DataDot
TECHNOLOGY LTD

2007 Annual Report

Contents of Annual Report

Corporate Information

ABN 54 091 908 726

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

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

Directors	**Company Secretary**	**Registered office**
Mr A. R. Farrar (Chairman) Mr I.P. Allen (Chief Executive Officer) Mr J. F. Richards Mr B. Rathie	G.J. Loughlin	Unit 9 19 Rodborough Road Frenchs Forest NSW 2086 Phone (02) 8977 4900 Fax (02) 9975 4700
Auditors	**Bankers**	
PKF Level 10 1 Margaret Street Sydney NSW 2000	National Australia Bank 96 High Street Fremantle WA 6160	
Share Register	**Stock Exchange**	**Other information**
Ordinary shares and Options Registries Ltd Level 2 28 Margaret St NSW 2000 Phone (02) 9290 9600 Fax (02) 9279 0664	The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.	DataDot Technology Ltd, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Chairman's Letter

Dear Shareholder,

The 2007 financial year has proven to be a challenging year for the Group with significant changes having been implemented following the dislocation which occurred in the months before and after the 2006 Annual General Meeting.

I am pleased to report that, whilst some of these changes have taken time to implement, the Company is heading in the right direction in terms of both revenue and costs. Two new independent directors have been appointed since the last Annual General Meeting and it is intended that a third will be nominated in the near future.

Better communications with shareholders have improved market awareness of the company's strategy and operations and dispelled damaging misinformation that was previously abroad. The new Board and management have conducted a thorough review of strategy and policy across the Group, re-structured operations in the US subsidiary, and are united in executing a strategy that sharply focuses on revenue growth and cost containment.

The first signs of this turn-around were evident in the second-half of 2007, producing growth of 28% in total revenue and 34% in sales revenue in the year to June 30. Your Board is confident that this rising trend in sales revenue will continue, within a disciplined cost structure. In particular we are targeting improved results from the US subsidiary, following a re-structure and reduction of its cost base, and from the UK subsidiary, following an extended pre-growth development phase in the European vehicle aftermarket. We are also confident that DataTraceDNA Pty Ltd, our joint venture company owned by DataDot Technology Ltd and CSIRO, will successfully convert several of its prospective clients into fee paying customers next year. It is the Board's objective that these improvements, building on the performance levels already achieved in our Australian and South African subsidiaries, will continue the turn-around and generate a Group profit in 2008.

The Board is assessing the Company's capital requirements in terms of the identified growth opportunities in both DataDot Technology Limited and DataTraceDNA Pty Ltd and will advise shareholders accordingly upon completion of this process.

The Board is aware that shareholders are especially concerned by the protracted delay in implementation of the New Zealand Government's mandatory whole-of-vehicle-marking (WOVM) policy. It has after all been 33 months since the Government announced this policy, which initially it said would be operating in 18 months, and the company has raised capital specifically to manufacture DataDotDNA in New Zealand. Also, there is keen awareness among shareholders of the materiality of this development: the size of the annual mandatory WOVM market in New Zealand is double the Group's present WOVM volumes.

We are assured by the relevant authorities that the delay in implementation is only that, a delay, which is entirely beyond the company's control. We are of course monitoring the situation very closely and are in close contact with the New Zealand authorities. The principal development this year has been consideration by the New Zealand Cabinet in April of a WOVM cost-benefit analysis that was commissioned to review the WOVM policy. Following this the Government reaffirmed in May its adherence to the mandatory WOVM policy and indicated that implementation would commence in May 2008. At a recent meeting with the Minister of Transport and Police in late-August we were informed that the Government still expects this revised timetable to be met. In 2008 the Group will therefore proceed with its earlier announced plans of developing a New Zealand manufacturing facility in preparation for servicing this substantial new market.

The Government of Taiwan has also enacted mandatory vehicle marking rules, effective from October 1, 2007, though unlike New Zealand where marking must be by microdot, the Taiwanese policy is to allow a number of different marking technologies. As the DataDot Group has been established in Taiwan for several years, providing WOVM to all Honda vehicles, we are well-positioned to capture a significant share of this new mandatory WOVM market in the year ahead.

A further development that we believe will grow our core microdot business in Australia and other markets is the DataDot robot, the fully automated spray application system that applies 7,000 DataDotDNA to a vehicle in less than 60 seconds. The off-line version of the robot, which applies DataDotDNA after final assembly, is now operating in the largest vehicle import centre in Australia. Final development of the on-line version of the robot, which will apply DataDotDNA to vehicles on assembly lines, will proceed in 2008, assisted by an AusIndustry Commercial Ready grant of $384,000. This amount is in addition to the AusIndustry Commercial Ready grant of $1.5 million already awarded to the DataDot robot.

In our joint venture company, DataTraceDNA Pty Ltd, work continued in 2007 in developing commercial applications for specific industries. However, the company refined its marketing strategy, identifying market segments that are likely to bring DataTraceDNA to market and generate revenue much sooner than the bulk materials industries originally targeted exclusively.

The three market segments now in focus are:

1. High Security Solutions - companies needing or offering a high degree of covert security for items such as confidential documents and tax stamps.
2. Industry Solutions - especially in industries exhibiting a high degree of vertical integration across product development and distribution.
3. Bulk Material Solutions - the traditional bulk industries of concrete, polymers, paints and explosives.

The principal activities undertaken in developing these market segments during the year were to engage and train sales personnel in Europe and the USA and to refine our technology and systems to ensure the delivery of solutions at economically attractive rates that are profitable for DataTraceDNA.

From the product development side of the business emerged new and highly strategic solutions that will meet the needs of distribution and retail industries. We anticipate that during 2008 we will be in a position to offer turnkey, cost-effective solutions in major world markets where counterfeiting has reached supermarket shelves.

The results to date of this revised strategy include in each of the three markets a solid pipeline of opportunities ranging from relatively modest projects with security printers to potential deals with the largest players in some of the biggest global industries.

As most companies with which we are engaged demand a high degree of confidentiality there is a limit to the detail that can be disclosed. We can however discuss some projects in moderate detail and describe others in more general terms.

In the High Security Solutions segment, DataTraceDNA is presently in discussion with 11 companies – 3 in Europe, 5 in Australia, 2 in the USA and 1 in China – developing customised solutions to provide covert security to highly valuable items used in personal identification, tax collection and commerce. One announced project in this segment is our contract with Vending Data for use of DataTraceDNA in all their polymer gaming chips.

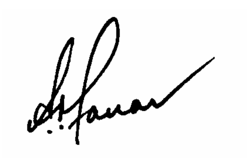
In the Industry Solutions segment, DataTraceDNA is presently in discussion with 23 companies – 4 in Europe, 11 in Australia and 8 in the USA – developing industry-specific solutions across a range of products that includes optical media, film and textiles. One announced project in this segment is our agreement with Microsoft and ISAN to authenticate the new Microsoft High Capacity Colour Barcode which will be progressively used on DVDs and CDs from late 2007.

In the Bulk Materials segment, DataTraceDNA is presently in discussion with 7 companies – 1 in Europe, 2 in Australia and 4 in the USA, developing materials-specific solutions across a range of materials that includes concrete, polymers, pigments and explosives. In this segment DataTraceDNA and Orica Mining Services, the world leader in the explosives industry, have agreed to a joint development to more fully evaluate the applicability of DataTraceDNA to the mining and explosives industry globally. This work will be undertaken and funded by Orica over the next 18 months in both the US and Australia.

In China DataTraceDNA Pty Ltd has a distribution agreement with DataDot Technology (Hong Kong and China) Limited, which is not a related party, under which DataTraceDNA Pty Ltd has been paid licence fees of $1 million and a further payment of $9 million is due by September 30, 2007. The Directors of DDT are not confident this further payment of $9 million will be made. DDT Directors are monitoring the position closely to protect both DataDot Technology's position and the valuable distribution rights for this territory.

In conclusion on behalf of the Board, I would like to express my gratitude to the management team and all employees for the effort and commitment they have displayed during a difficult year of restructuring and to express my appreciation of the support received from shareholders during the year.

The Board is looking forward to a far more positive and rewarding year ahead.



Allan Farrar
Chairman

19 September 2007

Directors' Report

Your directors submit their report for the year ended 30 June 2007.

1 Directors and Company Secretary

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

Mr Ian Allen AICD
Managing Director and Chief Executive Officer

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

Mr Ian Brown ANZIIF, FAIM, CIP
Independent Non-Executive Director

Mr Brown joined the Board as a non-executive Director and Chairman on 21 December 2005 and retired on 26 October 2006.

Mr Allan Farrar B.Sc., Dip.Acc.
Independent Non-Executive Director and Chairman

Mr Farrar joined the board as a non-executive Director and Chairman on 8 November 2006. He is principal of Farrar & Partners, accountants and corporate advisers, and a non-executive director of several public companies. He is currently Chairman of LongReach Group and Rosecorp, a director of Cypress Lakes Group Lasseters Corporation and Chairman of the Advisory Board of Alwyn Private Hospital. He was formerly a non-executive director of Amalgamated Equities, Signature Leisure and Tasman Asset Management. Mr Farrar is Chairman of the Remuneration & Nomination Committee and a member of the Audit Committee.

Mr Alan Grant
Independent Non-Executive Director

Mr Grant joined the Board as a non-executive Director on 22 November 2004 and retired on 26 October 2006.

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

Mr Housden joined the Board as a non-executive Director on 22 November 2004 and resigned on 31 October 2006.

Mr Brent McLaws B.S.
Executive Director

Mr McLaws is a co-founder of the company and was its Co-Chairman before listing in 2005. He re-joined the Board as an executive Director on 27 October 2006 and resigned on 22 June 2007.

Directors' Report (Continued)

Mr Bruce Rathie B.Com., LL.B., MBA, Grad Dip CSP, SA Fin., FAICD, FAIM
Independent Non-Executive Director

Mr Rathie joined the Board as a non-executive Director on 1 December 2006. He has held several senior positions in investment banking and commercial law including: Managing Director, Jardine Fleming Australia Capital Ltd; Director, Corporate Finance, Ord Minnett Inc; and Director, Investment Banking, Salomon Brothers/Salomon Smith Barney Australia. Mr Rathie is currently National Executive Director and Secretary of Australian Institute of Management and non-executive Director and Chairman of DataTraceDNA Pty Ltd, PolyNovo Biomaterials Pty Ltd, BioLayer Corporation Ltd and UnitingCare Aging NSW & ACT. He was formerly a non-executive Director of Compumedics Ltd and is currently a non-executive Director of USCOM Ltd and Carbon Energy Pty Ltd. He is Chairman of the Audit Committee and a member of the Remuneration & Nomination Committee.

Mr John Richards Dip Acc, CA, AICD
Executive Director

Prior to joining the Company Mr Richards was the Managing Partner of Kendalls Chartered Accountants, a position he held for some 40 years. He was appointed a Director on 9 March 2000.

Mr Chris Stott B. Ec., AICD
Executive Director

Mr Stott was appointed a Director of the Board on 14 December 2000 and resigned on 31 October 2006.

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

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

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

Directors' Report (Continued)

2 Directors' Meetings

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

	Board Meetings		Audit Committee Meetings		Remuneration & Nomination Committee Meetings	
Name	Number held whilst a Director	Number Attended	Number held whilst a Director	Number Attended	Number held whilst a Director	Number Attended
I Allen	14	13	-	-	5	5
I Brown	5	5	1	1	3	3
A Farrar	7	7	2	2	2	2
A Grant	5	5	1	1	3	3
P Housden	6	5	1	1	-	-
B McLaws	6	5	-	-	-	-
B Rathie	6	6	2	2	2	2
J Richards	14	14	-	-	-	-
C Stott	6	6	-	-	-	-

3 Principal Activities of the Consolidated Entity

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

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

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

4 Review of Results and Operations

Group Overview

Total Revenues increased by 48% and net profit increased by 108%. Part of the revenue growth relates to the Yamaha Australia's announcement of 28th September 2006 to apply DataDotDNA to its entire range of imported products, using the Group's new DataDotDNA Pressure Pack. Initial sales began in October 2006 on Yamaha motorcycles but it was not until the second half of the year that monthly recurring sales orders were received for the entire Yamaha range of motorcycle and marine products.

South Africa Operations

South Africa experienced strong revenue growth and an even stronger improvement in results. Total Revenue increased 135% and results increased from $25,288 to $615,774. The revenue growth was assisted by Nissan South Africa applying DataDotDNA to all new vehicles sold in South Africa, Namibia, Botswana, Swaziland and Lesotho.

