packaging and labels or applied to the surface of packaging materials and labels. In all cases DataTraceDNA is expected to be stable and inert, more durable than its host material, and the unique DataTraceDNA signature is easily read with a hand-held, portable field reader. DataTraceDNA can be added to a wide range of materials and products including cement, concrete, explosives, timber, plastics, paint and adhesives. It is expected to be used in process and logistics control, inventory control, quality control, pollution control and for establishing the authenticity of products and materials. In addition, DataTraceDNA can be used to measure in real time the efficiency of mixing bulk products, thereby providing manufacturers with a means of determining optimal mixing times and methods for their mixed products and of calibrating their mixing equipment. The Company and CSIRO are the joint developers and distributors of DataTraceDNA via their 50/50 joint venture company, DataTraceDNA Pty Ltd.

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.

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. This committee has a written mandate and operating procedure, 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 set in the Directors' Report on page 4 of this report.

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 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 five directors of whom two, Mr A. Grant and the Chairman, Mr P. Housden, are independent. Neither of these two 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 the board's 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; and
 - the fact that independent directors constitute a majority of members of the audit committee;
- it is not at present in the interests of shareholders to incur the expense of additional directors.

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.

9.2 Remuneration Arrangements and Remuneration Report

Directors' and Senior Executives' Remuneration

The board considers that the consolidated entity is not yet of sufficient size to warrant the formation of either a remuneration or nomination committee. The full board performs the duties of these committees.

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.

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

The Company currently has no performance-based remuneration arrangements in place. Options may be granted to directors and executives 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 are:

	Base Remuneration	Non-cash Benefits	Super Contribution	Options Granted (i)	Total
	\$	\$	\$	\$	\$
Directors					
<i>Executive:</i>					
I Allen (CEO)	305,003	111,578	27,450	273,528	717,559
J Richards (Commercial)	94,757	70,615	103,238	91,894	360,504
C Stott (COO)	228,400	39,561	44,100	921,953	1,234,014
<i>Non-Executive:</i>					
P Housden (Chairman – from 22/11/2004)	33,257	-	2,993	22,268	58,518
A Grant (from 22/11/2004)	-	-	24,103	18,556	42,659
G Walker (from 12/08/2004 to 18/10/2004)	9,684	-	-	-	9,684
Officers					
<i>Company:</i>					
S Saboune (CFO – to 11/03/2005)	210,918	53,071	13,790	424,175	701,954
G Loughlin (Co Secretary and Strategic Dev Mgr – from 1/12/2004)	127,167	-	-	19,327	146,494
G George (R&D Mgr)	68,344	32,693	6,516	9,663	117,216
J Kraft (Product Mgr)	49,694	7,418	4,472	-	61,584
J Reynolds (CFO – from 14/03/2005)	48,889	-	4,400	-	53,289
<i>Consolidated:</i>					
R Parsons (GM – Australia)	140,671	19,230	24,167	383,050	567,118
B McLaws (President – DataDot USA)	165,388	10,185	-	91,894	267,467
S Cutler (CFO – DataDot USA)	218,022	31,528	-	-	249,550
V Stephens (Ops Mgr)	71,259	24,485	36,057	9,663	141,464
A Blew (MD – DataDot SA)	125,489	-	-	-	125,489

(i) 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:

Grant date	Expiry date	Fair value per option	Exercise price	Estimated	Estimated volatility	Risk free	Dividend yield
				Price of shares on grant date		Interest rate	
		\$	\$	\$	%	%	%
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

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.

Options granted to directors and senior executives

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in DataDot Technology Ltd to the following directors and to the following of the five most highly remunerated officers of the Company as part of their remuneration.

	Number of options granted	Exercise price	Vesting Date	Expiry Date	% vested to 30/06/05	% forfeited due to service criteria not met to 30/06/05	Total estimated value for future years \$
Directors							
<i>Executive:</i>							
I Allen	3,685,000	\$0.25	11/01/2006	31/12/2009	-	-	242,445
J Richards	1,238,000	\$0.25	11/01/2006	31/12/2009	-	-	81,451
C Stott	4,495,000	\$0.15	22/11/2004	31/12/2009	100	-	-
C Stott	2,089,000	\$0.25	11/01/2006	31/12/2009	-	-	137,441
<i>Non-Executive:</i>							
P Housden	300,000	\$0.25	11/01/2006	31/12/2009	-	-	19,738
A Grant	250,000	\$0.25	11/01/2006	31/12/2009	-	-	16,448
Officers							
<i>Company:</i>							
S Saboune	2,500,000	\$0.15	8/11/2004	23/07/2009	100	-	-
S Saboune	500,000	\$0.20	23/6/2005	23/07/1009	-	100	-
G George	150,000	\$0.25	11/01/2006	31/12/2009	-	-	11,085
G Loughlin	300,000	\$0.25	11/01/2006	31/12/2009	-	-	22,169
G Loughlin	200,000	\$0.25	11/01/2006	31/12/2009	-	-	28,918
J Reynolds	500,000	\$0.25	11/01/2006	31/12/2009	-	-	72,295

9.3 Audit Committee

The Audit Committee has a documented charter, approved by the board. The majority of 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. As the board currently comprises only two non-executive directors, the committee membership includes one executive director.

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 J Richards Dip Acc, CA

The external auditors and the Chief Financial Officer are invited to Audit Committee meetings at the discretion of the committee. The committee met three times during the year and committee members' attendance record is disclosed in the table of Directors' meetings on page 5. 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 2005 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.

The external auditor met with the Audit Committee twice during the year without management being present.

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.

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 27.

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 (eg total revenue, total expenses, 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.

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	2,500,000
31/12/2009	\$0.15	4,495,000
23/07/2009	\$0.20	3,500,000
31/12/2009	\$0.25	<u>18,050,000</u>
		28,545,000

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. The balance of options was granted to directors and employees under the terms of the Company's Employee Share Option Plan. These options expire on the earlier of their expiry date and the date the director or employee ceases to be employed by the Company where termination occurs prior to vesting date (generally two years from grant date).

During or since the end of the financial year, no shares were issued as a result of the exercise of options.

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
P Housden	120,000	300,000
I Allen	18,431,300	3,685,000
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 economic entity.

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 Auditors' Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 15 and forms part of the Directors' Report for the year.

14 Payments to auditor for non-audit services

During the year ended 30 June 2005, the following payments were made to the Company's auditor, PKF NSW, as remuneration for services other than audit services:

Taxation services	\$86,660
Due diligence services in respect of the Company's IPO	\$90,265

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 24th day of August 2005.

Signed in accordance with a resolution of the Directors:

P.J. Housden
Chairman

**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To : The Directors of DataDot Technology Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2005, there have been no contraventions of :

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

PKF
Chartered Accountants and Business Advisers

Arthur Milner
Partner

Dated at Sydney this 24th day of August 2005.

