

DATADOT TECHNOLOGY LIMITED(DDT)

Restructured and repositioned with a substantially reduced cost base and now focused on driving growth from its two technology platforms.

DIRECTORS

Bruce Rathie, Chairman
 Ben Bootle, Managing Director & CEO
 Gary Flowers, Non-Executive Director
 Alison Coutts, Non-Executive Director

MARKET DATA

ASX Code: DDT
 Current Price: \$0.038
 52 week Share Price Range: \$0.025 - \$0.06
 Market Capitalisation: \$18.0 million

CAPITAL STRUCTURE

Shares on Issue: 474.5 million
 Unlisted Options: 0.5 million
 Unlisted Performance Share Rights: 19.4 million

FINANCIAL SUMMARY

\$mill	2011-12 range			
	2009-10(A)	2010-11 (E)	LO (F)	HI (F)
Revenue	10.0	7.5	12.0	15.0
EBITDA	1.6	-0.7	1.4	2.4
Net Profit	0.9	-0.5	1.0	2.0
EPS (c)	0.27	n.a	0.21	0.42
PER (X)	15.2	n.a	18.1	9.0

MAJOR SHAREHOLDERS

Bannaby Investments 6.1%
 TM Consulting 5.5%
 Collin Hwang (Taiwan) 4.99%
 Bruce Rathie 4.83%

SENIOR ANALYST

Michael Gordon
 (03) 9607 1371

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INVESTMENT PROPOSITION

DataDot Technology is currently in a transitional phase having been restructured and repositioned. It will be another year or two before results reflect initiatives to diversify markets for its core technology and to gain market acceptance of its new technologies, which will be key growth drivers. In the meantime, results are being driven by its exposure to the global auto industry.

DataDot Technology is a high growth stock with expectations that it will more than double in size over the next few years as the established business expands into new geographies and market segments and as its new technology platform gains market acceptance.

There is no doubt that a disappointing 2011 and uncertainty about the pace of recovery weighs heavily on the share price. However, the share price seems to discount the likely strength of recovery into 2012 and the level of sustainable long term growth. Our analysis points to a valuation significantly higher than the current share price based on sustained growth of around 15% per annum from the established business.

The company's tracer technology, DataTraceDNA, which will address valuable new market opportunities, provides considerable blue sky potential. Existing customers are applying the technology in various markets including casino chips, security seals, high security printing and textiles. Prospective customers are currently undergoing pilot trials and significant sales are expected. Investors appear not to appreciate the impact this technology is likely to have in driving growth and adding value to the company.

The catalysts for a recovery in the share price will be confirmation of a return to growth in sales, recovery in profitability, positive announcements regarding DataTraceDNA and confirmation of success of the commercialisation strategies.

“To provide customer-focused solutions for asset identification, management, protection and authentication.” DataDot Technology Mission Statement

EXECUTIVE SUMMARY AND KEY POINTS

DataDot Technology has developed a range of products based on two core technologies that underpin a wide range of solutions to manage assets and protect assets from theft; be it the theft of the physical asset or the theft of economic value (through brand and IP counterfeiting). These are enormous markets where losses are estimated to exceed US\$200 billion annually. This is a compelling market opportunity.

New management installed with the restructuring that commenced in December 2008 has repositioned the company, substantially reduced costs and is now focussed on driving growth from its two technology platforms.

A marked recovery in sales and a return to profitability are expected in 2011-12 as economic recovery takes hold in Europe and the US, the Japanese auto industry returns to normal production levels, new distributors build sales momentum and recent business development initiatives bear fruit. The 2011-12 result will also reflect a full year consolidation of DataTraceDNA; the company’s tracer technology that is now being commercialised.

Sales of microdots are expected to at least double to over \$20 million over the next five years. DataTraceDNA sales are expected to reach at least \$10 million over the same period with the potential to achieve a similar level to microdots.

The core microdots business, DataDotDNA, has an established global manufacturing and distribution system with considerable growth opportunities in new geographies and new market segments. Sales in Europe more than doubled in 2010 before slumping in the wake of the GFC whilst sales in the Americas will increase by more than 20% in 2011 as recovery takes hold and sales build in new territories. These are pointers to achievable growth with stable economic environments.