Directors' Report (Continued)

USA Operations

Management has completed a detailed review of the US subsidiary and taken corrective action to stem the losses incurred by DataDot Technology USA Inc (2007 loss of $622,068). US operations have been restructured with flow-on cost benefits. The dual locations of the US operations have been consolidated into one new purpose-built manufacturing facility. The yearly cost savings amount to approximately $375,000.

UK Operations

The UK subsidiary loss of $427,547 is a reflection of an extended pre-growth phase. The Board is confident of the growth potential for DataDot Technology UK Ltd and believes that in the 2008 financial year significant revenues will begin to flow into this subsidiary from its expansion into Europe.

DataDot "Robot"

The DataDot Robot is a fully automated DataDotDNA spray application system that will ultimately replace the time-consuming process of applying DataDotDNA to vehicles manually.

Using the DataDot Robot 7,000 DataDotDNA are applied to a vehicle in less than 60 seconds, compared with manual application that takes up to 8 minutes. This allows the DataDot Robot to be introduced on vehicle assembly lines or in import pre-delivery centres for fully-imported cars, so improving significantly the economics of whole-of-vehicle-marking for vehicle manufacturers. This automated function overcomes one of the primary objections of vehicle manufacturers to whole-of-vehicle-marking, namely, the inability to date of DataDotDNA application to fit within the cycle time of the vehicle manufacturing process.

The DataDot Robot is now operating in the largest vehicle import centre in Australia, where it was launched to industry and government agencies by Victoria Police at an event convened by the National Motor Vehicle Theft Reduction Council.

The DataDot Robot was developed in conjunction with financial grants from the Australian Government's AusIndustry and the National Motor Vehicle Theft Reduction Council. Recently the AusIndustry grant was increased by an additional $383,591 together with an extension of time for final development of both the "on line" version of the Robot, which will apply DataDotDNA to vehicles on assembly lines, and "off line" version, which will apply DataDotDNA after final assembly.

The DataDot Robot will greatly enhance the Group's entry into OE vehicle fitment in all markets.

DataTrace DNA Pty Limited

The Company's and Group's share of loss from the joint venture owned by DataDot Technology Limited and CSIRO was $722,640 (2006: profit $154,891). As DataTraceDNA is a covert identifier used to defeat counterfeiting, the Company and Group are constrained in the level of detail that can be disclosed regarding prospective customers or specific customer applications of DataTraceDNA. The headline numbers are that 41 companies in Europe, USA, Asia and Australia, across three distinct market segments, are currently in discussions with DataTraceDNA Pty Ltd. Some of these are conducting advanced bilateral research, under Memoranda of Understanding with DataTraceDNA Pty Ltd, into developing specific industry applications for DataTraceDNA. The Board is confident that several of these prospective clients will become fee paying customers next year.

Directors' Report (Continued)

Operating Results for the year

The Group increase its revenue base with strong revenue growth recorded in South Africa (sale of goods increased 135%) and in Australasia (sale of goods increased 35%).

Sales revenue for the year was $12,069,743 (2006: $9,463,577), representing an increase of 28% on the previous year. The growth in current year revenues is largely attributable to organic growth in 2 of the 4 market segments.

Whilst the Group's net loss for the year after income tax increased to $2,023,452 (2006: $1,430,100), the core EBITDA shows a $1,459,274 improvement (an increase of 169%) when compared to the previous year.

Core EBITDA excludes all net finance costs and taxation, share based-payments, the contribution to profit / loss from the DataTrace DNA joint venture and any non-recurring items. The differences between Core EBITDA and EBITDA are set out in the following table.

	2007	*2006*
	$	*$*
Core EBITDA	597,170	(862,104)
Interest Expense	(210,907)	(231,480)
Income Tax Expense	(82,663)	-
Depreciation & Amortisation	(448,504)	(495,892)
Impact of equity accounting for statutory purposes		
Share of jointly controlled entity	(722,640)	154,891
Share based payments	(195,478)	(745,515)
Non-recurring items	(960,430)	750,000
Loss after income tax	(2,023,452)	(1,430,100)

The core EBITDA is $597,170 for the 2007 financial year. The Group has therefore increased its revenue and improved its core EBITDA on the previous year.

Summarised operating results are as follows:

	2007		*2006*	
	Total Revenues	*Results*	*Total Revenues*	*Results*
	$	*$*	*$*	*$*
Geographic segments				
Australasia	6,944,692	1,640,973	4,888,260	789,452
South Africa	3,064,914	615,774	1,302,535	25,288
USA	1,854,093	(622,068)	2,096,745	(122,897)
Europe	426,114	(427,547)	398,403	(78,331)
	12,289,813	1,207,132	8,685,943	613,512
Consolidated entity adjustments	(511,284)	-	(92,765)	-
Non-segment unallocated revenues and expenses	291,214	(2,214,374)	870,399	(1,967,023)
Finance costs	-	(210,907)	-	(231,480)
Share of profit / (loss) of joint venture	-	(722,640)	-	154,891
Income tax expense	-	(82,663)	-	-
Consolidated entity sales and loss	12,069,743	(2,023,452)	9,463,577	(1,430,100)

The Group's Gross Profit Sales Margin declined 3.75% from 67.58% to 63.83% and is mainly attributable to change in the sales mix from the US operations and is not the result of increased overheads.

Directors' Report (Continued)

The Group's operating expenses increased to $9,644,116 from $8,610,963 in the 2006 financial year, an increase in operating expenses of $1,033,153 (12%). This increase includes:

• Non-recurring costs	$960,430
• Increase in costs incurred on behalf of DataTrace DNA	$501,570
Total	$1,462,000

Excluding the $195,478 in share-based payments (2006: $745,515) and the net increase in costs incurred on behalf of DataTrace DNA, employee benefits expenditure increased $585,696. Growth in South Africa employee benefits as a result of increased remuneration and the employment of additional staff accounted for 54% of the $585,696 increase. Termination payments paid during the year accounted for a further $220,430.

Administrative expenses increased by $572,031 during the year and are largely due to non-recurring expenditure and to a lesser extent growth experienced in Australasia and South Africa.

Review of Financial Conditions

Liquidity and Capital Resources

There was an increase in cash in the year ended 30 June 2007 of $3,575,487 (2006: decrease of $2,838,198). There was a significant increase in cash flows from financing activities for the year ended 30 June 2007 due to share placement and exercise of options during the year.

Operating activities consumed $958,259 (2006: $1,542,338). This reduction is largely due to an increase in cash generated from sales.

Cash outflows from investing activities during the year ended 30 June 2007 increased to $3,275,884 (2006: $1,428,061). This was mainly attributable to investing in the joint venture, DataTrace DNA Pty Ltd and to a lesser extent the DataDot Robot.

Asset and capital structure

The asset and capital structure is provided below:

	2007 **$**	**2006** **$**
Debts:		
Interest bearing loans and borrowings	680,766	1,671,389
Other loans – non interest bearing	367,398	498,795
Cash and short term deposits	(4,730,149)	(1,169,581)
Net Debt	(3,681,985)	1,000,603
Total equity	10,398,936	2,725,994
Total capital employed	6,716,951	3,726,597
Gearing	-	36.71%

Directors' Report (Continued)

Shares issued during the year

In July 2006 the Company issued 18,250,000 ordinary shares at $0.42 per share. During the year share 5,750,000 ordinary shares were issued on the exercise of options.

Profile of Debts

	2007 $	2006 $
Current		
Obligations under finance leases and hire purchase contracts	192,522	408,957
Bank loan	104,912	35,886
Noteholder loans	-	845,000
Other loans – non interest bearing	-	61,273
	297,434	1,351,116
Non-current		
Obligations under finance leases and hire purchase contracts	252,118	308,105
Bank loan	131,214	73,441
Other loans – non interest bearing	367,938	437,522
	751,270	819,068
	1,048,704	2,170,184

The amount of the Group's debt has decreased over the last year and is largely attributable to the conversion of the $845,000 convertible notes during the year.

Capital expenditure

There has been an increase in cash used to purchase plant and equipment for 30 June 2007 to $453,952 from $361,408.

5 Significant changes in the state of affairs

Total equity increased to $10,398,936 from $2,725,994, an increase of $7,682,942. The movement was a result of issuance of shares and the conversion of convertible notes.

During the year, holders of convertible notes valued at $845,000 elected to convert their notes to 3,591,648 fully paid ordinary shares. The Group has no convertible notes on issue at date of this report.

Over the course of the year, the Company has capitalised $1,239,946 in intangible assets for costs incurred mainly on the development of the DataDot Robot and for Patent costs. Approximately 93% of these costs were external to the Group. The Company has been awarded an AusIndustry *Commercial Ready* grant of $1.9 million. During the year the Company has received $706,735 of which $621,986 has been treated as deferred income and recognised as a non-current liability. Upon the completion of the DataDot Robot project, this deferred income will be released to the income statement over the expected useful life of the DataDot Robot by equal annual instalments.

6 Dividends

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

Directors' Report (Continued)

7 Events Subsequent to Reporting Date

Between 1 July 2007 and the date of this report no material transactions have occurred. 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 expected that the principal activities of the consolidated entity will remain unchanged.

In the core business, DataDotDNA, the Company expects in 2008 to develop a New Zealand manufacturing plant in readiness for the commencement of mandatory whole-of-vehicle-marking in May or June 2008. It also expects to complete the development of the on-line version of the DataDot Robot and to increase significantly the sales of DataDotDNA into the vehicle aftermarket, in the US, Europe and Australia.

In relation to DataTraceDNA:

- it is likely that in 2008 the company will begin to convert into sales its field testing of commercial application in conjunction with leading international companies in the fields of polymers, inks, concrete, explosives and fibres; and
- Directors informed the market on 30 August 2007 that they are not confident receiving a distribution agreement licence fee of $9 million from DataDot technology (Hong Kong and China) Limited (refer to note 16).

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 and a Remuneration and Nomination Committee. These two committees have written mandates and operating procedures, which are reviewed annually.

Directors' Report (Continued)

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

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

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

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

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

The board currently consists of four directors of whom two, Mr B. Rathie and the Chairman, Mr A. Farrar, are independent. Neither of these 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, with the addition of a third independent director to be appointed soon, its composition serves the interests of shareholders for the following reasons:

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

Board evaluation
Under the Company's policy of Board and Director Evaluation, both individual and collective performance evaluations are to be conducted annually. Evaluation is made against the criteria of personal contribution, collective efficacy and procedural adequacy that are specified in the policy. As both independent directors were appointed to the Board during the year, holding office for only half the number of meetings held, it was decided to defer the next Board evaluation until next year.

Directors' Report (Continued)

9.2 Remuneration Report

Directors' and Senior Executives' Remuneration

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

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

In 2006 the Remuneration and Nomination Committee commissioned an outside expert to review the company's remuneration policy, both for executives and independent directors, including remuneration levels, market relativity, performance-related remuneration and remuneration packaging. The Committee received the results of this review in September 2006 and reported its evaluation and recommendations at the Annual General Meeting in October 2006. The Board intended to implement the Committee's recommendations before June 30, 2007.

This intention was not realised, principally because the two independent directors who were on the Committee were not re-elected as directors at the 2006 Annual General Meeting, Accordingly, the Committee was suspended and the momentum of this initiative lapsed for several months until the committee was re-constituted with new independent directors in 2007. The current Committee has now reaffirmed the previous policy recommendation: both the objective of aligning executives' remuneration more closely with the Group's business strategies and financial targets and the strategy of dividing executive remuneration into fixed and variable components. The variable element of total remuneration will in turn comprise both short-term incentive (STI) and long-term incentive (LTI) components. It has also decided that the new remuneration arrangements shall apply uniformly across the Group.

At reporting date the Committee had not completed all the detail necessary to execute this policy, including:

- The respective weights to attribute to fixed, STI and LTI components of total remuneration;
- Formulation of the key performance measures (KPIs) for STI and LTI;
- Formulation of KPIs for individual executives; and
- Transitional arrangements, including international value and currency issues to resolve.

This new remuneration policy will be implemented progressively in 2007-2008.