DATADOT TECHNOLOGY LTD
STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

		Consolidated		The Company	
	Note	2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from operating activities	2	5,779,424	8,519,685	342,341	1,157,144
Revenue from non-operating activities	2	1,034,779	765	1,033,439	3
Cost of sales	3	(2,130,787)	(3,354,841)	(174,311)	(32,725)
Employee benefits expense		(3,776,984)	(2,879,355)	(1,582,231)	(1,076,751)
Administrative and general expenses		(1,243,698)	(1,412,133)	(689,613)	(252,089)
Legal fees		(208,363)	(480,416)	(192,665)	(88,353)
Advertising and promotional expenses		(460,587)	(539,678)	(27,722)	(96)
Occupancy expenses		(446,590)	(305,913)	(1,854)	-
Travel expenses		(320,355)	(327,788)	(113,142)	(110)
Borrowing costs expenses	3	(437,545)	(491,010)	(322,410)	(389,100)
Depreciation and amortisation expense	3	(455,461)	(274,238)	(122,502)	(99,328)
Bad and doubtful debts	3	(14,491)	(6,536)	(6,836,226)	-
Net loss from ordinary activities before related income tax expense	3	(2,680,658)	(1,551,458)	(8,686,896)	(781,405)
Income tax expense relating to ordinary activities	5	-	-	-	-
Net loss		(2,680,658)	(1,551,458)	(8,686,896)	(781,405)
Net loss attributable to outside equity interests		144,725	80,109	-	-
Net loss attributable to members of the parent entity		(2,535,933)	(1,471,349)	(8,686,896)	(781,405)
Net exchange difference of translation of self sustaining foreign operations		(78,304)	(19,074)	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity		(2,614,237)	(1,490,423)	(8,686,896)	(781,405)
Basic (loss) per share (cents)	6	(3.12)	(2.92)		
Diluted (loss) per share (cents)	6	(3.12)	(2.92)		

There were no other non-owner transaction changes in equity

The accompanying notes on pages 19 to 45 form part of these financial statements.

DATADOT TECHNOLOGY LTD
STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
Current Assets					
Cash assets	7	4,024,831	136,935	3,668,175	3,897
Receivables	8	1,049,404	1,027,633	243,908	-
Inventory	9	374,320	359,039	4,248	-
Total Current Assets		5,448,555	1,523,607	3,916,331	3,897
Non-Current Assets					
Receivables	8	-	-	-	5,242,881
Other financial assets	10	-	-	183,250	183,248
Plant and equipment	12	1,132,292	1,326,177	275,114	300,965
Other non-current assets	13	350,000	-	350,000	-
Total Non-Current Assets		1,482,292	1,326,177	808,364	5,727,094
Total Assets		6,930,847	2,849,784	4,724,695	5,730,991
Current Liabilities					
Payables	14	1,459,474	1,736,921	474,871	555,795
Interest bearing liabilities	15	601,327	556,446	362,222	50,493
Provisions	16	210,316	173,675	146,217	136,217
Total Current Liabilities		2,271,117	2,467,042	983,310	742,505
Non-Current Liabilities					
Payables	14	606,997	2,193,154	97,478	1,465,494
Interest bearing liabilities	15	1,667,717	5,198,576	1,092,856	4,420,204
Provisions	16	74,025	9,501	46,717	-
Total Non-Current liabilities		2,348,739	7,401,231	1,237,051	5,885,698
Total Liabilities		4,619,856	9,868,273	2,220,361	6,628,203
Net Assets / (Liabilities)		2,310,991	(7,018,489)	2,504,334	(897,212)
Equity					
Contributed equity	17	12,669,942	581,500	12,669,942	581,500
Reserves	18	44,682	122,986	-	-
Accumulated losses	19	(10,220,655)	(7,684,722)	(10,165,608)	(1,478,712)
Total parent entity interest		2,493,969	(6,980,236)	2,504,334	(897,212)
Outside equity interests	20	(182,978)	(38,253)	-	-
Total Equity / (Deficit)	21	2,310,991	(7,018,489)	2,504,334	(897,212)

The accompanying notes on pages 19 to 45 form part of these financial statements.

DATADOT TECHNOLOGY LTD
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
Cash flows from operating activities					
Cash receipts in the course of operations		5,945,987	9,367,967	214,759	208,272
Cash payments in the course of operations		(9,013,068)	(9,397,673)	(2,661,208)	(947,816)
Interest received		178,030	385	176,690	3
Borrowing costs paid		(437,545)	(491,010)	(322,410)	(389,100)
Net cash (used in) operating activities	24(ii)	(3,326,596)	(520,331)	(2,592,169)	(1,128,641)
Cash flows from investing activities					
Proceeds from sale of:					
– plant and equipment		108,672	-	108,672	-
Payments for:					
– plant and equipment		(191,849)	(110,121)	(60,425)	(119,233)
– research and development expenditure		(350,000)	-	(350,000)	-
Advances to related parties		(112,724)	-	(112,724)	-
Loans to controlled entities		-	-	(1,593,343)	-
Net cash (used in) investing activities		(545,901)	(110,121)	(2,007,820)	(119,233)
Cash flows from financing activities					
Proceeds from issue of shares		11,500,001	91,200	11,500,001	91,200
Proceeds from issue of shares in controlled entity		-	42,011	-	-
Transaction costs from issue of shares		(1,019,885)	-	(1,019,885)	-
Proceeds from borrowings:					
– noteholder loans		705,000	230,000	705,000	230,000
– related party loans		78,288	-	-	929,831
Repayment of borrowings:					
– related party loans		(2,768,159)	(106,852)	(2,768,159)	-
– finance lease payments		(355,896)	-	(152,690)	-
Net cash provided by financing activities		8,139,349	256,359	8,264,267	1,251,031
Net increase / (decrease) in cash held		4,266,852	(374,093)	3,664,278	3,157
Cash at beginning of year		(132,724)	251,274	3,897	740
Effect of exchange rate on cash holdings in foreign currencies		(109,297)	(9,905)	-	-
Cash at end of year	24(i)	4,024,831	(132,724)	3,668,175	3,897

The accompanying notes on pages 19 to 45 form part of these financial statements.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

a. Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year.

Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The consolidated entity incurred a loss for the year ended 30 June 2005 of \$2,680,658 (2004 : loss of \$1,551,458).

The directors believe it is appropriate to prepare the financial report on a going concern basis based on the consolidated entity's business plan.

The main assumptions underlying the business plan are that the consolidated entity will be able to:

- achieve growth in sales, underpinned by the introduction of new products and increased sales of existing products; and
- contain operating and development expenditure to current levels.

In the event that the consolidated entity does not meet its planned cash flow targets, as set out in the business plan, it may be required to raise additional debt or equity funds.

b. Principles of Consolidation

Controlled Entities

A controlled entity is any entity controlled by DataDot Technology Ltd. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company. A list of controlled entities is contained in Note 11 to the financial statements. The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Outside interests in equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

c. Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

d. Revenue

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

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

Royalties earned on the sale of manufactured goods are recognised when the underlying goods are sold. Fixed rate manufacturing royalties are recognised over the period of the underlying agreement.

Licence fee revenue is recognised when the Company has an unconditional entitlement to the fee.