The tracer technology, DataTraceDNA, which was developed in conjunction with the CSIRO, has enormous potential in securing intellectual property against brand theft and counterfeiting. A sales base has already been established with customers in a range of industries and trials are being conducted by potential customers in Australia and overseas in areas as diverse as textiles, automotive, electronics and agriculture. Revenue growth could be steep off a low base with a very real possibility that a customer could provide a large “company making” sales opportunity.

In late 2010, DataDot acquired the CSIRO’s 50% interest in their joint venture in exchange for shares in DataDot. DataDot now has full control of the control and rights to access all markets including segments from which it was previously excluded.

The company has established a joint venture, AgTechnix Pty Ltd, to address the agricultural seeds market (combining its overt DataDotDNA technology and covert DataTraceDNA technology with advanced coating technology of its partner) where losses attributable to counterfeit seeds is estimated to exceed US\$10 billion annually. This problem is particularly prevalent in developing countries where the consequences of lost production are especially severe. Significant sales in this market are expected in the short term. This technology, named IntelliSeed, was in May 2011 announced as the winner of the 2010-11 DuPont Australia and New Zealand Innovation Award for Agriculture and Food Production.

Although a loss is expected for FY 2011, the company's balance sheet is very strong with net cash reserves of more than \$4 million, representing about 45% of shareholder equity. Financial resources are in place to support the business development requirements of its microdots business and the commercialisation needs of DataTraceDNA.

BACKGROUND

DataDot Technology experienced rapid growth in the period before the GFC as global distribution for its microdot products was established. However, the company was seriously exposed during the GFC with excessive dependence on the automotive industry, high overheads and an unsustainable production and product sales business model. Revenue grew by 125% to \$13 million between 2005 and 2008 and a maiden net profit of \$1 million was achieved in 2008 but a loss was again incurred in 2009 following a 38% fall in revenue.

Restructuring commenced in late 2008 and continued through 2009. The CEO was replaced and the board restructured. New management was tasked with five objectives.

- Increase and diversify sales
- Improve manufacturing efficiencies and reduce manufacturing costs
- Reduce expenses and overheads
- Restructure staffing and distribution arrangements
- In partnership with CSIRO, pursue opportunities to commercialise the unique intellectual property within the DataTraceDNA joint venture

More particularly, DataDot was repositioned as a provider of theft deterrence, anti-counterfeit, fraud protection and asset management solutions. Utilising its core microdot and DataTraceDNA technologies, separately, together or in combination with other technologies, the company has the capabilities to provide comprehensive asset identification and authentication solutions. The core customer value propositions are now asset and brand protection.

DataDot's business is now based on building global distribution and increasing market penetration of its established microdot technology and gaining market acceptance of its product authentication (tracer) technology which has the potential to be a blockbuster business. The company is in the transitional phase of its development as it moves to reduce its dependence on the automotive industry in its primary business and as it develops a range of commercial opportunities around its emerging DataTrace technology. We expect it will be about FY 2013 before the impact of various business development initiatives to become fully apparent.

The marketing challenges for the core microdot product have been to identify the target customer, to build a compelling value proposition and have this structured in a viable business model. DataDot's key stakeholders tend to be law enforcement authorities and the insurance industry and the principal drivers of demand are regulation/legislation and financial incentives.

In addition to markedly reducing operating costs, relationships with overseas distributors were strengthened, whereby new business models were developed to drive sales building on the stakeholder reality and a clear understanding of the demand drivers. The distributors in the US and Italy have been the most innovative and aggressive. They have developed two different models, both of which have global potential. The US model is based on an anti-theft warranty and the Italian model is based on a vehicle financing and insurance package. DataDot is looking at rolling out similar programs on a global basis.

Microdots will continue to be the company's leading product for quite some time although the relative importance of the automotive industry will decline as other markets are developed. The microdots value proposition has largely been built around its value in deterring theft. However, additional value will be created as it is increasingly incorporated with the DataTraceDNA technology in novel solutions for the authentication market.

New market opportunities are rapidly opening up as the DataTraceDNA technology is commercialised. Although we expect it to be another year or two before this technology becomes a significant revenue generator, it has substantial "blue sky" potential. This technology is ideally suited to brand protection and product authentication markets; that is protection against the theft of economic value. Theft of economic value generates multi-billion dollar costs to the community in markets that include pharmaceuticals, agricultural seeds, equipment spare parts, consumer products, currency and passports and so on. A major attraction of this technology is that due to the nature of the value proposition, client relationships, (typically OEM's) are likely to be embedded for the very long term with large, annuity type revenue streams.