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

Directors' Report (Continued)

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

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

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

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

Directors' Report (Continued)

Remuneration of directors and named executives

Table 1: Remuneration for the year ended 30 June 2007

	Short-term				Post employment		Long-term	Termination benefits	Share-based Payment	Total	% performance related
	Salary & Fees	Cash bonus	Non monetary benefits	Other	Superannuation	Retirement benefits	Incentive Plans		Options		
Non-executive directors											
A. Farrar - Chairman *	38,864	-	-	-	3,498	-	-	-	-	42,362	-
B. Rathie **	23,333	-	-	-	2,100	-	-	-	-	25,433	-
I. Brown - Chairman ***	18,349	-	-	-	1,651	-	-	-	-	20,000	-
A. Grant ***	-	-	-	-	13,333	-	-	-	-	13,333	-
P. Housden #	3,058	-	-	-	275	-	-	-	-	3,333	-
Sub-total non-executive directors	83,604	-	-	-	20,857	-	-	-	-	104,461	
Executive Directors											
I.P. Allen - Chief executive	400,000	-	60,459	-	36,000	-	-		-	496,459	-
J.F. Richards - Commercial director	205,359	-	63,018	-	-	-	-		-	268,377	-
B.D. McLaws - President, DataDot Technology USA Inc. ##	206,764	-	24,652	-	-	-	-	95,430	-	326,845	-
C. Stott - Chief operating officer ###	166,667	-	23,291	-	15,000		-	125,000	-	329,958	-
Other key-management personnel											
M.S. James - Chief financial officer	150,000	-	-	-	13,500	-	-		48,870	212,370	-
G.J. Loughlin - Company secretary and strategic dev mgr	118,000	-	-	-	100,000	-	-		97,739	315,739	-
S. Cutler - President - Finance & operations, DataDot Technology USA, Inc. @	213,672	-	27,754	-	-	-	-	-	48,870	290,296	-
G. George - R&D manager @@	84,159	205,205	16,571	-	7,574	-	-		-	313,509	65.45%
A.M.B. Blew - Managing Director, DataDot Technology (S.A) (Pty) Ltd	135,779	-	-	-	-	-	-	-	-	135,779	-
D.L. Menday - Sales Director, DataDot Technology (S.A.) (Pty) Ltd	135,779	-	-	-	-	-	-	-	-	135,779	-
P.B. Kibler - Managing Director, DataDot Technology (UK) Limited	122,926	-	-	-	-	-	-	-	-	122,926	-
G. Twemlow - Vice President, DataTrace DNA Business Development	183,486	-	-	-	16,514	-	-	-	-	200,000	-
Sub-total executive KPM	1,544,621	205,205	215,745	-	188,588	-	-	220,430	195,479	2,553,554	
Totals	1,628,225	205,205	215,745	-	209,445	-	-	220,430	195,479	2,658,015	

* Appointed 8 November 2006.
** Appointed 1 December 2007.
*** Retired 26 October 2006.
\# Resigned 31 October 2006.
\## Appointed 27 October 2006, resigned 22 June 2007; see note 31 for details of consulting agreement.
\### Resigned 31 October 2006, a related party entity of Mr. C. Stott earned consulting and IT fees – see note 31 for details.
@ Resigned 1 August 2007, a related party entity of Mr. S. Cutler earned commissions on sales – see note 31 for details.
@@ Cash STI for G George are paid under a royalty agreement and are paid to a related entity of G George. The royalty agreement terminates on G George ceasing employment with the parent company.

Directors' Report (Continued)

Remuneration of key management personnel

Table 2: Remuneration for the year ended 30 June 2006

	Short-term				Post employment		Long-term	Share-based Payment	Total	% perform ance related
	Salary & Fees	Cash bonus	Non monetary benefits	Other	Superan nuation	Retirement benefits	Incentive Plans	Options		
Non-executive directors										
I. Brown - Chairman *	29,118	-	-	-	2,621	-	-	-	31,739	-
A. Grant	-	-	-	-	40,000	-	-	16,448	56,448	-
P. Housden **	45,872	-	-	-	4,128	-	-	19,738	69,738	-
Sub-total non-executive directors	74,990	-	-	-	46,749	-	-	36,186	157,925	
Executive Directors										
I.P. Allen - Chief executive	375,000	-	62,358	-	33,750	-	-	242,445	713,553	-
J.F. Richards - Commercial director	178,352	-	62,634	-	12,201	7,850	-	81,451	342,488	-
C. Stott - Chief operating officer	171,378	-	56,054	-	70,500	-	-	137,441	435,373	-
Other key-management personnel										
B.D. McLaws - President, DataDot Technology USA Inc. ***	188,542	33,794	3,929	-	-	-	-	81,451	307,716	10.98%
M.S. James - Chief financial officer	84,659	-	-	-	7,619	-	-	-	92,278	-
G.J. Loughlin - Company secretary and strategic dev mgr	218,000	-	-	-	-	-	-	28,918	246,918	-
S. Cutler - President - Finance & operations, DataDot Technology USA, Inc. #	213,327	49,901	16,224	-	-	-	-	-	279,452	17.86%
G. George - R&D manager ##	80,696	131,567	19,124	-	7,263	-	-	11,085	249,735	52.68%
J. Kraft - Vice President, DataTrace DNA Product Development	119,266	-	22,269	-	10,734	-	-	-	152,269	-
G. Twemlow - Vice President, DataTrace DNA Business Development ###	124,508	-	-	-	11,206	-	-	-	135,714	-
R. Parsons - General Manager, DataDot Technology Australia Pty Ltd	150,000	-	21,269	-	13,500	-	-	-	184,769	-
Sub-total executive KPM	1,903,728	215,262	263,861	-	166,773	7,850	-	582,791	3,140,265	
Totals	1,978,718	215,262	263,861	-	213,522	7,850	-	618,977	3,298,190	

* Appointed 21 December 2006.
** Resigned as Chairman 21 December 2006.
*** Incentive is equal to 2% of the trading profit of DataDot Technology USA Inc multiplied by the percentage amount of trading profit divided by gross expenses. The incentive is calculated on a quarterly basis and is not cumulative.
\# A related party entity of Mr. S. Cutler earned commissions on sales – see note 31 for details.
\## Cash STI for G George are paid under a royalty agreement and are paid to a related entity of G George. The royalty agreement terminates on G George ceasing employment with the parent company.
\### Appointed 1 December 2005.

Directors' Report (Continued)

Table 3: Compensation options: Granted and vested during the year (Consolidated)

30 June 2007	Vested	Granted	Grant date	Terms and Conditions for each Grant *Fair Value per option at grant date ($) (note 19)*	*Exercise price per option ($) (note 19)*	*Expiry date*	*First Exercise date*	*Last Exercise date*
Executives								
G.J. Loughlin	500,000	500,000	7 Aug 2006	0.1955	0.42	7 Aug 2011	7 Aug 2006	7 Aug 2011
M.S. James	250,000	250,000	7 Aug 2006	0.1955	0.42	7 Aug 2011	7 Aug 2006	7 Aug 2011
S. Cutler	250,000	250,000	7 Aug 2006	0.1955	0.42	7 Aug 2011	7 Aug 2006	7 Aug 2011
Total	1,000,000	1,000,000						

30 June 2006	Vested	Granted	Grant date	Terms and Conditions for each Grant *Fair Value per option at grant date ($) (note 19)*	*Exercise price per option ($) (note 19)*	*Expiry date*	*First Exercise date*	*Last Exercise date*
Executives								
G. Loughlin	200,000	200,000	5 Aug 05	0.14459	0.25	31 Dec 09	11 Jan 06	31 Dec 06
Total	200,000	200,000						

Table 4: Options granted as part of remuneration

	Value of options granted during the year $	**Value of options exercised during the year**	**Value of options lapsed during the year**	**Total value of options granted, exercised and lapsed during the year**	**% Remuneration consisting of options for the year**
G.J. Loughlin	97,739	-	-	97,739	31
M.S. James	48,870	-	-	48,870	23
S. Cutler	48,870	-	-	48,870	17

During the financial year options were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price determined by the Board. The contractual life of each option granted is five years. There are no cash settlement alternatives. There were no alterations to the terms and conditions of options granted as remuneration since their grant date. During the period 627,000 options issued in previous financial years were forfeited and subsequent to year end a further 250,000 options were forfeited. For further details relating to the options, refer to note 19.

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

Directors' Report (Continued)

Table 5: Shares issued on Exercise of Compensation Options (Consolidated)

30 June 2007	*Shares issued* No.	*Paid per share (note 31)* $	*Unpaid per share* $
Directors			
I.P. Allen	1,000,000	0.25	-
J.F. Richards	1,000,000	0.25	-
B.D. McLaws	1,000,000	0.25	-
C. Stott	2,000,000	0.25	-
A. Grant	250,000	0.25	-
Total	5,250,000		

The above shares were issued on the exercise of compensation options granted in the 2005 financial year. No shares were issued on the exercise of compensation options during the financial year ended 30 June 2006.

9.3 Audit Committee

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

The members of the Audit Committee during the year were:

- Mr B Rathie, B.Comm.,LL.B.,MBA,Grad Dip CSP, SA Fin., FAICD, FAIM. (Member since 25 January 2007 and Chairman since 5 March 2007) – Independent Non-Executive
- Mr A Farrar, B.Sc., Dip.Acc. (Member since 25 January 2007) - Independent Non-Executive
- Mr A Grant (Member and Chairman until 26 October, 2006) – Independent Non-Executive
- Mr P Housden, B.Com (Hons), FCPA, AICD – (Member until 31 October 2006) - Independent Non -Executive
- Mr I Brown, ANZIIF, FAIM, CIP (Member until 26 October 2006) - Independent Non-Executive

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 7. The Chief Executive Officer and the Chief Financial Officer declared in writing to the board that the Company's financial reports for the year ended 30 June 2007 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.

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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. 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.

Directors' Report (Continued)

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. The Company's own Related Party Transactions Policy applies throughout the Group the same standards of disclosure that apply under statute to the parent as a listed 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 31.

Director Dealings in Company Shares

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

Code of Conduct

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

9.6 Continuous and periodic disclosure to ASX

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

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

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

Directors' Report (Continued)

9.7 Communication with shareholders

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

- periodic disclosure of financial results is achieved by announcing them to the ASX, posting them on the Company's website and issuing media releases;
- continuous disclosure of all material matters that may affect the price of the Company's securities is achieved by announcing them to the ASX, posting them on the Company's website, and issuing media releases;
- the annual report is available to all shareholders either in electronic format or hard copy. 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
31/12/2009	$0.15	4,495,000
23/07/2009	$0.20	3,500,000
31/12/2009	$0.25	11,423,000
7/8/2011	$0.42	750,000
		20,168,000

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. 4,495,000 options granted to Christopher Stott at an exercise price of $0.15 also expire on 31 December 2009. The balance of options, issued variously at $0.20, $0.25 and $0.42, expire on the earlier of their expiry date and a date referable to the date the director or employee ceases to be employed by the Company.

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

Directors' Report (Continued)

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

Issuing entity	*Number of ordinary shares issued*	*Amount paid for shares*	*Amount unpaid on shares*
DataDot Technology Limited	500,000	$75,000	$Nil
DataDot Technology Limited	5,000,000	$1,250,000	$Nil
DataDot Technology Limited	250,000	$62,500	$Nil

550,000 options lapsed during or since the end of the financial year as a result of employees ceasing to be employed by the company. The options that lapsed during or since the end of the financial year had a value of $180,000.

11 Directors' Interests

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

Name of Director	**Interest in Shares**	**Interest in Options**
I Allen	14,931,300	2,685,000
A Farrar	500,000	Nil
B Rathie	150,000	Nil
J Richards	4,595,000	238,000

12 Indemnification and Insurance of Officers and Auditors

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

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

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

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

Directors' Report (Continued)

14 Payments to auditor for non-audit services

During the year ended 30 June 2007, the following payments were made to the Company's auditor, PKF, as remuneration for services other than audit services:

Taxation services	$77,154

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 19th day of September 2007.