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

All revenue is stated net of the amount of goods and services tax (GST).

e. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

f. Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling at that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change except where relating to amounts payable or receivable in foreign currency forming part of the net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

Translation of controlled foreign operations

The assets and liabilities of foreign controlled entities that are self-sustaining are translated at the rates of exchange ruling at the reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

g. Borrowing costs

Borrowing costs are expensed as incurred.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

h. Taxation

The consolidated entity adopts the income statement liability method of tax-effect accounting.

Income tax benefit is calculated on operating loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Tax consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 11. The implementation date for the tax-consolidation group is 1 July 2004. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

i. Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted loss per share is calculated by dividing the basic loss per share by the weighted average number of ordinary shares and dilutive potential ordinary shares.

j. Receivables

Trade debtors to be settled within 60 days are carried at amounts due. The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

k. Inventories

Raw materials and stores, work in progress and finished goods are carried at the lower of cost allocated and net realisable value. Costs are assigned on the basis of weighted average cost.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

l. Plant and Equipment

Acquisition of assets

Items of plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs attributable to the acquisition.

Depreciation and amortisation

The depreciable amount of all fixed assets are depreciated over their estimated useful lives to the economic entity commencing from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation / amortisation rates and methods are reviewed annually for appropriateness and the rates used for each class of asset in both the current and prior years are as follows:

– Owned plant and equipment	17% – 50%	Diminishing value & Straight line
– Leased plant & equipment	20% – 33%	Straight line
– Leasehold improvements	25% – 33%	Straight line

m. Leased plant and equipment

Finance leases

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

n. Research and development

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

o. Investments

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

p. Recoverable amount of non-current assets valued on cost basis

The carrying amount of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs. In assessing the recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

q. Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

r. Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

Employee share and option plans

Where shares are issued to employees, including directors, as remuneration for past services, the difference between fair value of the shares issued and the consideration received, if any, from the employee is expensed. The fair value of the shares issued is recorded in contributed equity.

Other shares or options issued to employees, including directors, are recorded in contributed equity at the fair value of consideration received, if any.

Superannuation plan

The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are recognised as an expense as they are made. Further information is set out in Note 26.

s. Financial instruments

Where financial instruments, such as convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

t. Cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits with banks or financial institutions and net of bank overdrafts and bank loans.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
2. REVENUE FROM ORDINARY ACTIVITIES				
Sale of goods revenue from operating activities	5,424,178	8,519,685	-	-
Royalty revenue from operating activities	-	-	81,365	25,899
Commission revenue from operating activities	-	-	-	165,794
Licence fee revenue from operating activities	355,246	-	260,976	-
Management fee revenue from operating activities	-	-	-	965,451
Total operating revenue	<u>5,779,424</u>	<u>8,519,685</u>	<u>342,341</u>	<u>1,157,144</u>
Other revenues:				
<i>From operating activities</i>				
Interest received or receivable from third parties	178,030	385	176,690	3
<i>From outside operating activities</i>				
Proceeds from sale of plant & equipment	108,672	-	108,672	-
Loans forgiven	748,077	-	748,077	-
Other	-	380	-	-
Total other revenues	<u>1,034,779</u>	<u>765</u>	<u>1,033,439</u>	<u>3</u>
Total revenue from ordinary activities	<u>6,814,203</u>	<u>8,520,450</u>	<u>1,375,780</u>	<u>1,157,147</u>
3. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
Individually significant (revenues) included in loss from ordinary activities before income tax expense:				
Loans forgiven – related parties	(113,817)	-	(113,817)	-
Loans forgiven – other persons	(634,260)	-	(634,260)	-
	<u>(748,077)</u>	<u>-</u>	<u>(748,077)</u>	<u>-</u>
Loss from ordinary activities before income tax has been arrived at after charging / (crediting) the following items:				
Cost of sales	2,130,787	3,354,841	174,311	32,725
Borrowing costs expense				
- finance leases	113,504	85,214	19,615	15,690
- related party loans	87,751	181,048	87,751	181,048
- other persons	236,290	224,748	215,044	192,362
Total borrowing costs expense	<u>437,545</u>	<u>491,010</u>	<u>322,410</u>	<u>389,100</u>
Depreciation and amortisation expense				
- owned plant and equipment	147,773	91,099	39,860	34,151
- leased plant and equipment	171,829	176,367	82,642	65,177
- leasehold improvements	135,859	6,772	-	-
Total depreciation and amortisation expense	<u>455,461</u>	<u>274,238</u>	<u>122,502</u>	<u>99,328</u>
Operating lease rentals – minimum lease payments	325,571	261,291	445	-
Net foreign exchange loss	4,675	-	16,667	-
Research and development expenditure expensed as incurred	80,738	14,781	16,733	7,845
Net (write back) / expense for movements in provision for:				
- doubtful debts	7,392	(124,597)	-	(130,880)
- loans to controlled entities	-	-	6,836,226	-
- employee entitlements	101,165	64,402	56,717	109,451
Net (gain) from disposal of plant and equipment	<u>(4,500)</u>	<u>-</u>	<u>(4,500)</u>	<u>-</u>

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
4. AUDITORS' REMUNERATION				
Amounts received or due and receivable for audit services by:				
– the auditors of the Company – PKF NSW	149,538	62,133	149,538	13,650
– other auditors	79,117	31,108	12,476	-
Amounts received or due and receivable for other services by:				
– the auditors of the Company – PKF NSW				
- taxation services	86,660	38,588	86,660	10,235
- due diligence services in respect of IPO	90,265	-	90,265	-
- other services	3,512	-	-	-
5. TAXATION				
Income tax expense				
Prima facie income tax benefit calculated at 30% (2004 : 30%) on the operating loss from ordinary activities				
	(804,197)	(465,437)	(2,606,069)	(234,422)
Decrease in income tax benefit due to:				
Sundry items	128,106	23,369	111,341	20,218
Movements in provisions for loans to controlled entities and doubtful debts	2,218	37,379	2,050,868	31,164
Income tax benefit not recognised	673,873	404,689	443,860	183,040
Income tax expense	-	-	-	-
Future income tax benefit not taken to account				
The potential future income tax benefit (based on unlodged tax returns) arising from tax losses has not been recognised as an asset because recovery of tax losses is not virtually certain:				
- Revenue losses carried forward	2,007,077	2,066,914	1,284,675	875,564

The potential future income tax benefit 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.

Franking credits

The Company has no franking credits available.