After slipping back in 2009 due to the GFC and the impact of restructuring, revenue jumped 23% in 2009-10 and EBITDA was \$1.6 million after a tiny profit in the previous year. Operating expenses fell by 16%. The GFC overhang, the over-exposure to the automotive industry and the high value of the Australian dollar continue to impact performance with revenue in the first half of 2010-11 falling by 19% resulting in a large fall in EBITDA with expectations that FY 2011 sales will be 20% to 30% below the prior year. Nonetheless, these raw numbers mask considerable achievements during the second half of calendar 2010 that underpin long term growth.

Firstly, significant sales growth was achieved in the US and Asia, new manufacturing capacity was established in Taiwan and new distribution agreements were established in South America. Further, a new joint venture has been established with the Taiwanese distributor to launch the microdots and DataTraceDNA technology in China. The JV partner is committed to funding up to US\$500, 000 in operating expenses for the first three years or until the JV is profitable.

Secondly, DataDot Technology acquired the CSIRO's interest in their joint venture. As a consequence, the CSIRO has become a DataDot shareholder whilst DataDot gains full control over the DataTraceDNA technology and access to market segments from which it was previously excluded.

Having restructured the business and markedly reduced costs, management is now growth focussed. Our view is that revenues from the sale of microdots are likely to reach \$20 million and could reach \$25 million within five years (compound annual growth of between 15% and 20% from 2010). We expect that the DataTraceDNA technology will be generating annual revenues of around \$10 million within five years although it has the potential to reach a comparable size as the microdot business or even it exceed it, over this timeframe. We understand that the company's aspirational stretch revenue target is significantly higher than these figures.

There is no doubt that the tepid European automotive industry is proving to be a significant drag on performance which has been exacerbated by the strength of the Australian dollar. However, the long term outlook is very attractive and will be driven by repositioning and a clearer understanding of the value proposition and demand drivers, as reflected in the mission statement, coupled with launch of range of new products capitalising on its new technologies.

STRONG GROWTH PROFILE – EXTENDING THE GLOBAL AND MARKET REACH OF ESTABLISHED TECHNOLOGY AND COMMERCIALISING NEW TECHNOLOGY

Management detailed, at the 2010 AGM, five key drivers that would propel growth over the next few years. These drivers are:

- Aggressively grow the microdot product globally – significant opportunity to grow from the current stable and expanding base,
- Package DataDots into innovative solutions for the management of risk in financial and insurance solutions,
- Develop new products and applications using patents, trademarks and trade secrets to protect intellectual property,
- Aggressively grow DataTraceDNA technology, and
- Expand the growth of AgTechnix business.

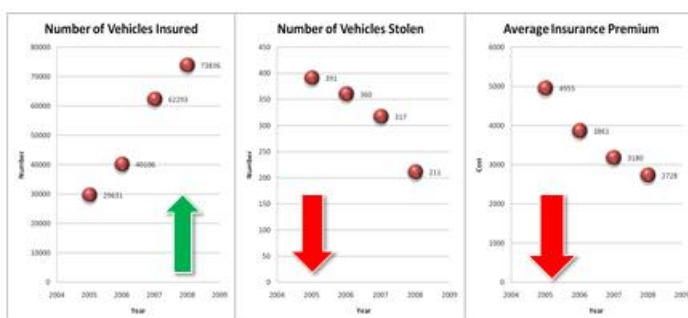
In seeking to grow annual revenues to well in excess of \$20 million by 2016, the company will be leveraging its two key technologies into a wide range of market spaces with a view to maximising its share of the value add. Currently, most sales are sourced from the automotive sector and revenue is primarily generated from the sale of microdots to distributors, who package the dots into a customer product at considerably higher value.

The first three drivers specifically relate to the microdot business, which we believe is capable of achieving annual growth of at least 15% on a sustainable basis. This will be driven by increased market penetration by existing distributors, development of new geographies, new market segments and new opportunities through integration with DataTraceDNA.

The final two drivers relate to the DataTraceDNA technology (in some cases in conjunction with the DataDotDNA technology), which has the potential to be the company’s leading source of value as the technology is commercialised and penetration is established in key target markets where there is a demonstrated need and compelling value proposition.

For historical reasons, the company’s primary market for microdots is the automotive industry, however, the marine, earthmoving, construction and industrial equipment markets have the same issues regarding theft and asset identification. Experience in the automotive, big box retail and electricity industries indicates that theft can be reduced by up to 90% with the use of microdots and there is every reason to believe that similar reductions could be achieved in other markets.