Signed in accordance with a resolution of the Directors:

I.P Allen
Managing Director

Chartered Accountants
& Business Advisers

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

TO THE DIRECTORS OF DATADOT TECHNOLOGY LIMITED:

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2007, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF

PKF

Arthur Milner
Partner

Sydney, 19th September 2007

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Income Statement
FOR THE YEAR ENDED 30 JUNE 2007

		CONSOLIDATED		*PARENT*	
		2007	*2006*	*2007*	*2006*
	Note	*$*	*$*	*$*	*$*
Continuing operations					
Sale of goods		10,502,986	7,854,457	-	-
Rendering of services		1,219,218	717,648	1,219,218	717,648
Licence fees		56,325	771,123	-	750,050
Royalties		-	-	498,722	369,792
Finance revenue		291,214	120,349	285,393	124,848
Revenue		12,069,743	9,463,577	2,003,333	1,962,338
Cost of sales	7(c), (d)	(3,816,137)	(2,546,748)	(108,303)	(5,304)
Gross profit		8,253,606	6,916,829	1,895,030	1,957,034
Other income	6	172,361	109,143	84,749	28,635
Employee benefits expense	7(e)	(5,810,253)	(5,273,024)	(2,843,606)	(2,855,202)
Administrative expenses	7(d), (f)	(1,736,399)	(1,164,367)	(898,963)	(699,895)
Advertising and promotional expenses		(417,152)	(303,110)	(69,111)	(37,745)
Occupancy expenses	7(d)	(472,048)	(497,198)	7,915	2,311
Travel expenses		(535,297)	(502,207)	(277,272)	(189,754)
Finance costs	7(a)	(210,907)	(231,480)	(109,538)	(110,854)
Depreciation and amortisation expense	7(b)	(448,504)	(495,892)	(191,745)	(146,029)
Bad and doubtful debts		(13,556)	(143,685)	1,707,968	(670,529)
Share of profit / (loss) of joint venture	16	(722,640)	154,891	-	-
Loss from continuing operations before income tax expense		(1,940,788)	(1,430,100)	(694,573)	(2,722,028)
Income tax expense	8	(82,663)	-	-	-
Loss from continuing operations after income tax		(2,023,452)	(1,430,100)	(694,573)	(2,722,028)
Attributable to:					
Minority interest		189,921	-	-	-
Members of the Parent		(2,213,373)	(1,430,100)	(694,573)	(2,722,028)
Earnings per share (cents per share)	10				
- basic for loss attributable from continuing operations attributable to ordinary equity holders of the parent		(1.56)	(1.21)		

Balance Sheet
AS AT 30 JUNE 2007

		CONSOLIDATED		*PARENT*	
		2007	*2006*	*2007*	*2006*
	Note	*$*	*$*	*$*	*$*
ASSETS					
Current Assets					
Cash and cash equivalents	11	4,730,149	1,169,581	3,136,599	396,127
Trade and other receivables	12	3,406,552	2,534,870	3,467,620	1,049,518
Inventories	13	513,360	395,062	-	-
Total Current Assets		8,650,061	4,099,513	6,604,219	1,445,645
Non-Current Assets					
Receivables	14	86,196	26,648	86,196	26,648
Other financial assets	15	-	-	183,250	183,250
Investment accounted for using the equity method	16	2,983,344	1,209,997	3,551,093	1,055,106
Plant and equipment	17	1,219,356	965,087	539,370	380,444
Intangible assets	18	2,045,641	907,831	2,045,641	907,831
Deferred tax assets		39,677	-	-	-
Total Non-Current Assets		6,374,214	3,109,563	6,405,550	2,553,279
TOTAL ASSETS		15,024,275	7,209,076	13,009,769	3,998,924
LIABILITIES					
Current Liabilities					
Trade and other payables	20	1,871,398	1,645,790	969,187	828,006
Interest bearing loans and borrowings	21	297,434	1,289,843	71,518	907,494
Income Tax Payable		117,726	-	-	-
Provisions	22	592,795	275,986	371,692	197,414
Total Current Liabilities		2,879,353	3,211,619	1,412,397	1,932,914
Non-Current Liabilities					
Interest bearing loans and borrowings	21	383,332	381,546	138,674	210,192
Other-non current liabilities	23	1,337,004	785,142	1,033,925	432,489
Provisions	22	25,650	104,775	8,309	73,540
Total Non-Current liabilities		1,745,986	1,271,463	1,180,908	716,221
TOTAL LIABILITIES		4,625,339	4,483,082	2,593,305	2,649,135
NET ASSETS		10,398,936	2,725,994	10,416,464	1,349,789
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	24	26,456,519	16,695,271	26,456,519	16,695,271
Accumulated losses	24	(16,210,047)	(13,996,674)	(16,040,055)	(15,345,482)
Reserves	24	(37,457)	27,397	-	-
Parent interests		10,209,015	2,725,994	10,416,464	1,349,789
Minority interests	24	189,921	-	-	-
TOTAL EQUITY		10,398,936	2,725,994	10,416,464	1,349,789

Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2007

	Attributable to equity holders of the parent				*Minority interest*	*Total equity*
	Issued Capital	*Accumulated losses*	*Foreign currency translation reserve*	*Total*		
CONSOLIDATED	$	$	$	$	$	$
At 1 July 2005	15,127,788	(12,861,479)	44,682	2,310,991	-	2,310,991
Adjustment on application of AASB 132 and AASB 139	-	294,905	-	294,905	-	294,905
Currency translation differences	-	-	(17,285)	(17,285)	-	(17,285)
Total income and expense for period recognised directly in equity	-	-	(17,285)	(17,285)	-	(17,285)
(Loss) for the period	-	(1,430,100)	-	(1,430,100)	-	(1,430,100)
Total income / expense for the period	-	(1,430,100)	(17,285)	(1,447,835)	-	(1,447,835)
Issue of share capital	821,968	-	-	821,968	-	821,968
Cost of share-based payments	745,515	-	-	745,515	-	745,515
At 30 June 2006	16,695,271	(13,996,674)	27,397	2,725,994	-	2,725,994
Currency translation differences	-	-	(64,854)	(64,854)	-	(64,854)
Total income and expense for period recognised directly in equity	-	-	(64,854)	(64,854)	-	(64,854)
(Loss) for the period	-	(2,213,373)	-	(2,213,373)	189,921	(2,023,452)
Total income / expense for the period	-	(2,213,373)	(64,854)	(2,278,227)	189,921	(2,088,306)
Issue of share capital	9,897,500	-	-	9,897,500	-	9,897,500
Transaction costs on shares issued	(331,730)	-	-	(331,730)	-	(331,730)
Cost of share-based payments	195,478	-	-	195,478	-	195,478
At 30 June 2007	26,456,519	(16,210,047)	(37,457)	10,209,015	189,921	10,398,936

Statement of Changes in Equity (continued)
FOR THE YEAR ENDED 30 JUNE 2007

	Attributable to equity holders of the parent				*Minority interest*	*Total equity*
	Issued Capital	*Accumulated losses*	*Foreign currency translation reserve*	*Total*		
PARENT	$	$	$	$	$	$
At 1 July 2005	15,127,788	(12,623,454)	-	2,504,334	-	2,504,334
Adjustment on application of AASB 132 and AASB 139	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-
Total income and expense for period recognised directly in equity	-	-	-		-	
(Loss) for the period	-	(2,722.,028)	-	(2,722,028)	-	(2,722,028)
Total income / expense for the period		(2,722,028)	-	(2,722,028)	-	(2,722,028)
Issue of share capital	821,968	-	-	821,968	-	821,968
Cost of share-based payments	745,515	-	-	745,515	-	745,515
At 30 June 2006	16,695,271	(15,345,482)	-	1,349,789	-	1,349,789
Currency translation differences	-	-	-	-	-	-
Total income and expense for period recognised directly in equity	-	-	-	-	-	-
(Loss) for the period	-	(694,573)	-	(694,573)	-	(694,573)
Total income / expense for the period	-	(694,573)	-	(694,573)	-	(694,573)
Issue of share capital	9,897,500	-	-	9,897,500	-	9,897,500
Transaction costs on shares issued	(331,730)	-	-	(331,730)	-	(331,730)
Cost of share-based payments	195,478	-	-	195,478	-	195,478
At 30 June 2007	26,456,519	(16,040,055)	-	10,416,464	-	10,416,464

Cash Flow Statement
FOR THE YEAR ENDED 30 JUNE 2007

		CONSOLIDATED		PARENT	
		2007	*2006*	*2007*	*2006*
	Note	*$*	*$*	*$*	*$*
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		12,266,842	8,445,147	1,828,283	1,396,963
Payments to suppliers and employees (inclusive of GST)		(13,186,555)	(9,828,555)	(4,122,203)	(3,106,080)
Interest paid		(210,907)	(197,208)	(109,538)	(104,603)
Receipt of government grant	6	172,361	38,278	84,749	38,278
Net cash (used in) operating activities	11	(958,259)	(1,542,338)	(2,318,709)	(1,775,442)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		-	348,701	-	261,117
Interest received		291,214	120,349	285,393	124,848
Purchase of plant and equipment	17	(453,952)	(361,408)	(248,536)	(213,648)
Purchase of intangible assets	18	(1,239,946)	(828,217)	(1,239,946)	(828,217)
Purchase of investment accounted for using the equity method	16	(2,495,186)	(1,055,106)	(2,495,987)	(1,055,106)
Receipt of government grant	23	621,986	347,620	347,620	347,620
Loans to	14, 15	-	-	(501,455)	(560,210)
Net cash (used in) investing activities		(3,275,884)	(1,428,061)	(3,852,911)	(1,923,596)
Cash flows from financing activities					
Proceeds from issue of shares	24	9,052,500	412,500	9,052,500	412,500
Transaction costs from issue of shares	24	(331,730)	-	(331,730)	-
Proceeds from borrowings		-	219,392	217,930	96,717
Repayment of borrowings		(135,914)		-	-
Repayment of related party loans		(548,709)	(157,202)	-	-
Repayment of finance lease payments		(226,517)	(342,489)	(26,608)	(82,227)
Net cash provided by financing activities		7,809,630	132,201	8,912,092	426,990
Net increase / (decrease) in cash held		3,575,487	(2,838,198)	2,740,472	(3,272,048)
Cash at beginning of year		1,169,581	4,024,831	396,127	3,668,175
Effect of exchange rate on cash holdings in foreign currencies		(14,919)	(17,052)	-	-
Cash at end of year	11	4,730,149	1,169,581	3,136,599	396,127

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

1 CORPORATE INFORMATION

The financial report of DataDot Technology Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 14th September 2007.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

The financial report is presented in Australian Dollars.

(b) Statement of compliance

Except for the amendments to AASB 101 *Presentation of Financial* Statements, which the Group has early adopted, Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2007. These are outlined in the table below.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 101: *Presentation of Financial Statements*, AASB 114: *Segment Reporting*, AASB 117: *Leases*, AASB 133: *Earnings per share*, AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 1: *First-time adoption of AIFRS*, AASB 4: *Insurance Contracts*, AASB 1023: *General Insurance Contracts* and AASB 1038: *Life Insurance Contracts*	No change to accounting policy. Therefore no impact.	1 January 2007	1 July 2007
New standard	AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy. Therefore no impact.	1 January 2007	1 July 2007
2006-1	Amendments to Australian Accounting Standards AASB 121: *The Effects of Changes in Foreign Exchange Rates*	No change to accounting policy. Therefore no impact.	31 Dec 2006	1 July 2007
AASB 8	*Operating Segment*	No change to accounting policy. Therefore no impact.	1 Jan 2009	1 July 2009

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
	Interpretation 11 *Group and Treasury Share Transactions*	No change to accounting policy. Therefore no impact.	1 March 2009	1 July 2009
	Interpretation 12 *Service Concession Arrangements*	No change to accounting policy. Therefore no impact.	1 January 2008	1 July 2008
	AASB 2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*	No change to accounting policy. Therefore no impact.	1 July 2007	1 July 2007

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

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

c) Basis of consolidation

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

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

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

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

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

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

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

(d) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(e) Foreign currency translation (continued)

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

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

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

The functional currencies of the overseas subsidiaries are:

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

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

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

(f) Cash and cash equivalents

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

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

(g) Trade and other receivables

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Inventories

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

Costs incurred in bringing each product to its present location and condition is accounted for as follows:
Raw materials – purchase cost on the weighted average cost; and
Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments and other financial assets

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

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

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

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

(j) Interest in a jointly controlled entity

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Interest in a jointly controlled entity (continued)

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

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

(k) Plant and equipment

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

Depreciation is calculated over the useful life of the asset using a combination of straight-line basis and diminishing value method. The estimated useful lives of the plant and equipment are over 2 to 6 years.

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

(i) Impairment

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

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

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

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

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

(iii) Derecognition and disposal

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Leases

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

Group as a lessee

Finance leases, which substantially transfer to the Group all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

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

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

(m) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

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

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

(ii) Financial assets carried at cost

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(o) Intangible assets

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

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

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

Research and development costs

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Intangible assets (continued)

Development Costs
Useful lives
Finite (2006: Finite)
Amortisation method used
Amortised over the period of expected future sales from the related project on a straight-line basis.
Internally generated or acquired
Internally generated
Impairment testing
Annually for assets not yet available for use and more frequently when an indication of impairment exists. The amortisation method is reviewed at each financial year-end.