Consolidation

DataDot Technology Ltd, DataDot Technology (Australia) Pty Ltd and Identify Australasia Pty Ltd are a consolidated entity for tax purposes.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
6. LOSS PER SHARE				
Basic (loss) per share in cents	(3.12)	(2.92)		
Net loss used in calculation of basic and diluted loss per share	(2,535,933)	(1,471,349)		
Weighted average number of ordinary shares used in the calculation of basic and diluted loss per share	81,401,769	50,341,377		
Neither the convertible notes nor options on issue during the year are dilutive potential ordinary shares.				
	\$	\$	\$	\$
7. CASH ASSETS				
Cash at bank and on hand	847,532	136,935	490,876	3,897
Bank short term deposits	3,177,299	-	3,177,299	-
	<u>4,024,831</u>	<u>136,935</u>	<u>3,668,175</u>	<u>3,897</u>
The bank short term deposits mature within 90 days and pay interest at a weighted average interest rate of 5.5% (2004 : 0%)				
8. RECEIVABLES				
Current				
Trade debtors	903,808	641,878	127,582	-
Less : Provision for doubtful debts	(17,675)	(10,283)	-	-
Other debtors	50,547	227,839	3,602	-
Advances to related parties	112,724	29,683	112,724	-
Advances to other parties	-	138,516	-	-
	<u>1,049,404</u>	<u>1,027,633</u>	<u>243,908</u>	<u>-</u>
Non-current				
Loans to controlled entities	-	-	6,836,226	5,242,881
Less: provision for doubtful debts	-	-	(6,836,226)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,242,881</u>
9. INVENTORIES				
Raw materials and stores – at cost	360,659	285,859	4,248	-
Finished goods – at cost	13,661	73,180	-	-
	<u>374,320</u>	<u>359,039</u>	<u>4,248</u>	<u>-</u>
10. OTHER FINANCIAL ASSETS				
Non-current				
Shares in controlled entities at cost	-	-	183,250	183,248
	<u>-</u>	<u>-</u>	<u>183,250</u>	<u>183,248</u>

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

11. DETAILS OF CONTROLLED ENTITIES		Consolidated and the Company		
		Interest 2005 %	Interest 2004 %	
	Note	Place of incorporation		
Subsidiaries of DataDot Technology Ltd				
DataDot Technology (Australia) Pty Ltd		NSW	100	100
DataDot Technology USA Inc		USA	100	100
DataDot Technology (UK) Ltd		UK	72	72
DataDot Technology (Asia) Pty Ltd	(i)	NSW	50	50
DataDot Technology South Africa (Pty) Ltd	(i)	South Africa	42.5	42.5
Identify Australasia Pty Ltd		NSW	100	100
DataDot Bulk DNA Pty Ltd		NSW	100	-
Identify New Zealand Pty Limited		New Zealand	100	100
Subsidiary of DataDot Technology USA Inc				
Mightydot Warranty Services, Inc.	(ii)	USA	-	100
Subsidiary of DataDot Technology (UK) Ltd				
DataDot Technology (Europe) Ltd		UK	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) This company was deregistered in 2005.

There were no acquisitions or disposals in 2005 or in 2004.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
12. PLANT AND EQUIPMENT				
Owned plant and equipment				
At cost	944,631	726,776	216,784	160,006
Accumulated depreciation	(420,928)	(272,702)	(87,344)	(51,267)
	523,703	454,074	129,440	108,739
Leased plant and equipment				
At cost	630,231	688,854	221,069	256,834
Accumulated amortisation	(258,266)	(183,791)	(75,395)	(64,608)
	371,965	505,063	145,674	192,226
Leasehold improvements				
At cost	414,175	408,733	-	-
Accumulated amortisation	(177,551)	(41,693)	-	-
	236,624	367,040	-	-
Total plant and equipment net book value	1,132,292	1,326,177	275,114	300,965

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

12. PLANT AND EQUIPMENT (continued)

Reconciliations

Reconciliations of the carrying amount for each class of plant and equipment are set out below:

	Plant and equipment	Leased plant and equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
<i>Consolidated:</i>				
Carrying amount at beginning of year	454,074	505,063	367,040	1,326,177
Additions	217,402	142,903	5,443	365,748
Disposals	-	(104,172)	-	(104,172)
Depreciation and amortisation	(147,773)	(171,829)	(135,859)	(455,461)
Carrying amount at end of year	<u>523,703</u>	<u>371,965</u>	<u>236,624</u>	<u>1,132,292</u>
<i>The Company:</i>				
Carrying amount at beginning of year	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)
Carrying amount at end of year	<u>129,304</u>	<u>145,810</u>	<u>-</u>	<u>275,114</u>

	Consolidated	The Company		
	2005	2004	2005	2004
Note	\$	\$	\$	\$
13. OTHER NON-CURRENT ASSETS				
Research and development costs				
Expenditure brought forward	-	-	-	-
Capitalised in the current period	350,000	-	350,000	-
	<u>350,000</u>	<u>-</u>	<u>350,000</u>	<u>-</u>
Less: accumulated amortisation	-	-	-	-
	<u>350,000</u>	<u>-</u>	<u>350,000</u>	<u>-</u>

14. PAYABLES

Current

Trade creditors	174,735	598,907	28,515	112,567
Unearned revenue	-	-	13,584	13,103
Sundry creditors and accruals	1,119,602	1,032,906	432,772	372,137
Amounts payable to related parties	-	67,568	-	57,988
Amounts payable to other parties	165,137	37,540	-	-
	<u>1,459,474</u>	<u>1,736,921</u>	<u>474,871</u>	<u>555,795</u>

Non-current

Unearned revenue	-	-	95,056	104,826
Amounts payable to related parties	12,891	1,538,721	2,422	1,360,668
Amounts payable to other parties (i)	594,106	654,433	-	-
	<u>606,997</u>	<u>2,193,154</u>	<u>97,478</u>	<u>1,465,494</u>

(i) Included in payables to other parties is an amount of £250,000 (\$594,106) 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.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	Consolidated		The Company	
		2005	2004	2005	2004
		\$	\$	\$	\$
15. INTEREST BEARING LIABILITIES					
Current					
<i>Secured:</i>					
Bank loan	(i)	-	269,659	-	-
Lease liabilities	(ii)	281,858	286,787	42,753	50,493
<i>Unsecured:</i>					
Noteholder loans	(iii)	319,469	-	319,469	-
		<u>601,327</u>	<u>556,446</u>	<u>362,222</u>	<u>50,493</u>
Non-current					
<i>Secured:</i>					
Lease liabilities	(ii)	732,717	940,781	157,856	162,409
<i>Unsecured:</i>					
Noteholder loans	(iii)	935,000	2,157,795	935,000	2,157,795
Related party loans	(iv)	-	2,100,000	-	2,100,000
		<u>1,667,717</u>	<u>5,198,576</u>	<u>1,092,856</u>	<u>4,420,204</u>

(i) The bank loan (debtor finance facility) is secured by a mortgage debenture over the whole of the assets and undertakings of DataDot Technology (Australia) Pty Limited and by an Unsupported Guarantee & Indemnity for \$500,000 provided by the Company. The maximum facility at year end is \$500,000 (2004 : \$500,000).

(ii) 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.

(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 June 2000 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 (2004 : 9% pa). The maximum number of ordinary shares that the notes on issue will convert into is 7,342,921.

(iv) Interest is paid at 9% pa (2004 : 9% pa) on loans from related party loans.

16. PROVISIONS

Current					
Employee entitlements		<u>210,316</u>	<u>173,675</u>	<u>146,217</u>	<u>136,217</u>
Non-current					
Employee entitlements		<u>74,025</u>	<u>9,501</u>	<u>46,717</u>	<u>-</u>

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
17. CONTRIBUTED EQUITY				
Issued and paid-up capital 115,684,556 (2004 : 50,456,000) ordinary shares, fully paid	12,669,942	581,500	12,669,942	581,500
Ordinary share capital	Number	Number	\$	\$
Balance at beginning of year	50,456,000	50,000,000	581,500	490,300
Shares issued:				
For cash at \$0.20 per share	6,000,006	456,000	1,500,001	91,200
Less : Costs of share capital raising Pursuant to the IPO prospectus at \$0.025 per share	-	-	(100,675)	-
Less : Costs of IPO share capital raising	40,000,000	-	10,000,000	-
Conversion of convertible notes	-	-	(919,210)	-
	19,228,550	-	1,608,326	-
Balance at the end of the year	115,684,556	50,456,000	12,669,942	581,500

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of the winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any net proceeds on liquidation.