Example of effectiveness of DataDots on theft and insurance premiums, major DataDot fitted automotive customer in Taiwan.



Compulsory marking of motor vehicles has been introduced in Taiwan, with exceptional results as illustrated in the adjacent graphs, and is expected to commence in South Africa from 1 July 2011. The local distributor is expected to enjoy a large sales boost from 2012 which will flow through to DataDot as additional royalties. This is a powerful demand driver although there is competition. Whilst other countries such as New Zealand have toyed with the idea few have yet moved to compulsion and are not likely to given resistance by OEM’s and other interests.

The company and its distributors do hold OEM motor vehicle accounts but these are typically in markets where there is compulsory labelling, where a particular brand is perceived to suffer from a marketing disadvantage due to excess theft levels or where luxury brands are seeking a value add.

The company's distributors are largely responsible for acquiring and maintaining customer relationships. The more successful operators have been quite innovative in the packaging of the DataDot product within a more comprehensive value offering to drive sales. These products are typically unique to specific markets although there may be opportunities to develop these offerings in other markets. The key to developing these opportunities lies in expanding the distribution network. Typically distributors have market specific rights within defined geographic areas. In some geographies, distributors may be allocated rights to additional market segments and in others new distributors will be appointed.

Over the past year or so, new distributors have been appointed in Argentina, Brazil and Chile as well as in Thailand, all of which have sizable automotive and industrial markets. Further, the company announced in December 2010 that it was forming a joint venture with its Taiwanese distributor to launch DataDot products (and DataTraceDNA) in China. Whilst each of these new markets is large with significant potential, the contribution to growth is expected to be incremental as the value proposition is developed and the target market educated.

The trend in US sales is a strong pointer to what is achievable elsewhere. US sales increased by 11% in AUD terms in the December 2010 half year, compared with the previous corresponding period. However, in local currency terms the gain was closer to 20% and we understand that growth has since accelerated. Depending on currency movements, sales are likely to grow by over 20% in 2011-12. Although sales in Europe collapsed in the first half of 2011, they grew by 112% in 2010 as new distributors were established and the Italian product was launched.

The microdot technology has been available for decades and is not protected by patents, accordingly, there is competition for the core product, which is based on a polymer substrate. Nonetheless, DataDot is pursuing innovation to create competitive advantage. For example, the core technology has been successfully applied to other substrates including stainless steel, metals and ceramics which have the advantage of being able to be applied in difficult operating environments including extreme heat, cold, high salt and high UV areas where the polymer product is less suited. This product is unique and opens up new market opportunities. Further, the company has developed BeaconDot to assist law enforcement agencies in locating DataDots. This patent pending solution provides audio and / or visual signals to highlight the location of the dots to speed-up the identification process.

The company's performance in the December 2010 half year was overwhelmed by the 47% decline in sales in Europe, primarily Italy and in the June half year with the disruption to the auto industry supply chain in Japan following the earthquake and tsunami. There is no question that the company is over exposed to the automotive industry and needs to broaden its penetration in Europe, particularly in the UK, France and Germany, as well as in other large and growing markets. The benefits of restructuring and new marketing and business development strategies will emerge over the next two years which is likely to coincide with a rebound in traditional markets that are currently a drag on performance.

Whereas microdots are a valuable means of providing anti-theft protection through their ability to be inscribed with a unique identification code, invisible tracers or markers is an important authentication tool through their presence or absence in a product.

The development of invisible markers that can be integrated with any number of manufactured products to provide a means of authentication is a relatively new field with a number of companies providing competing technologies. DataDot owns the rights and patents to a technology developed by the CSIRO which is now commercially available

throughout the world with the DataTraceDNA brand. An advantage of the DataTraceDNA marker is that it can be integrated into numerous applications through ink, paper, polymers, metal plating and bulk materials. Moreover, the DataTraceDNA marker can be combined with microdots thereby greatly enhancing the capability of the technology. Although DataTraceDNA is simply a marker invisible to the naked eye, the use of different specifications which may be combined with microdots, can provide some “intelligent” capabilities that could be used in quality and batch control.