Patent Costs
Useful lives
Finite (2006: expensed)
Amortisation method used
Amortised over the period of the patent on a straight-line basis (2006: Expensed to the Income Statement).
Internally generated or acquired
Acquired
Impairment testing
Annually and more frequently when an indication of impairment exists

The patents have been granted for a minimum of 10 years.

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

(p) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Interest-bearing loans and borrowings

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

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

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

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for a least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and employee leave benefits

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

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Employee leave benefits

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

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

(s) Share-based payment transactions

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

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

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for shares issued during or since the end of the 2007 financial year has been determined by an external valuer using a binomial model, further details of which are given in note 19.

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Share-based payment transactions (continued

Equity settled transactions:

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 10).

(t) Contributed equity

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

(u) Revenue recognition

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

(i) Sale of goods

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

(ii) Rendering of services

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

(iii) Royalties

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

(iv) Licence Fee

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

vi) Interest income

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

(v) Income tax

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax (continued)

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

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

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

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

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

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

Other taxes

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

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

- receivables and payables, which are stated with the amount of GST included.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax (continued)

Other taxes (continued)

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

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

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

(w) Government grants

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

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

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

(x) Earnings per share

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial statements.

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

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

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

Commodity price risk
The Group's exposure to price risk is minimal.

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgements

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

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(ii) Significant accounting estimates and assumptions

Impairment of intangibles with indefinite useful lives

The Group determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 18.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options granted during or since the end of the financial year is determined by an external valuer using a binomial model, using the assumptions detailed in note 19.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as lease terms (for leased equipment). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 17.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

5. SEGMENT INFORMATION

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

Geographical segments

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

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

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

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

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

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

The table on the following page presents revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2007 and 30 June 2006.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

5. SEGMENT INFORMATION (continued)

	Australasia	*USA*	*Europe*	*South Africa*	*Total*
Year ended 30 June 2007	*$*	*$*	*$*	*$*	*$*
Revenue					
Sales to external customers	5,354,217	1,700,864	382,992	3,064,914	10,502,986
Other revenues from external customers	1,219,218	56,325	-	-	1,275,543
Inter-segment sales	371,257	96,904	43,122	-	511,283
Total segment revenue	6,944,692	1,854,093	426,114	3,064,914	12,289,813
Inter-segment elimination					(511,284)
Non segment revenue					291,214
Total consolidated revenue					12,069,743
Result					
Segment Results	1,640,973	(622,068)	(427,547)	615,774	1,207,132
Unallocated expenses					(2,404,296)
Loss before tax and finance costs					(1,197,164)
Finance costs					(210,907)
Share of loss of joint venture					(722,640)
Loss before income tax and minority interest					(2,130,711)
Income tax expense					(82,663)
Net loss for the year					(2,213,374)
Assets and liabilities					
Segment Assets	3,824,140	665,542	196,327	1,125,387	5,811,396
Investment in joint venture					2,983,344
Unallocated assets					6,229,535
Total assets					15,024,275
Segment liabilities	830,452	286,505	479,650	435,426	2,032,034
Unallocated liabilities					2,593,305
Total liabilities					4,625,339
Other segment information					
Capital expenditure					
Depreciation	234,579	73,605	11,208	26,975	346,367
Amortisation	-	-	-	-	102,136
Allowance for doubtful debts	-	13,378	-	178	13,556
Share-based payments	-	48,870	-	-	195,478

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

5. SEGMENT INFORMATION (continued)

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

5. SEGMENT INFORMATION (continued)

Secondary Reporting – Business Segment

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

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
6. OTHER INCOME				
Government grants:				-
- AusIndustry commercial ready grant	84,749	38,278	84,749	38,278
- Export market development grant	87,612	70,000	-	-
Net gains on disposal of plant and equipment	-	865	-	(9,643)
	172,361	109,143	84,749	28,635
The AusIndustry Commercial Ready grant has been awarded for the development of a robotic cell applicator.				
The Export market development grant is receivable to assist the development of export sales.				
There are no unfulfilled conditions or contingencies attaching to the grants.				
7. EXPENSES				
(a) Finance costs				
Bank loans and overdrafts	23,026	3,372	9,605	2,168
Other loans (including convertible note interest)	122,096	121,430	85,573	91,445
Finance charges payable under finance leases and hire purchase contracts	65,785	106,678	14,360	17,241
Total finance revenue (on historical cost basis)	210,907	231,480	109,538	110,854
(b) Depreciation and amortisation included in the income statement				
Included in Depreciation and Amortisation expense:				
Depreciation	346,368	435,506	89,609	85,643
Amortisation of Development costs (see note 18)	102,136	60,386	102,136	60,386
Total depreciation and amortisation	448,504	495,892	191,745	146,029
(c) Foreign exchange differences and allowance for impairment of inventories included in income statement				
Included in cost of sales:				
Net foreign exchange differences (gain)/ loss	24,120	(29,852)	2,059	(7,973)
Allowance for impairment of inventories	7,171	18,191	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
7. EXPENSES (continued)				
(d) Lease payments included in income statement				
Included in occupancy expenses:				
Minimum lease payments – operating lease	306,206	290,795	-	-
Included in administrative expenses:				
Minimum lease payments – operating lease	23,423	23,514	-	-
Included in cost of sales				
Minimum lease payments – operating lease	26,720	28,081	-	-
	356,349	342,390	-	-
(e) Employee benefits expense				
Wages and salaries	4,459,843	3,528,149	2,028,704	1,543,628
Workers compensation costs	63,054	38,732	35,368	27,381
Superannuation	197,852	239,347	108,628	140,828
Long service leave provision	44,204	31,659	32,836	26,823
Annual leave provision	108,161	67,469	76,211	51,197
Payroll tax	269,723	191,244	140,458	76,088
Other employee benefits	472,388	430,909	225,924	243,742
Share-based payments (note 19)	195,478	745,515	195,477	745,515
	5,810,253	5,273,024	2,843,606	2,855,202
(f) Research and development costs				
Research and development costs charged directly to administrative expenses in the income statement	23,133	24,538	16,889	24,538
8. INCOME TAX				
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting loss before tax from continuing operations	(1,940,789)	(1,402,084)	(694,573)	(2,722,028)
At the Group's statutory income tax rate of 30% (2006: 30%)	(641,177)	(420,625)	(208,372)	(816,608)
Capital allowances	(365,883)	(167,349)	(371,983)	(167,349)
Expenditure / (revenue) not allowable / (assessable) for income tax purposes	(380,988)	283,541	(410,384)	313,430
Other	302	(7,411)	2,821	(4,043)
Unused tax losses and tax offsets not recognised as deferred tax assets	1,470,409	311,844	987,918	674,570
Income tax expense	82,663	-	-	-

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

8. INCOME TAX (continued)

Deferred tax assets not taken to account

The potential deferred tax assets arising from unused tax losses have only been recognised where it is probable that the future taxable profit will be available against which tax losses can be utilised.

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
The amount of the deferred tax assets attributable to revenue losses not brought to account	3,267,857	2,835,477	2,827,607	2,129,603

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

Tax consolidation

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

9. DIVIDENDS PAID AND PROPOSED

No dividends were declared or paid during the year (2006: Nil).

The Company has no franking credits available.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

10. EARNINGS PER SHARE

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

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

	CONSOLIDATED	
	2007	*2006*
	$	*$*
Net loss attributable to ordinary equity holders of the parent from continuing operations	(2,213,373)	(1,430,100)
	Number	*Number*
Weighted average number of ordinary shares for basic earnings per share	142,322,122	118,340,733
The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:		
Convertible Notes	-	3,591,648
Share options	19,418,000	25,795,000
The following options are not treated as potential ordinary shares as their exercise price exceeds current market price	1,000,000	

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2006*	*2006*
	$	*$*	*$*	*$*
11. CASH ASSETS				
Cash at bank and on hand	4,730,149	1,169,581	3,136,599	396,127

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

11. CASH ASSETS (continued)

Reconciliation to Cash Flow Statement

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash on hand and at bank	4,730,149	1,169,581	3,136,599	396,127
Reconciliation of net loss after tax to net cash flows from operations				
Loss from ordinary activities after income tax	(2,023,452)	(1,402,079)	(694,573)	(2,722,028)
Add / (less) items classified as investing / financing activities:				
(Profit) / loss on sale of plant and equipment	-	(617)	-	16,535
Share of joint venture loss / (profit)	722,640	(154,891)	-	-
Interest received	(291,214)	(120,349)	(285,393)	(124,848)
Add / (less) non-cash items:				
Depreciation and amortisation	448,504	495,892	191,745	146,029
Share options expensed	195,478	745,515	195,478	745,515
Inventory write down	7,170	18,191	-	-
Provision for:				
– loans to controlled entities	-	-	(1,707,967)	533,563
– doubtful debts	7,835	140,961	-	136,967
Net cash used in operating activities before change in assets and liabilities	(933,039)	(277,377)	(2,300,710)	(1,268,267)
(Increase) / decrease in trade and other debtors	(423,966)	(1,506,529)	(202,173)	(928,685)
(Increase) / decrease in other assets	9,387	(70,100)	20,000	(7,947)
(Increase) / decrease in inventory	(125,469)	(38,933)	-	4,248
(Increase) / decrease in deferred tax assets	(39,677)	-	-	-
(Decrease) / increase in creditors and accruals	195,282	254,181	55,127	347,190
(Decrease) / increase in current tax liability	122,340	-	-	-
(Decrease) / increase in provisions	236,883	96,420	109,047	78,019
Net cash used in operating activities	(958,259)	(1,542,338)	(2,318,709)	(1,775,442)

Disclosure of non-cash financing and investing activities

Refer to note 17 and 21

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

12. TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
Trade receivables (i)	2,594,470	2,366,013	623,429	1,059,868
Allowance for doubtful debts	(7,835)	(140,960)	-	(136,966)
	2,586,635	2,225,053	623,429	922,902
Prepayments	127,598	35,999	86,474	5,945
Government grant receivable	70,000	70,000	-	-
Other	74,216	50,647	1,800	-
Related party receivables				
Loans to key management personnel (ii)	20,000	153,171	20,000	120,671
Loans to subsidiaries	-	-	2,668,247	-
Allowance for impairment	-	-	(460,433)	-
Other related party (ii)	528,103	-	528,103	-
	3,406,552	2,534,870	3,467,620	1,049,518

(i) Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of $7,835 (2006:$140,960) has been recognised by the Group and $Nil (2006:$136,966) by the Company as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

(ii) For terms and conditions of to loans to key management personnel refer to note 31.

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

Details regarding the effective interest rate and credit risk of current receivables are disclosed in note 25.

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
13. INVENTORY				
Raw materials (at cost)	489,421	386,766	-	-
Work-in-progress	10,988	-	-	-
Finished goods (at cost)	12,951	8,296	-	-
Total inventories at the lower of costs and net realisable value	513,360	395,062	-	-

Inventory write-downs recognised as an expense totalled $7,170 (2006: $18,191) for the Group and $Nil (2006: $Nil) for the Company. This expense is included in the cost of sales line item as a cost of inventories. See note 7(c).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

	CONSOLIDATED		PARENT	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
14. RECEIVABLES (NON-CURRENT)				
Loans to subsidiaries (i)	-	-	5,201,389	7,236,499
Allowance for impairment (ii)	-	-	(5,201,389)	(7,236,499)
Loans to key management personnel (iii)	86,196	-	86,196	-
Other related party (iv)	-	26,648	-	26,648
	86,196	26,648	86,196	26,648

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

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

(iii) For terms and conditions relating to loans to key management personnel refer to note 31.

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

	CONSOLIDATED		PARENT	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
15. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Shares in controlled entities at cost	-	-	183,250	183,250
Interest-bearing loans advanced to:				
Subsidiary (i)	-	-	-	133,290
Allowance for impairment (ii)	-	-	-	(133,290)
	-	-	183,250	183,250

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

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

	CONSOLIDATED		PARENT	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
16. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD				
Investment in a joint venture	2,983,344	1,209,997	3,551,093	1,055,106

The Company has a 50% interest in DataTrace DNA Pty Ltd, which is involved in the high security authentication solutions for bulk products. The joint venture agreements were executed on the 31st of October 2005.