Options

Grant date	Exercise price	Exercise date on or after	Expiry date	Balance at beginning of year	Granted	Lapsed	Balance at end of year on issue	Balance at end of year Vested
Employee share options								
23/07/04	\$0.15	8/11/04	23/07/09	-	2,500,000	-	2,500,000	2,500,000
23/07/04	\$0.20	23/06/05	23/07/09	-	4,000,000	500,000	3,500,000	3,500,000
22/11/04	\$0.15	11/01/06	31/12/09	-	4,495,000	-	4,495,000	4,495,000
22/11/04	\$0.25	11/01/06	31/12/09	-	8,800,000	-	8,800,000	-
11/01/05	\$0.25	11/01/06	31/12/09	-	1,200,000	-	1,200,000	-
KTM Capital Pty Ltd share options								
22/11/04	\$0.25	11/01/07	31/12/09	-	7,350,000	-	7,350,000	-
				-	28,345,000	500,000	27,845,000	10,495,000

Option holders are not entitled to participate in any share issue of the Company or to receive dividends.

No options were exercised during the year.

In 2004, the Company had in place an employee share option plan. There were 6,500,000 options over ordinary shares granted on 23 June 2003 under this plan. On 23 July 2004, these options were cancelled and replaced by options referred to in the table above.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
18. RESERVES				
Foreign currency translation				
Balance at beginning of year	122,986	142,060	-	-
Exchange difference on net investment in foreign operations	(78,304)	(19,074)	-	-
Balance at end of year	44,682	122,986	-	-
The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations.				
19. ACCUMULATED LOSSES				
Accumulated losses at beginning of year	(7,684,722)	(6,213,373)	(1,478,712)	(697,307)
Net loss attributable to members of the parent entity	(2,535,933)	(1,471,349)	(8,686,896)	(781,405)
Accumulated losses at end of year	(10,220,655)	(7,684,722)	(10,165,608)	(1,478,712)
20. OUTSIDE EQUITY INTERESTS				
Outside equity interests in controlled entities comprise:				
Interest in accumulated loss at beginning of the year	(219,194)	(139,085)	-	-
Interest in loss from ordinary activities after income tax	(68,018)	(80,109)	-	-
Interest in accumulated loss at end of the financial year	(287,212)	(219,194)	-	-
Interest in share capital	104,234	180,941	-	-
	(182,978)	(38,253)	-	-
21. TOTAL EQUITY RECONCILIATION				
Total deficit at beginning of year	(7,018,489)	(5,719,684)	(897,212)	(207,007)
Total changes in parent entity interest in equity recognised in statement of financial performance	(2,535,933)	(1,471,349)	(8,686,896)	(781,405)
Contributions of equity	12,088,442	91,200	12,088,442	91,200
Exchange difference on net investment in foreign operations	(78,304)	(19,074)	-	-
Total changes in outside equity interest	(144,725)	100,418	-	-
Total equity / (deficit) at end of year	2,310,991	(7,018,489)	2,504,334	(897,212)

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated	2004	The Company	2004
	2005		2005	
	\$	\$	\$	\$
22. COMMITMENTS				
Finance lease payment commitments				
Finance lease commitments payable:				
Within one year	378,839	399,675	60,547	64,423
One year or later and no later than five years	793,683	1,033,011	172,380	177,604
Later than five years	-	38,099	-	-
	<u>1,172,522</u>	<u>1,470,785</u>	<u>232,927</u>	<u>242,027</u>
Less : Future finance charges	(157,947)	(243,217)	(32,318)	(29,125)
	<u>1,014,575</u>	<u>1,227,568</u>	<u>200,609</u>	<u>212,902</u>
Lease liabilities provided for in the financial statements:				
Current	281,858	286,787	42,753	50,493
Non-current	732,717	940,781	157,856	162,409
	<u>1,014,575</u>	<u>1,227,568</u>	<u>200,609</u>	<u>212,902</u>

The finance leases are in relation to leased plant and equipment and leasehold improvements. The leases are for terms ranging from 3 to 5 years. There are no contingent lease payments in relation to these leases.

Non-cancellable operating lease expense commitments

Future operating lease commitments not provided for in the financial statements and payable:

Within one year	281,257	264,998	-	-
Later than one year but not later than five years	210,550	445,290	-	-
	<u>491,807</u>	<u>710,288</u>	<u>-</u>	<u>-</u>

The consolidated entity leases property under non-cancellable operating leases expiring from eighteen to twenty months. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental allowance for inflation. In addition, the consolidated entity leases plant and equipment under non-cancellable operating leases expiring from four to twenty-six months. Lease payments are determined at the commencement of the lease and are for a fixed amount over the term of the lease.

Capital expenditure commitments

Plant and equipment contracted for but not provided for and payable within one year

-	-	-	-
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23. CONTINGENT LIABILITIES

The Company and the consolidated entity have no contingent liabilities.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated 2005 \$	2004 \$	The Company 2005 \$	2004 \$
24. NOTES TO THE STATEMENTS OF CASH FLOWS				
(i) Reconciliation of cash				
For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short-term deposits, net of short-term bank loans. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the statements of financial position as follows:				
Cash on hand and at bank	847,532	136,935	490,876	3,897
Short term deposits	3,177,299	-	3,177,299	-
Short term bank loans	-	(269,659)	-	-
	4,024,831	(132,724)	3,668,175	3,897
(ii) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Loss from ordinary activities after income tax	(2,680,658)	(1,551,458)	(8,686,896)	(781,405)
Add / (less) items classified as investing / financing activities:				
Profit on sale of plant and equipment	(4,500)	-	(4,500)	-
Add / (less) non-cash items:				
Management fee	-	-	-	(965,451)
Depreciation and amortisation	455,461	274,238	122,502	99,328
Loans forgiven	(748,077)	-	(748,077)	-
Provision for:				
– loans to controlled entities	-	-	6,836,226	-
– doubtful debts	7,392	(124,597)	-	(130,880)
Net cash used in operating activities before change in assets and liabilities	(2,970,382)	(1,401,817)	(2,480,745)	(1,778,408)
(Increase) / decrease in trade and other debtors	(107,843)	214,879	(131,188)	130,880
(Increase) / decrease in inventory	(15,280)	275,534	(4,248)	-
(Decrease) / increase in creditors and accruals	(334,256)	326,671	(32,705)	409,436
(Decrease) / increase in provisions	101,165	64,402	56,717	109,451
Net cash used in operating activities	(3,326,596)	(520,331)	(2,592,169)	(1,128,641)

(iii) Non cash financing and investing activities

During the year, the economic entity acquired plant and equipment and leasehold improvements with an aggregate value of \$142,903 (2004 : \$1,003,963) by means of finance leases.