The technology is invaluable in underpinning brand and product security, where counterfeiting is estimated to cost US business alone between US\$200 billion and US\$500 billion a year. Reliable statistics are difficult to come by although the OECD estimates counterfeit products represent about 2% of global trade. The Center for Medicine in the Public Interest (US) published in report in 2005 that forecast that the value of counterfeit drug sales would reach US\$75 billion in 2010, about 11% of the global market. More significantly, the growth in sales of counterfeit drugs would consistently outpace overall market growth. This market share estimate is broadly in line with World Health Organisation (WHO) estimates. WHO also points out that counterfeits have considerably higher share in developing markets.

DataTraceDNA, alone or in combination with microdots, provides surety to a manufacturer of genuineness and can be used to identify and differentiate production facility and even production batches. Quality assurance can also be tested by measuring the intensity of the tracer. DataTraceDNA is the first solution that is suitable for incorporation into bulk materials such as concrete and paint, which traditionally have no guaranteed form of identification. Concrete, for example, is the world’s largest bulk product business by volume, and suppliers are increasingly aware of the need to prove that the product supplied was of the requested quality or that the origin of the product was as specified. The low cost of the DataTraceDNA micro-particles means they can be added without significant impact on the price of what is generally a low-cost product. Because of these capabilities, clients are most likely to commit to long term relationships embedding the tracer into its production system. For DataDot, the challenge will be to maximise its penetration of a client’s product range.

The company has already undertaken a number of projects in the pharmaceutical, textiles and utilities industries that demonstrate the potential of the technology. In July 2010, a five year contract was executed with a European pharmaceutical company, whereby DataTrace will be used to authenticate the entire production of one of its most successful drugs. DataTraceDNA has also been incorporated into the VerifiTT technology in a textile authentication project for Elders New Zealand and Primary Wool Co-operative. AuthentiCable is cable protection solution combining metallic dots and DataTraceDNA in an asset management solution which enables a utility to identify each 2 cm section of cable as a unique asset and locate it within 3 dimensions to its exact location.

In June 2011, VTTM Holdings LP, the provider of VerifiTT, and Coats plc, the world’s leading industrial threads and consumer crafts business have formed a joint venture company, CoatsVTT Limited which has been granted global rights to use VerifiTT technology, incorporating DataTraceDNA, as protection against counterfeiting and related fraudulent use of global fashion brands in textiles, garments, apparel and related textile products. Coats plans to use the technology in a unique traceable thread that uses the verification properties of DataTraceDNA to combat counterfeiting and improve chain of custody management in the textiles industry.

VerifiTT will be blended into the raw material used to create sewing thread in a way that can only be detected using a proprietary reader. The thread will then be used in the manufacture of garments, footwear, bags and other items to determine the authenticity of products marked with specific brands.

A range of readers has been developed which will indicate the presence or otherwise of DataTraceDNA in a particular product or sample. Three readers have been developed with varying capabilities and price points to suit the budgets and requirements of the company’s clients. Until relatively recently, only one reader was available

which, due to its pricing, was proving to be “speed-hump” in the sale process. Accordingly, having readers at different price points will remove this blockage and contribute to growth.

The experience gained through the development of the readers has led to a fully client funded research/development project that could develop into another, albeit related business stream. DataDot has been commissioned by a mining services company to develop a means of identifying waste material from productive ore. By using Laser Induced Breakdown Spectroscopy (LIBS) individual elements within the rock can be identified which will be invaluable in targeting drill zones in resources exploration and in mine site mapping, with the prospect of significantly reducing costs. This is potentially a huge global market. LIBS is a laser based technology that has been used in space and military applications for some time and we understand that there is increasing focus on potential applications in the resources and mining industries. DataDot Technology has proven the initial concept and the development challenge is to markedly reduce the scale of the equipment to enable transportability. A similar project is also underway for a building materials company with the object of managing long term life-cycle issues related to its products.

Another significant development to drive market entry has been the formation of AgTechnix Pty Limited, with joint venture partner Ipeco Pty Limited, to track and trace agricultural and horticultural seeds. Ipeco specialises in commercialising agricultural technologies. Its relationship with DataDot is driven by its control of an advanced seed coating technology which binds the DataTraceDNA powder to the seed. The coating technology is also used to bind herbicides and pesticides and has, reportedly, technical advantages over its competition. AgTechnix can deliver tracers, under the IntelliSeed brand, secured within the Ipeco coating technology to provide authentication for agricultural seeds.

The cost of failed crops attributable to seed counterfeiting has been estimated to be over US\$10 billion and the issue is particularly prevalent in developing countries of Asia and Africa. With the use of hybrid and genetically modified seeds becoming more widespread, the issue of plant security will only intensify.