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FOR THE YEAR ENDED 30 JUNE 2007

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

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

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

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

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

	CONSOLIDATED	
	2007	*2006*
Summarised financial information of jointly controlled entity:	*$*	*$*
Current assets	2,328,355	1,211,400
Non-current assets	2,426,783	1,127,903
Total assets	4,755,138	2,339,303
Current liabilities	(1,931,775)	(974,414)
Non-current liabilities	-	-
Total liabilities	(1,931,775)	(974,414)
Net assets	2,823,363	1,364,889
Income	256,725	1,118,410
Expenses	1,702,005	808,628
Share of the jointly controlled entity's profit / loss:		
Profit / (Loss) before income tax	(722,640)	154,891
Income tax expense	-	-
Profit / (Loss) after income tax	(722,640)	154,891

Distribution Licence Agreement
In China DataTraceDNA Pty Limited has a distribution agreement with DataDot Technology (Hong Kong and China) Limited, which is not a related party, under which DataTraceDNA Pty Ltd has been paid licence fees of $1 million and a further payment of $9 million is due by September 30, 2007. The Directors of DataDot Technology Limited are not confident this further payment of $9 million will be made. The Directors are monitoring the position closely to protect both DataDot Technology's position and the valuable distribution rights for this territory.

The $9 million distribution agreement licence fee has not previously been recognised as revenue in DataTraceDNA Pty Limited and as such there is no requirement to make a provision in the accounts of DataTrace DNA Pty Limited.

Contingent liabilities and capital commitments
The consolidated entity's share of the capital commitments jointly controlled entities are disclosed in note 26 and 27 respectively.

Contingent liabilities and capital commitments
No dividends were received by the Company during the year from the joint venture entity.

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17. PLANT AND EQUIPMENT

	Plant and equipment *$*	*Leased plant and equipment* *$*	*Leasehold Improvements* *$*	*Total* *$*
Year ended 30 June 2007				
Consolidated:				
At 1 July 2006, net of accumulated depreciation	592,340	265,776	106,971	965,087
Additions	455,773	168,796	-	624,569
Disposals	-	(5,506)	-	(5,506)
Depreciation charge for the year	(205,863)	(102,039)	(38,465)	(346,367)
Exchange adjustments	(18,427)	-	-	(18,427)
At 30 June 2007, net of accumulated depreciation	823,823	327,027	68,506	1,219,356
At 1 July 2006				
Cost	1,212,541	500,335	422,624	2,135,500
Accumulated depreciation	(620,201)	(234,559)	(315,653)	(1,170,413)
Net carrying amount	592,340	265,776	106,971	965,087
At 30 June 2007				
Cost	1,583,474	645,312	134,548	2,363,334
Accumulated depreciation	(759,651)	(318,285)	(66,042)	(1,143,978)
Net carrying amount	823,823	327,027	68,506	1,219,356
Parent:				
At 1 July 2006, net of accumulated depreciation	236,143	144,301	-	380,444
Additions	248,535	-	-	248,535
Disposals	-	-	-	-
Depreciation and amortisation	(66,506)	(23,103)	-	(89,609)
At 30 June 2007, net of accumulated depreciation	418,172	121,198	-	539,370
At 1 July 2006				
Cost	374,372	160,844	-	535,216
Accumulated depreciation	(138,229)	(16,543)	-	(154,772)
Net carrying amount	236,143	144,301	-	380,444
At 30 June 2007				
Cost	622,907	160,844	-	783,751
Accumulated depreciation	(204,735)	(39,646)	-	(244,381)
Net carrying amount	418,172	121,198	-	539,370

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

17. PLANT AND EQUIPMENT(continued)

	Plant and equipment $	*Leased plant and equipment* $	*Leasehold Improvements* $	*Total* $
Year ended 30 June 2006				
Consolidated:				
At 1 July 2005, net of accumulated depreciation	523,703	371,965	236,623	1,132,292
Additions	352,960	153,976	8,450	515,385
Disposals	(91,797)	(160,263)	-	(252,060)
Depreciation charge for the year	(197,503)	(99,902)	(138,102)	(435,507)
Exchange adjustments	4,977	-	-	4,977
At 30 June 2006, net of accumulated depreciation	592,340	265,776	106,971	965,087
At 1 July 2005				
Cost	944,631	630,231	414,175	1,989,037
Accumulated depreciation	(420,928)	(258,266)	(177,551)	(856,745)
Net carrying amount	523,703	371,965	236,624	1,132,292
At 30 June 2006				
Cost	1,212,541	500,335	422,624	2,135,500
Accumulated depreciation	(620,201)	(234,559)	(315,653)	(1,170,413)
Net carrying amount	592,340	265,776	106,971	965,087
Parent:				
At 1 July 2005, net of accumulated depreciation	129,304	145,810	-	275,114
Additions	213,648	153,977	-	367,625
Disposals	(54,668)	(121,984)	-	(176,652)
Depreciation and amortisation	(52,141)	(33,502)	-	(85,643)
At 30 June 2006, net of accumulated depreciation	236,143	144,301	-	380,444
At 1 July 2005				
Cost	216,784	221,069	-	437,853
Accumulated depreciation	(87,480)	(75,259)	-	(162,739)
Net carrying amount	129,304	145,810	-	275,114
At 30 June 2006				
Cost	374,372	160,844	-	535,216
Accumulated depreciation	(138,229)	(16,543)	-	(154,772)
Net carrying amount	236,143	144,301	-	380,444

The useful life of the assets was estimated as follows both for 2006 and 2007.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

17. PLANT AND EQUIPMENT (continued)

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

Plant and equipment with a carrying amount of $135,675 (2006: $106,909) for the Group and $73,665 (2006: $106,909) for the parent are pledged as securities for current and non-current liabilities as disclosed in note 21.

Included in plant and equipment at 30 June 2007 is an amount of $42,736 (2006: $6,591) relating to expenditures for a plant in the course of construction.

During the year, the Group acquired plant and equipment and leasehold improvements with an aggregate value of $38,593 (2006: $153,977) by means of finance leases.

18. INTANGIBLE ASSETS

	CONSOLIDATED			*PARENT*		
	Development costs $	*Patent costs $*	*Total $*	*Development costs $*	*Patent costs $*	*Total $*
At 1 July 2006						
Cost (gross carrying amount)	968,217	-	968,217	968,217	-	968,217
Accumulated amortisation	(60,386)	-	(60,386)	(60,386)	-	(60,386)
Net carrying amount	907,831	-	907,831	907,831	-	907,831
Year ended 30 June 2007						
At 1 July 2006, net of accumulated amortisation	907,831	-	907,831	907,831	-	907,831
Additions	1,055,202	98,633	1,153,835	1,055,202	98,633	1,153,835
Additions – internal development	86,111	-	86,111	86,111	-	86,111
Disposals	-	-	-	-	-	-
Amortisation	(98,209)	(3,927)	(102,136)	(98,209)	(3,927)	(102,136)
At 30 June 2007, net of accumulated amortisation	1,950,935	94,706	2,045,641	1,950,935	94,706	2,045,641
At 30 June 2007						
Cost	2,109,530	98,633	2,208,163	2,109,530	98,633	2,208,163
Accumulated depreciation	(158,595)	(3,927)	(162,522)	(158,595)	(3,927)	(162,522)
Net carrying amount	1,950,935	94,706	2,045,641)	1,950,935	94,706	2,045,641)

Development costs have been capitalised at cost. The intangible assets have been assessed as having a finite life. Development costs relating to the DataDot Automated Applicator Cell (DAAC) of $1,795,296 will be amortised once the project has been completed. All other intangible assets are amortised using the straight line method over a period of 3 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

No impairment loss was recognised for continuing operations in the 2007 financial year. The recoverable amount of the DAAC has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The average discount rate applied to cash flow projections is 23%.

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FOR THE YEAR ENDED 30 JUNE 2007

18. INTANGIBLE ASSETS (continued)

	CONSOLIDATED Development costs $	*PARENT Development costs $*
Year ended 30 June 2006		
At 1 July 2005, net of accumulated amortisation	350,000	350,000
Additions	663,557	663,557
Additions – internal development	164,660	164,660
Disposals	(210,000)	(210,000)
Amortisation	(60,386)	(60,386)
At 30 June 2006, net of accumulated amortisation	907,831	907,831

19. SHARE BASED PAYMENT PLANS

(a) Employee share option plan, 'ESOP'

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

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

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

The expense recognised in the income statement is disclosed in note 7(e).

(b) Summaries of options granted under ESOP

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

	2007 No.		*2007 WAEP*	*2006 No.*		*2006 WAEP*
Outstanding at beginning of the year	18,445,000		0.22	20,995,000		0.21
Granted during the year	1,000,000		0.42	700,000		0.25
Forfeited during the year	(627,000)		0.25	(700,000)		0.25
Exercised during the year	(5,750,000)	(i)	0.24	(2,550,000)	(i)	0.16
Expired during the year	-			-		-
Outstanding at the end of the year	13,068,000		0.22	18,445,000		0.22
Share options issued 22 November 2004 to KTM Capital Pty Ltd and related parties	7,350,000		0.25	7,350,000		0.25
Total share options outstanding at the end of the year	20,418,000		0.23	25,795,000		0.23
Exercisable at the end of the year	20,418,000	(ii)	0.23	5,150,000	(ii)	0.21

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FOR THE YEAR ENDED 30 JUNE 2007

19. SHARE BASED PAYMENT PLANS (continued)

The outstanding balance as at 30 June 2007 is represented by:

- 4,495,000 options over ordinary shares with an exercise price of $0.15 each with an expiry date of 31 Dec 2009;
- 3,500,000 options over ordinary shares with an exercise price of $0.20 each with an expiry date of 23 July 2009;
- 11,423,000 options over ordinary shares with an exercise price of $0.25 each with an expiry date of 31 Dec 2009;
- 1,000,000 options over ordinary shares with an exercise price of $0.42 each with an expiry date of 7 Aug 2011;

(i) The weighted average share price at the date of exercise is $0.365 (2006: Nil)
(ii) There are no options in escrow as at 30 June 2007 (2006: 20,645,000).

(c) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 2.94 years (2006: 2.48 years).

(d) Range of exercise price

The range of exercise prices for options outstanding as at 30 June 2007 was $0.15 - $0.42 (2006: $0.15 to $0.25).

As the range of exercise prices is wide, refer to the section (b) above for further information in assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options.

(e) Weighted average fair value

The weighted average fair value of options granted during the year was $0.1955 (2006: $0.1383).

(f) ESOP pricing model

The fair value of the equity-settled options is calculated at the date of grant using a Binomial Model (2006: 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 table lists the inputs to the module used for the years ended 30 June 2007 and 30 June 2006:

	ESOP 2007	*ESOP 2006*
Dividend yield (%)	4.16-5.12	0.0
Expected volatility (%)	66.5	58
Risk-free interest rate (%)	5.81	5.75
Expected life of options (years)	2.8	2.2
Option exercise price ($)	0.42	0.25
Weighted average share price at measurement date ($)	0.42	0.25
Model used	Binomial	Black-Scholes

The effects of early exercise have been incorporated into the calculations by using the expected life for the options that is shorter than the contractual life based on historical exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future. The expected volatility was determined using historical share price information of the Company from the commencement of listing. The resulting expected volatility therefore reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

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FOR THE YEAR ENDED 30 JUNE 2007

		CONSOLIDATED		*PARENT*	
		2007	*2006*	*2007*	*2006*
	Note	*$*	*$*	*$*	*$*
20. TRADE AND OTHER PAYABLES (CURRENT)					
Trade payables	(i)	931,094	744,125	470,422	418,947
Sundry creditors and accruals		874,730	834,141	485,181	386,802
Unearned revenue		-	-	13,584	13,584
Interest payable	(ii)	-	6,251	-	6,251
Amounts payable to other parties	(iii)	65,574	-	-	-
Unsecured loans from:					
Key management personnel	(iv)	-	61,273	-	2,422
		1,871,398	1,645,790	969,187	828,006

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.
(ii) Interest payable is normally settled twice a year during the financial year.
(iii) In accordance with the DataDot Technology (UK) Ltd ("DDUK") shareholders agreement DDUK has borrowed funds from a minority shareholder of DDUK on an interest free basis.
(iv) The loans are unsecured and are interest free.