During the year, the Company issued new shares to the value of \$1,608,326 (2004 : \$nil) following the conversion of noteholder loans.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

25. SEGMENT INFORMATION

Primary segments	Australasia	USA	Europe	Asia (incl Russia)	South Africa	Total
	\$	\$	\$	\$	\$	\$
Geographic Segments						
2005						
Revenue						
External segment revenue	3,315,250	926,371	340,755	337,898	859,150	5,779,424
Inter-segment revenue	155,783	59,343	46,667	-	-	261,793
Total segment revenue	3,471,033	985,714	387,422	337,898	859,150	6,041,217
Unallocated revenue						1,034,779
Total revenue						7,075,996
Result						
Segment Results	(2,294,070)	(769,618)	(130,061)	1,429	(54,069)	(3,246,389)
Unallocated revenues and expenses						565,731
Net loss						(2,680,658)
Depreciation and amortisation	368,099	47,547	18,141	4,017	17,657	455,461
Segment Assets	1,654,920	591,193	101,176	153,326	291,986	2,792,601
Unallocated corporate assets						4,138,246
Consolidated total assets						6,930,847
Segment Liabilities	2,486,497	165,320	558,302	-	152,869	3,362,988
Unallocated corporate liabilities						1,256,868
Consolidated corporate liabilities						4,619,856
Acquisition of non current assets	261,178	89,319	5,250	-	10,001	365,748
2004						
Revenue						
External segment revenue	5,128,196	1,387,837	329,204	1,231,865	442,583	8,519,685
Inter-segment revenue	831,926	133,275	6,034	-	-	971,235
Total segment revenue	5,960,122	1,521,112	335,238	1,231,865	442,583	9,490,920
Unallocated revenue						765
Total revenue						9,491,685
Result						
Segment Results	(949,879)	(359,656)	(108,407)	3,794	(89,829)	(1,503,977)
Unallocated revenues and expenses						(47,481)
Net loss						(1,551,458)
Depreciation and amortisation	240,639	4,706	15,869	4,036	8,988	274,238
Segment Assets	7,748,713	555,864	589,396	15,425	317,757	9,227,155
Unallocated corporate assets						(6,377,371)
Consolidated total assets						2,849,784
Segment Liabilities	11,106,661	3,372,957	744,711	45,909	459,255	15,729,493
Unallocated corporate liabilities						(5,861,220)
Consolidated corporate liabilities						9,868,273
Acquisition of non current assets	1,067,634	75,082	63,111	14,105	65,811	1,285,743

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

25. SEGMENT INFORMATION (continued)

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. 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.

Secondary Reporting – Business Segment

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

		Consolidated		The Company	
	Note	2005	2004	2005	2004
		\$	\$	\$	\$
26. EMPLOYEE BENEFITS					
Aggregate liability for employee benefits, including on-costs					
Current					
Employee benefits provision	16	210,316	173,675	146,217	136,217
Non-current					
Employee benefits provision	16	74,025	9,501	46,717	-
		284,341	183,176	192,934	136,217

The present value of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using an assumed rate of increase in wage and salary costs of 5% per annum and a discount rate of 5.627%

Number of employees at year end	38	40	8	6
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Equity-based 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 23 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 in the future 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 options vest, variously, on 8 November 2004, 23 June 2005 and 11 January 2006. There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. Refer to Note 17 for details of options granted.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
26. EMPLOYEE BENEFITS (continued)				
Superannuation plans				
The Company and other controlled entities contribute to several defined contribution superannuation plans.				
Employer contributions to the plans	181,589	138,900	117,852	61,061
Employer contributions payable to the plans	35,545	44,200	30,150	44,200

27. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration of Directors and Specified Executives

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 only. No bonuses 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 2005.

	Salary and fees	Non- monetary benefits	Super Contrib'n	Value of Options (i)	Total
Specified directors					
Non-executive					
P Housden (Chairman, from 22/11/04)	33,257	-	2,993	22,268	58,518
A Grant (from 22/11/04)	-	-	24,103	18,556	42,659
R Walker (from 12/08/04 to 18/10/04)	9,684	-	-	-	9,684
Executive					
I Allen (CEO)	305,003	111,578	27,450	273,528	717,559
J Richards (Commercial)	94,757	70,615	103,238	91,894	360,504
C Stott (COO)	228,400	39,561	44,100	921,953	1,234,014
Total, all specified directors	671,101	221,754	201,884	1,328,199	2,422,938
Specified executives					
R Parsons (GM – Australia)	140,671	19,230	24,167	383,050	567,118
G Loughlin (Co Secretary and Strategic Dev Mgr – from 1/12/04)	127,167	-	-	19,327	146,494
S Saboune (CFO – to 11/03/05)	210,918	53,071	13,790	424,175	701,954
J Reynolds (CFO – from 14/03/05)	48,889	-	4,400	-	53,289
B McLaws (President – DataDot USA)	165,388	10,185	-	91,894	267,467
S Cutler (CFO – DataDot USA)	218,022	31,528	-	-	249,550
A Blew (MD – DataDot South Africa)	125,489	-	-	-	125,489
P Kibler (MD – DataDot UK)	88,063	-	-	-	88,063
Total, all specified executives	1,124,607	114,014	42,357	918,446	2,199,424

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(i) 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:

Grant date	Expiry date	Fair value per option \$	Exercise price \$	Estimated Price of shares on grant date \$	Estimated volatility %	Risk free Interest rate %	Dividend yield %
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

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.

Equity Instruments

All options refer to options over ordinary shares of DataDot Technology Ltd.

During the year, the following options over ordinary shares were granted and vested during the current year

	Grant date	Exercise price	Exercise date on or after	Expiry date	Fair Value \$	Number Granted during year	Number Vested during year
Specified directors							
P Housden	22/11/04	\$0.25	11/01/06	31/12/09	42,006	300,000	-
A Grant	22/11/04	\$0.25	11/01/06	31/12/09	35,005	250,000	-
I Allen	22/11/04	\$0.25	11/01/06	31/12/09	515,974	3,685,000	-
J Richards	22/11/04	\$0.25	11/01/06	31/12/09	173,345	1,238,000	-
C Stott	22/11/04	\$0.15	11/01/06	31/12/09	766,892	4,495,000	4,495,000
C Stott	22/11/04	\$0.25	11/01/06	31/12/09	292,502	2,089,000	-
Specified executives							
R Parsons	23/07/04	\$0.20	23/06/05	23/07/09	383,050	2,500,000	2,500,000
G Loughlin	11/01/05	\$0.25	11/01/06	31/12/09	41,496	300,000	-
S Saboune	23/07/04	\$0.15	8/11/04	23/07/09	424,175	2,500,000	2,500,000
S Saboune	23/07/04	\$0.20	23/06/05	23/07/09	76,610	500,000	500,000
B McLaws	22/11/04	\$0.25	11/01/06	31/12/09	173,345	1,238,000	-

Further details are set out in Note 17

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Equity Instruments (continued)