		CONSOLIDATED		*PARENT*	
		2007	*2006*	*2007*	*2006*
	Maturity	*$*	*$*	*$*	*$*
21. INTEREST BEARING LOANS AND BORROWINGS					
Current					
Secured:					
Obligations under finance leases and hire purchase contracts (note 26) (i)	*2008*	192,522	408,957	31,337	26,608
Bank loan (ii)	*2008*	104,912	35,886	40,181	35,886
Unsecured:					
Noteholder loans (iii)	*2007*	-	845,000	-	845,000
		297,434	1,289,843	71,518	907,494
Non-current					
Secured:					
Lease liabilities (i)	*2009-2011*	252,118	308,105	105,413	136,751
Bank loan (ii)	*2009-2010*	131,214	73,441	33,261	73,441
		383,332	381,546	138,674	210,192

(i) Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.
(ii) The bank loan is in the form of a chattel mortgage. Plant and equipment with a carrying amount of $135,675 (2006: $106,909) for the Group and $73,665 (2006: $106,909) for the parent are pledged as securities for current and non-current liabilities. The mortgage is repayable over 36 monthly periods.
(iii) The notes are convertible to ordinary shares up to the date of maturity which is 3 years from the issue date. The notes were issued at varying dates between April 2002 and June 2004 at prices varying from $0.15 to $0.50 per note. Noteholders may elect to redeem the notes at maturity. Notes that are not redeemed at maturity will automatically convert to ordinary shares. Interest is payable on noteholder loans at 9% pa (2006: 9% pa). As at 30 June 2007 there are no convertible notes on issue (2006: 3,220,000). During the year convertibles notes with a value of $845,000 were

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converted to 3,591,648 ordinary shares.

The carrying value of the Group's current and non-current borrowings approximates their fair value.

		CONSOLIDATED		*PARENT*	
		2007	*2006*	*2007*	*2006*
		$	*$*	*$*	*$*
22. PROVISIONS					
Current					
Employee benefits		592,795	275,986	371,692	197,414
Non-current					
Employee benefits		25,650	104,775	8,309	73,540
23. OTHER NON-CURRENT LIABILITIES					
Unearned revenue		-	-	64,319	84,869
Unsecured loans from:					
Amounts payable to other parties	(i)	367,398	437,522	-	-
Government grant	(ii)	969,606	347,620	969,606	347,620
		1,337,004	785,142	1,033,925	432,489

(i) Included in payables to other parties is an amount of £155,630 ($367,398) which DataDot Technology (UK) Ltd (DDUK) has borrowed on an interest free basis. The loan, which is guaranteed by the Company, is repayable on the earlier of the termination of the DDUK shareholders agreement, the DDUK licence agreement and 15 December 2012. This financial liability is carried at amortised cost using the effective interest method.
(ii) The grant relates to an asset and will be release to the income statement over the expected useful life of the relevant asset by equal annual instalments upon completion of the grant project.

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	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
24. CONTRIBUTED EQUITY AND RESERVES				
Ordinary Shares				
Issued and fully paid	26,456,519	16,695,271	26,456,519	16,695,271

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

	Number	$	*Number*	$
Movement in ordinary shares on issue				
At 1 July 2005	115,684,556	15,127,788	115,684,556	15,127,788
Shares issued:				
Conversion of convertible notes	3,751,276	409,468	3,751,276	409,468
Exercise of share options	2,550,000	412,500	2,550,000	412,500
Cost of share-based payments	-	745,515	-	745,515
At 1 July 2006	121,985,832	16,695,271	121,985,832	16,695,271
Shares issued:				
For cash at $0.42 per share	18,250,000	7,665,000	18,250,000	7,665,000
Less :cost of capital raisings	-	(331,730)	-	(331,730)
Conversion of convertible notes	3,591,648	845,000	3,591,648	845,000
Exercise of share options	5,750,000	1,387,500	5,750,000	1,387,500
Cost of share-based payments	-	195,478	-	195,478
At 30 June 2007	149,577,480	26,456,519	149,577,480	26,456,519

Accumulated losses				
Movements in accumulated losses were as follows:				
Balance 1 July	(13,996,674)	(12,861,479)	(15,345,482)	(12,623,454)
Application of AASB 132 and AASB 139	-	294,905	-	-
Net loss for the year	(2,213,373)	(1,430,100)	(694,573)	(2,722,028)
Balance 30 June	(16,210,047)	(13,996,674)	(16,040,055)	(15,345,482)

Reserves				
Foreign currency translation reserve	(37,457)	27,397	-	-

Foreign currency translation reserves				
Balance at beginning of financial year	27,397	44,682	-	-
Exchange difference on net investment in foreign operations	(64,854)	(17,285)	-	-
Balance at end of financial year	(37,457)	27,397	-	-

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

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	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
24. CONTRIBUTED EQUITY AND RESERVES (continued)				
Minority interests				
Movements in accumulated losses were as follows:				
Interest in:	*$*	*$*	*$*	*$*
Ordinary shares	189,921	-	-	-
Retained losses	189,921	-	-	-

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

25. FINANCIAL INSTRUMENTS

(a) Fair values

All assets and liabilities recognised in the balance sheet, whether they are carried at cost of fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

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

		Fixed maturity rate						
Year ended 30 June 2007	*Weighted average effective interest rate*	*Less than 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*5+ years*	*Total*
	%	*$*	*$*	*$*	*$*	*$*	*$*	*$*
CONSOLIDATED								
FINANCIAL ASSETS								
Floating rate								
Cash assets	5%	4,730,149	-	-	-	-	-	4,730,149
FINANCIAL LIABILITIES								
Fixed rate								
leases and hire purchase contracts	10%	192,522	117,919	119,468	14,731	-	-	444,640
Fixed rate borrowings	11%	104,912	105,374	25,840				236,126

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25. FINANCIAL INSTRUMENTS (continued)

Year ended 30 June 2006	*Weighted average effective interest rate*	*Fixed maturity rate* Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	*Total*
	%	*$*	*$*	*$*	*$*	*$*	*$*	*$*
CONSOLIDATED								
FINANCIAL ASSETS								
Floating rate								
Cash assets	5%	1,169,581	-	-	-	-	-	1,169,581
FINANCIAL LIABILITIES								
Fixed rate								
leases and hire purchase contracts	11%	408,957	154,746	75,198	78,161	-	-	717,062
Fixed rate borrowings	11%	35,886	40,181	33,260				109,327
Noteholder loans	9%	845,000						845,000

26. COMMITMENTS

Finance lease payment commitments – Group as lessee

The Group has finance leases and hire purchase contracts for various items of plant and equipment and for leasehold improvements. The leases are for terms ranging 3 to 4 years.

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

	2007		*2006*	
	Minimum lease payments	*Present value of lease payments*	*Minimum lease payments*	*Present value of lease payments*
	$	*$*	*$*	*$*
CONSOLIDATED				
Within one year	223,879	192,522	457,100	408,957
One year or later and no later than five years	281,287	252,118	339,847	308,105
Total minimum lease payments	505,166	444,640	796,947	717,062
Less amounts representing finance charges	(60,526)	-	(79,885)	-
Present value of minimum lease payments	444,640	444,640	717,062	717,062
PARENT				
Within one year	40,891	31,337	39,887	26,608
One year or later and no later than five years	115,789	105,413	156,680	136,751
Total minimum lease payments	156,680	136,750	196,567	163,359
Less amounts representing finance charges	(19,930)	-	(33,308)	-
Present value of minimum lease payments	136,750	136,750	163,259	163,359

Operating lease commitments – Group as lessee

The Group leases property under non-cancellable leases expiring from 4 month to 48 months. Lease payments comprise a base amount plus an incremental allowance for inflation.

26. COMMITMENTS (Continued)

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

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
Within one year	352,704	175,308	-	-
Later than one year but not later than five years	576,830	45,354	-	-
	929,534	220,662	-	-

Capital expenditure commitments
At 30 June 2007 the Parent has commitments of $1,883,831 (2006: $2,333,864) relating to the development of the DataDot Robot. The Parent has been awarded an AusIndustry *Commercial Ready* grant to assist in the development of the DataDot Robot and expects to receive grant funding of $941,916. The DAAC completion milestone was varied during the year and is currently 31 December 2008.

DataTrace DNA Pty Ltd, a joint venture with the CSIRO, has a research and development agreement with the CSIRO. At 30 June 2007, DataTrace DNA Pty Ltd had commitments of $Nil (2006:$ 271,845) for development of DataTraceDNA.

27. CONTINGENT LIABILITIES
On the 31st of October, 2005 the Parent entered into a number of agreements with the CSIRO establishing DataTrace DNA Pty Ltd as a jointly controlled entity. Under the terms of the agreement, the Parent is required to contribute working capital until the Board of the Directors of DataTrace DNA Pty Ltd determines that the joint venture entity has consistent positive cash flows to support itself. Based on the forecasts approved by the Board of Directors of DataTrace DNA, further investments are currently estimated to be $3,229,760.

The Group has no other contingent liabilities.

28. RELATED PARTY DISCLOSURES
(a) Subsidiaries
The consolidated financial statements include the financial statements of DataDot Technology Limited and the subsidiaries listed in the following table.

Name		*Country of incorporation*	*% Equity interest 2007*	*% Equity interest 2006*
Subsidiaries of DataDot Technology Ltd				
DataDot Technology (Australia) Pty Ltd		Australia	100	100
DataDot Technology USA Inc		United States of America	100	100
DataDot Technology (UK) Ltd		United Kingdom	72	72
DataDot Technology (Asia) Pty Ltd		Australia	50	50
DataDot Technology South Africa (Pty) Ltd	(i)	South Africa	42.5	42.5
Identify Australasia Pty Ltd		Australia	100	100
Identify New Zealand Pty Limited		New Zealand	100	100
Subsidiary of DataDot Technology (UK) Ltd				
DataDot Technology (Europe) Ltd		United Kingdom	100	100

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

28. RELATED PARTY DISCLOSURES (continued)

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

(b) Ultimate parent
DataDot Technology Limited is the ultimate parent entity of the Group.

(c) Key management personnel
Details regarding key management personnel, including remuneration paid are included in note 31.

(d) Transactions with related parties
The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

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

Non-current loans to these entities are interest free, are unsecured and are required to be repaid once sufficient operating cash flows permit repayment.

	Consolidated		*The Company*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
Aggregate amount of other transactions with non-director related parties:				
Revenue from sale of goods				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	-
Revenue from royalties				
Wholly-owned controlled entities	-	-	294,699	309,541
Partly-owned controlled entities	-	-	204,023	60,251
Revenue from management fees				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	-
Joint Venture entity	1,219,218	717,648	1,219,218	717,648
Purchases of inventory				
Wholly-owned controlled entities	-	-	-	-
Partly-owned controlled entities	-	-	-	-
Management fees paid				
Wholly-owned controlled entities	-	-	95,034	-
Current loans receivable				
Wholly-owned controlled entities	-	-	2,079,216	-
Partly-owned controlled entities	-	-	589,031	-
Less : provision for doubtful debt	-	-	(460,433)	-
Joint Venture entity	528,103	-	528,103	-
Non-current loans receivable				
Wholly-owned controlled entities	-	-	5,177,600	7,015,873
Less : provision for doubtful debt	-	-	(5,177,600)	(7,015,873)
Partly-owned controlled entities	-	-	23,789	353,915
Less : provision for doubtful debt	-	-	(23,789)	(353,915)
Joint Venture entity	-	26,648	-	26,648

29. EVENTS SUBSEQUENT TO BALANCE DATE

Between 1 July 2007 and the date of this report no material transactions have occurred.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

30. AUDITORS' REMUNERATION

The auditor of DataDot Technology Limited is PKF.

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
Amounts received or due and receivable for audit services by PKF:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	80,183	109,087	80,183	109,087
• other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	68,392	66,890	60,634	66,890
- other services	8,761	-	1,761	-
	157,336	175,977	142,578	175,977
Amounts received or due and receivable by non PKF audit firms for:				
• an audit or review of the financial report of subsidiaries	49,924	49,244	-	-
• taxation services	4,131	1,516	-	-
• other	345	-	-	-
	54,400	50,760	-	-

31. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors	
A.R. Farrar	Chairman (non-executive) - appointed 8 November 2006
I.P. Allen	Chief Executive
B. Rathie	Director (non-executive) – appointed 1 December 2006
J.F. Richards	Commercial Director
B.D. McLaws	President – DataDot Technology USA Inc.- appointed 27 October 2006, - resigned 22 June 2007
P. Housden	Director (non-executive) – resigned 31 October 2006
C. Stott	Chief Operating Officer – resigned Director 31 October 2006, resigned Chief Operating Officer 28 February 2007.
I Brown	Chairman (non-executive) – retired 26 October 2006
A Grant	Director (non-executive) – retired 26 October 2006
(ii) Executives	
G. Loughlin	Company Secretary and Strategic Development Manager
M. S. James	Chief Financial Officer
S. Cutler	President - Finance and Operations - DataDot Technology USA Inc. – resigned 1 August 2007
P. Kibler	Managing Director - DataDot Technology (UK) Ltd
A. Blew	Managing Director - DataDot Technology South Africa (Pty) Ltd

Other than the resignation of S. Cutler, there were no other changes of key management personnel after reporting date and the date the financial report was authorised for issue.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

31. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Compensation of Key Management Personnel

	CONSOLIDATED		*PARENT*	
	2007	*2006*	*2007*	*2006*
	$	*$*	*$*	*$*
Short-term employee benefits	2,049,175	2,457,841	1,576,333	1,780,855
Post-employment benefits	209,445	213,532	209,445	200,022
Other long-tem benefits	-	7,850	-	7,850
Termination benefits	220,430	-	125,000	-
Share-based payments	195,479	618,977	146,609	537,526
	2,658,015	3,298,190	2,040,873	2,526,253

DataDot Technology Limited has applied the option under *Corporations Amendments Regulation 2006* to transfer key management personnel remuneration disclosures required by AASB 124 *Related Party Disclosures* paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Director's report. These transferred disclosures have been audited.

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

30 June 2007	*Balance at beginning of period 01 Jul 06*	*Granted as remuneration*	*Options exercised*	*Net change Other #*	*Balance at end of period 30 Jun 07*	*Vested at 30 June 2007*		
						Total	*Exercisable*	*Not - Exercisable*
Directors								
I.P. Allen	3,685,000	-	(1,000,000)	-	2,685,000	2,685,000	2,685,000	-
J.F. Richards	1,238,000	-	(1,000,000)	-	238,000	238,000	-	-
B.D. McLaws	1,238,000	-	(1,000,000)	(238,000)	-	-	-	-
C. Stott	6,584,000	-	(2,000,000)	(89,000)	4,495,000	4,495,000	4,495,000	
P. Housden	300,000	-		(300,000)	-	-	-	-
A. Grant	250,000	-	(250,000)	-	-	-	-	-
Executives								
G.J. Loughlin	500,000	500,000	-	-	1,000,000	1,000,000	1,000,000	-
M.S James	-	250,000	-	-	250,000	250,000	250,000	-
S. Cutler	-	250,000	-	-	250,000	250,000	250,000	-
Total	13,795,000	1,000,000	(5,250,000)	(627,000)	8,918,000	8,918,000	8,918,000	-

 # Includes forfeiture

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

31. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Option holdings of Key Management Personnel (Consolidated)) – (Continued)

30 June 2006	*Balance at beginning of period 01 Jul 05*	*Granted as remuneration*	*Options exercised*	*Net change Other #*	*Balance at end of period 30 Jun 06*	*Vested at 30 June 2006* *Total*	*Exercisable*	*Not - Exercisable*
Directors								
P. Housden	300,000	-	-	-	300,000	300,000	-	300,000
A. Grant	250,000	-	-	-	250,000	250,000	-	250,000
I. Allen	3,685,000	-	-	-	3,685,000	3,685,000	-	3,685,000
J. Richards	1,238,000	-	-	-	1,238,000	1,238,000	-	1,238,000
C. Stott	6,584,000	-	-	-	6,584,000	6,584,000	-	6,584,000
Executives								
G. Loughlin	300,000	200,000	-	-	500,000	500,000	500,000	-
R. Parsons	2,500,000	-	-	-	2,500,000	2,500,000	2,500,000	
B. McLaws	1,238,000	-	-	-	1,238,000	1,238,000	-	1,238,000
Total	16,095,000	200,000	-	-	16,295,000	16,295,000	3,000,000	13,295,000

 # Includes forfeiture

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

(d) Shareholdings of Key Management Personnel (Consolidated)

Shares held in DataDot Technology Limited (number)

30 June 2007	*Balance at beginning of year*	*Purchased on market*	*On Exercise of Options*	*Received on conversion of notes*	*Sales on market*	*Balance at end of year*
Directors						
I.P. Allen	18,431,300	-	1,000,000	-	(4,500,000)	14,931,300
A.R. Farrar	-	500,000	-	-	-	500,000
B Rathie	-	150,000	-	-	-	150,000
P Housden	120,000	-	-	-	(120,000)	-
B.D. McLaws	20,235,000	-	1,000,000	-	(3,500,000)	17,735,000
A Grant	40,000	-	250,000		(290,000)	-
J.F. Richards	4,545,000	50,000	1,000,000	-	(1,000,000)	4,595,000
C Stott	120,000	-	2,000,000	-	(2,000,000)	120,000
Executives						
G.J Loughlin	200,000	-		-	-	200,000
M.S James	-	300,000		-	-	300,000
S Cutler	2,000,000	-		-	(250,000)	1,750,000
A Blew	-	-		-	-	-
P Kibler	-	-		-	-	-
	45,691,300	1,000,000	5,250,000	-	(11,660,000)	40,281,300

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

31. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

30 June 2006	*Balance at beginning of year*	*Purchased on market*	*On Exercise of Options*	*Received on conversion of notes*	*Sales on market*	*Balance at end of year*
Directors						
P Housden	120,000	-	-	-	-	120,000
A Grant	40,000	-	-	-	-	40,000
I.P. Allen	18,431,300	-	-	-	-	18,431,300
J.F. Richards	4,545,000	-	-	-	-	4,545,000
C Stott	120,000	-	-	-	-	120,000
Executives						
R Parsons	-	-	-	-	-	-
G.J. Loughlin	200,000	-	-	-	-	200,000
M.S. James	-	-	-	-	-	-
J Reynolds	5,000	-	-	-	-	5,000
B.D. McLaws	20,235,000	-	-	-	-	20,235,000
S Cutler	1,729,800	-	-	2,411,400	(2,141,200)	2,000,000
A Blew	-	-	-	-	-	-
P Kibler	-	-	-	-	-	-
	45,426,100	-	-	2,411,400	(2,141,200)	45,696,300

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(e) Loans to Key Management Personnel (Consolidated)

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

		Opening balance $	*Closing balance $*	*Interest charged $*	*Number in group at 30 June*
Total					
	2007	153,171	106,196	7,947	1
	2006	112,724	153,171	7,947	2

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

30 June 2007	*Opening balance $*	*Closing balance $*	*Interest charged $*	*Highest owing in period $*
Directors				
I. Allen	120,671	106,196	7,947	126,196

30 June 2006	$	$	$	$
Directors				
I. Allen	112,724	120,671	7,947	120,671

(iii) Terms and conditions of loans to key management personnel.

Executives are charged interest at 7.05% per annum. The loan is repayable within 7 years. An amount of $20,000 was repaid during the year.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

31. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(f) Other transactions with Key Management Personnel and their related parties

Sales

During the year, sales totalling $258,000 (2006: $173,000) at normal market prices have been made by DataDot Technology USA, Inc. ("DDUSA") to DataDot Dealer Services, Inc. ("DDDS") of which S. Cutler is a director and a 33% minority shareholder. DDUSA paid sales commissions to DDDS of $104,000 (2006: $116,000). At 30 June 2007 DDDS, Inc. owed $67,000 (2006: $94,000) to DDUSA.

During the year, sales totalling $11,450 (2006: $31,175) at normal market prices have been made by DDUSA to DNA Distribution, an entity owned by S. Cutler. DNA Distribution earned commissions of $17,813 (2006: $16,107).

During the year sales totalling $12,700 (2006: Nil) at normal market prices have been made by DDUSA to DDS Canada LLC, an entity partly owned by S. Cutler.

Consulting Services

(i) IT and internet services fees of $39,960 (2006: $48,400) 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) Consulting fees of $45,150 (2006: Nil) were paid by the Company to a company in which Mr Stott has an interest for consulting work performed by Mr Stott. Amounts were billed based on normal market rate for these types of services and were payable under normal payment term.

(iii) .The parent company signed an agreement with Mr. McLaws to perform project work for a consulting fee of US$10,000 per month. The contract may be terminated with 6 months notice before the first anniversary of the agreement and thereafter 3 months notice. The contract includes provision for a project success fee of US$100,000 to be paid on successful delivery within a prescribed timeframe of a more highly efficient method of producing DataDots. The agreement is effective from 1 July 2007.

(iv) DataDot Technology USA Inc. has agreed to pay Mr. Cutler a consulting fee of US$5,000 per month plus a commission for of 10% on all new non Original Equipment Manufacturer and non-automotive sales made by Mr. Cutler. This agreement can be terminated at will.

Amounts recognised at the reporting date in relation to other transactions with Key Management Personnel

	2007 *$*	*2006* *$*
Assets and Liabilities		
Current Assets		
Trade and other receivables	67,000	94,000
Non-current assets	-	-
Total assets	67,000	94,000
Current liabilities		
Trade and other payables	410	16,107
Non-current liabilities	-	-
Total liabilities	410	16,107
Revenue	282,150	204,175
Total revenue	282,150	204,175
Purchases / Cost of Goods Sold	170,923	180,507
Total expenses	170,923	180,507

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2007

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

1 In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the director's report designated as audited of the company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial period ending 30 June 2007.

On behalf of the Board

Signed in accordance with a resolution of the directors:

I Allen
Director

Sydney, 19th September 2007.

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Datadot Technology Limited

Report on the Financial Report and AASB 124 remuneration disclosures contained in the directors' report.

We have audited the accompanying financial report of Datadot Technology Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about remuneration of directors and executives ('remuneration disclosures') required by Accounting Standard AASB 124 *Related Party Disclosures,* under the heading "remuneration report" in pages 14 to 19 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the directors' report.

The directors of the disclosing entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Datadot Technology Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the disclosing entity's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report

In our opinion the remuneration disclosures that are contained in pages 14 to 19 of the directors' report comply with Accounting Standard AASB 124.

PKF

PKF

Arthur Milner
Partner

Sydney, 19th September 2007

SHAREHOLDER INFORMATION
AS AT 3 SEPTEMBER 2007

A. STATEMENT OF ISSUED SHARES

The total number of shareholders is 1,863.
There are 149,577,480 ordinary fully paid shares listed on the Australian Stock Exchange Ltd (ASX).
The twenty largest shareholders hold 61.069% of the Company's issued capital.

B. DISTRIBUTION OF SECURITIES

	Number of Shareholders	Number of Option holders
1 - 1,000	32	-
1,001 - 5,000	520	-
5,001 - 10,000	415	-
10,001 - 100,000	781	5
100,001 and over	115	15
	1,863	20

The number of shareholders holding less than a marketable parcel of ordinary shares is 121.

C. ON-MARKET BUYBACK

There is no current on-market buyback.

D. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders are as follows:

Mr Brent McLaws	17,735,000 shares
Valkyrie Nominees Pty Ltd	14,735,000 shares

E. VOTING RIGHTS

Ordinary shares – each ordinary share has one vote.
Options over ordinary shares – there are no voting rights attached to the options over ordinary shares.

F. UNQUOTED SECURITIES

The Company has on issue 20,495,000 options over ordinary shares. These options are held by 19 persons. Details of holders with more than 20% of the class of securities are: Christopher McEwan Stott holds 4,584,000 options.

G. TOP 20 SHAREHOLDERS APPEARING ON THE REGISTER:

Shareholder's Name	No. of Shares held	% of Capital held
Mr Brent McLaws	17,735,000	11.857
Valkyrie Nominees Pty Ltd	14,735,000	9.851
Merrill Lynch (Australia) Nominees Pty Ltd	11,107,987	7.426
Mr Kevin Tay Hak Leong	7,307,783	4.886
Citicorp Nominees Pty Ltd	6,554,253	4.382
ANZ Nominees Limited	5,316,900	3.555
Taveanti Pty Ltd	4,495,000	3.005
HSBC Custody Nominees (Australia) Limited	4,282,382	2.863
Irrewarra Investments Pty Ltd	2,606,175	1.742
Madam Lim Gek Kuan	2,214,816	1.481
Invia Custodian Pty Ltd	1,800,000	1.203
Mr Stuart Cutler	1,750,000	1.170
House of Maister Services Limited	1,600,000	1.070
Lloyds & Casanove Investment Partners Limited	1,440,000	.963
Apollo Solutions Limited	1,400,000	.936
G Harvey Nominess Pty Ltd	1,400,000	.936
City & Westminster Limited	1,400,000	.936
Mr Erick Adriaanse	1,400,000	.936
Bannaby Investments Pty Ltd	1,400,000	.936
Renlyn Bell Investments Pty Ltd	1,400,000	.936
Top 20 Total	91,345,296	61.069