Option holdings

	Balance at beginning of year	Granted as remuner- ation	Exercised	Lapsed	Balance at end of year	Number Vested at end of year
Specified directors						
P Housden	-	300,000	-	-	300,000	-
A Grant	-	250,000	-	-	250,000	-
I Allen	-	3,685,000	-	-	3,685,000	-
J Richards	-	1,238,000	-	-	1,238,000	-
C Stott	-	6,584,000	-	-	6,584,000	4,495,000
Specified executives						
R Parsons	-	2,500,000	-	-	2,500,000	2,500,000
G Loughlin	-	300,000	-	-	300,000	-
S Saboune	-	3,000,000	-	500,000	2,500,000	2,500,000
B McLaws	-	1,238,000	-	-	1,238,000	-

Equity holdings and transactions

The movement during the year in the number of ordinary shares of DataDot Technology Ltd held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Balance at beginning of year	Sold in private transaction prior to listing	Subscribed In IPO	Purchased on market	Received on conversion of notes	Sales on market	Balance at end of year
Specified 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
Specified executives							
R Parsons	-	-	-	-	-	-	-
G Loughlin	-	-	100,000	100,000	-	-	200,000
S Saboune	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Loans to specified directors and specified executives

Details regarding the aggregate of loans advanced by any entity in the economic entity to each group of specified directors and specified executives, and the number in each group, are as follows:

	Opening balance \$	Closing balance \$	Interest received \$	Number in group at 30 June
--	--------------------------	--------------------------	----------------------------	----------------------------------

Specified directors				
2005	29,683	112,724	-	1
2004	-	29,683	-	1

Interest is charged on advances to specified directors at 7.05% pa (2004 : 7.05% pa) which represents commercial rates of interest.

Loans from specified directors and specified executives

Details regarding the aggregate of loans received by any entity in the economic entity from each group of specified directors and specified executives, and the number in each group, are as follows:

	Opening balance \$	Closing balance \$	Interest paid \$	Number in group at 30 June
--	--------------------------	--------------------------	------------------------	----------------------------------

Specified directors				
2005	2,846,262	12,891	171,959	2
2004	3,092,010	2,846,262	181,048	3
Specified executives				
2005	897,567	149,364	10,351	3
2004	964,622	897,567	-	3

Interest was incurred on loans from specified directors and executives at rates varying between 0% pa to 9% pa (2004 : 0% pa to 9% pa) which represents commercial rates of interest.

During the year loans to a value of \$748,077 were forgiven by certain specified directors and executives.

Other transactions with the Company or its controlled entities

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 \$37,498. Details of the transactions are as follows:

	Transaction	Note	2005 \$
Specified directors			
C Stott	IT and internet services	(i)	37,498
Specified executives			
R Parsons	Marketing services	(ii)	-

(i) IT and internet services fees of \$37,498 (2004 : \$18,000) 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) Marketing services fees of \$nil (2004 : \$70,000) were paid by a controlled entity to a personally related entity of Mr Parsons. Amounts were billed based on normal market rates for these types of services and were due and payable under normal payment terms.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

Other transactions with the Company or its controlled entities (continued)

	2005
	\$
Assets and liabilities arising from the above transactions	
Current liabilities	
Trade creditors	14,193
	<u>14,193</u>

28. NON-DIRECTOR RELATED PARTIES

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, have no fixed date of repayment and are unsecured.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
Aggregate amount of other transactions with non-director related parties:				
Revenue from sale of goods				
Wholly-owned controlled entities	-	-	37,596	-
Partly-owned controlled entities	-	-	43,769	25,899
Revenue from commissions				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	165,794
Revenue from management fees				
Wholly-owned controlled entities	-	-	-	943,779
Partly-owned controlled entities	-	-	-	21,672
Purchases of inventory				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	21,252	-
Non-current loans receivable				
Wholly-owned controlled entities	-	-	6,601,041	5,205,600
Less : provision for doubtful debt	-	-	(6,601,041)	-
Partly-owned controlled entities	-	-	235,185	37,281
Less : provision for doubtful debt	-	-	(235,185)	-

29. FINANCIAL INSTRUMENTS

(a) Terms, Conditions and Accounting Policies

Significant terms and conditions for each class of financial asset and financial liability, both recognised and unrecognised at the balance date, are as follows:

Receivables: The amounts receivable from trade debtors and other debtors do not bear interest.

Trade creditors: Trade creditors are normally settled within 60 days.

(b) Foreign Exchange Risk

The Company and consolidated entity is exposed to the following forms of currency risk:

- Funding working capital requirements of wholly-owned and partly-owned controlled entities.
- Guarantee over loan to partly-owned controlled entity amounting to £250,000, refer Note 14.
- Goods consumed in manufacture are derived from imported products.

Funding permitting, it is the consolidated entity's policy to cover known expenditures or alternatively to put in place forward exchange contracts where the timing of payments is definite.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

29. FINANCIAL INSTRUMENTS (continued)

(c) Credit Risk Exposures

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

At balance date, the consolidated entity did not have any material concentration of credit risk.

(d) Interest Rate Risk

Funding permitting, it is the Company's policy to manage interest rate risk through entering into fixed rate borrowing or through purchasing appropriate derivative instruments.

The following table details the consolidated entity's exposure to interest rate risk as at reporting date:

	Note	Average Interest Rate %	Fixed Interest Rate \$	Variable Interest Rate \$	Non Interest Bearing \$	Total \$
30 June 2005						
Financial Assets						
Cash	7	4.8%	-	4,024,831	-	4,024,831
Receivables	8	7.05%	-	112,724	936,680	1,049,404
			-	4,137,555	936,680	5,074,235
Financial Liabilities						
Payables	14		-	-	2,066,473	2,066,473
Lease liabilities	15	10.9%	1,014,575	-	-	1,014,575
Noteholder loans	15	9.0%	1,254,469	-	-	1,254,469
Employee benefits	16		-	-	284,341	284,341
			2,269,044	-	2,350,814	4,619,858
30 June 2004						
Financial Assets						
Cash	7	0.1%	-	136,935	-	136,935
Receivables	8		-	-	1,027,633	1,027,633
			-	136,935	1,027,633	1,164,568
Financial Liabilities						
Payables	14				3,930,075	3,930,075
Bank loans	15	11.1%		269,659	-	269,659
Lease liabilities	15	10.5%	1,227,568	-	-	1,227,568
Noteholder loans	15	9.0%	2,157,795	-	-	2,157,795
Related party loans	15	9.0%	2,100,000	-	-	2,100,000
Employee benefits	16		-	-	183,176	183,176
			5,485,363	269,659	4,113,251	9,868,273

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

29. FINANCIAL INSTRUMENTS (continued)

(e) Net Fair Value

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

	Carrying amount 2005 \$	Net fair value 2005 \$	Carrying amount 2004 \$	Net fair Value 2004 \$
Financial Assets				
Cash	4,024,831	4,024,831	136,935	136,935
Receivables	1,049,404	1,049,404	1,027,633	1,027,633
	<u>5,074,235</u>	<u>5,074,235</u>	<u>1,164,568</u>	<u>1,164,568</u>
Financial Liabilities				
Payables	2,066,473	2,066,473	3,930,075	3,930,075
Bank loans	-	-	269,659	269,659
Lease liabilities	1,014,575	1,014,575	1,227,568	1,227,568
Noteholder loans	1,254,469	1,254,469	2,157,795	2,157,795
Related party loans	-	-	2,100,000	2,100,000
Employee benefits	284,341	284,341	183,176	183,176
	<u>4,619,858</u>	<u>4,619,858</u>	<u>9,868,273</u>	<u>9,868,273</u>

For all financial assets and liabilities, the carrying amount as shown approximates the fair value, due to short-term maturity.

30. EVENTS SUBSEQUENT TO BALANCE DATE

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

- Issued a further 175,374 ordinary shares following conversion of notes.
- Granted 700,000 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 2005.

31. INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and AIFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance are summarised below.

Regulatory bodies that promulgate Australian GAAP and AIFRS have significant ongoing projects that could affect the differences between Australian GAAP and AIFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future.

The Board has established a formal project to achieve transition to AIFRS reporting, beginning with the half-year ending 31 December 2005, which project has been substantially completed.

The potential implications of the conversion to AIFRS on the consolidated entity include:

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

31. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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 disposed of.

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.

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 which 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 and Executive Share Option Plan under which the Company can offer its employees and executives 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.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

31. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The effect on the consolidated entity's results for the year ended 30 June 2005 and the consolidated entity's net assets as at 1 July 2004 and as at 30 June 2005 had AIFRS been adopted over the financial year is as follows:

		Effect of				
	Note	Australian GAAP \$	transition to AIFRS \$	AIFRS \$	Australian GAAP \$	AIFRS \$
Year ended 30 June 2005						
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	Effect of		Effect of		
		Australian GAAP \$	transition to AIFRS \$	AIFRS \$	Australian GAAP \$	AIFRS \$
At at 1 July 2004				As at 30 June 2005		
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	(i)	581,500	-	581,500	12,669,942	15,127,788
Reserves		122,986	-	122,986	44,682	44,682
Accumulated losses	(i)(ii)	(7,684,722)	(38,253)	(7,722,975)	(10,220,655)	(12,861,479)
Outside equity interests	(ii)	(38,253)	38,253	-	(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 only if the minority has a binding obligation to, and is able to, make good the losses.

DATADOT TECHNOLOGY LTD
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

31. INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The effect on the parent entity's results for the year ended 30 June 2005 and the parent entity's net assets as at 1 July 2004 and as at 30 June 2005 had AIFRS been adopted over the financial year is as follows:

	Note	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$		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 \$
				At at 1 July 2004				
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

	Note	Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$		Australian GAAP \$	Effect of transition to AIFRS \$	AIFRS \$
				As at 30 June 2005				
Contributed equity	(i)	581,500	-	581,500		12,669,942	2,457,846	15,127,788
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.

DATADOT TECHNOLOGY LTD
DIRECTORS DECLARATION

The Chief Executive Officer and Chief Finance Officer have each declared that:

- (a) the financial records of the company for the financial year have been maintained in accordance with section 286 of the Corporations Act 2001;
- (b) the financial statements and notes for the financial year comply with Accounting Standards; and
- (c) the financial statements and notes for the financial year give a true and fair view.

In the opinion of the directors of DataDot Technology Ltd:

- (a) the financial statements and notes, set out on pages 16 to 45 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the 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.

Dated at Sydney this 24th day of August 2005.

Signed in accordance with a resolution of the directors:

P.J. Housden
Chairman

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF DATADOT TECHNOLOGY LTD

Independent audit report to members of DataDot Technology Ltd *Scope*

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration on pages 16 to 46 for DataDot Technology Ltd (the "Company") and the "Consolidated Entity", for the year ended 30 June 2005. 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, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

Independence

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

**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF DATADOT TECHNOLOGY LTD**

Audit opinion

In our opinion, the financial report of DataDot Technology Ltd 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 2005 and of their performance for the financial year ended on that date; and
 - ii complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

PKF
Chartered Accountants and Business Advisers

Arthur Milner
Partner

Sydney
24 August 2005

SHAREHOLDER INFORMATION AS AT 17 AUGUST 2005

A. STATEMENT OF ISSUED SHARES

The total number of shareholders is 1,224.

There are 72,894,930 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 59.91% of the Company's issued capital.

B. DISTRIBUTION OF SECURITIES

	Number of Shareholders	Number of Convertible notes	Number of Options
1 - 1,000	11	-	-
1,001 - 5,000	288	-	-
5,001 - 10,000	315	1	-
10,001 - 100,000	519	6	10
100,001 and over	<u>111</u>	<u>8</u>	<u>16</u>
	1,244	15	26

The number of shareholders holding less than a marketable parcel of ordinary shares is 39.

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 5,073,644 loan notes which are convertible into ordinary shares – refer Note 15.

These notes are held by 15 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 Mr Stuart Cutler holds 1,250,000 loan notes.

The Company has on issue 27,845,000 options over ordinary shares – refer Note 17.

These options are held by 26 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 17 AUGUST 2005**

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 2005.

	Purposes of offer as identified in the IPO Prospectus \$	Utilisation of funds from 12 January 2005 to 30 June 2005 \$
Fund working capital	3,155,000	2,103,535
Repay interest bearing debt to I Allen, J Richards and C Stott	2,500,000	2,562,972
Fund expansion of DDT manufacturing facility	1,500,000	113,000
Fund development of new range of DataDot products:		
Portable dry process laser imaging machine	300,000	-
Luminescent micro particles and spectral fingerprinting	1,100,000	210,000
Reflective dot with reader	250,000	-
Reader to accelerate reading of dots	200,000	31,913
High speed machinery to accelerate dot production	150,000	-
Other developments not specified above	-	34,539
Pay costs of the IPO	845,000	919,210
Total	10,000,000	5,975,169

H. TOP 20 SHAREHOLDERS APPEARING ON THE REGISTER:

Shareholder's Name	No. of Shares held	% of Capital held
Mr Brent McLaws	20,235,000	17.47
Valkyrie Nominees Pty Ltd	18,235,000	15.74
Taveanti Pty Ltd	4,495,000	3.88
ANZ Nominees Ltd	3,957,150	3.42
Mr Tay Hong Huat	2,105,370	1.82
Pacific Development Capital Ltd	2,000,000	1.73
Invia Cusodian Pty Ltd	1,800,000	1.55
Lloyds & Casanove Investment Partners Pty Ltd	1,600,000	1.38
House of Maister Services Ltd	1,600,000	1.38
Mrs Irene Trimis	1,500,002	1.30
Mr George Monemvasitis	1,475,353	1.27
Tatview Pty Ltd	1,446,840	1.25
Apollo Solutions Ltd	1,400,000	1.21
G Harvey Nominees Pty Ltd	1,400,000	1.21
City & Westminster Ltd	1,400,000	1.21
Equity Trustees Ltd	1,200,000	1.04
Mr Stuart Cutler	1,129,800	0.98
Barnaby Investments Pty Ltd	878,000	0.76
Eagle Securities Ltd	800,000	0.69
Mr Brendan Ian Fitzpatrick	750,000	0.67
Top 20 Total	69,407,515	59.91