AgTechnix has made sales to customers in India of its polymer seed coating materials as well as the IntelliSeed seed security system. It is conceivable that breakthrough sales, in India and elsewhere in Asia, in excess of \$1 million could be quickly achieved. The JV's first customer is GlaxoSmithKline (Australia) who have used IntelliSeed with their poppy seed production in Tasmania. There is every reason to believe that AgTechnix could be a large contributor to DataDot revenues (and profits) within two years.

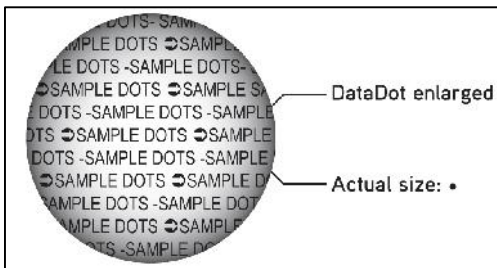
STRUCTURED TO SUPPORT A GLOBAL BUSINESS MODEL

Asset security is an enormous problem and covers the obvious law enforcement issue of outright theft and the more difficult challenge of counterfeiting. It has been reported that over 3.6 million cars are stolen around the world each year and who knows how many items of industrial and commercial equipment are stolen let alone the size of inventory leakage in the general retail market. Counterfeiting is more problematic in that it is often perceived as being relatively benign (fake watches, handbags and clothing for example) notwithstanding that the use of counterfeit pharmaceuticals or components in equipment can have lethal consequences.

There are a wide range of technologies and solutions that are employed to manage these issues. They fall into four broad classifications; Overt, Covert, Forensic Markers and Supply Chain Track and Trace. It is not uncommon for multiple technologies across classifications to be employed in a comprehensive solution. Supply Chain Track and Trace are arguably the simplest and most common technologies and include barcodes, printing and labelling and RFIDS, which are largely generic, off the shelf solutions. The technologies employed in the other classifications

typically provide increasingly higher levels of security. Further, each step up in technology provides higher levels of product uniqueness and performance differentiation.

DataDot Technology utilises two core technology streams to deliver a range of asset and brand protection solutions; microdots and micro-particle tracers. Competitive advantage is sourced from technical advances in the underlying technology and the ability to package the technology into a comprehensive unique solution.



Microdots are tiny polymer particles which are inscribed with a unique, microscopic identification code such as a vehicle identification number (VIN), pin number, business name or other code that provides identification of individual assets. The unique code is stored on the company’s worldwide verification database, DataBaseDNA. Microdots are a long established, freely available technology although the company has extended the technology for use with other substrates which will be patent protected.

Microdots are ideally suited to high value, movable objects where theft would create significant disruption, inconvenience or economic loss. The company’s primary market is motor vehicles although the construction and industrial equipment markets are becoming increasingly important.

DataTraceDNA is an emerging global solution incorporating CSIRO patented technology. These are engineered ceramic micro particles with unique tracers that are non-replicable, and have unique physical properties for which its presence and concentration is detectable by a specially developed portable reader –“The Authenticator”.

The micro-particles bond to the molecular structure of the product, either directly through the manufacturing process or applied to the surface in inks or as a spray-on lacquer. When the particles are scanned by “The Authenticator” unique digital codes are generated, similar to barcode scanning. The particle is invisible to the naked eye and is suitable for a number of applications including product authentication, supply chain management, batch control and theft prevention.

The table below provides a simple comparison between the two technologies.

Comparison table

DataDotDNA	DataTraceDNA
Overt	Covert
Unique Code	Generic code library
Identify individual assets	Identify manufacturer / owner
Surface application	Integrated in manufacturing and surface application
Target identification for individual owner	Target identification of mass produced / bulk goods

DataDot primarily generates revenue from the sale of microdots to its distributors who sell the product to commercial, industrial and retail consumers and apply the product to a specific asset, be it a car, boat or other equipment. Various distributors have developed a range of sale solutions that have added considerable value. The

US distributor has packaged the DataDots as warranty against theft product whilst the Italian distributor has packaged the DataDots as part of a vehicle financing and insurance solution.

The company owns manufacturing facilities and maintains regional offices in Australia, the US, the UK and Taiwan from where the microdots, inscribed with a specific code are shipped to distributors in Asia and the Pacific, North and South America and Europe. The key exception to this structure is South Africa where a licensee manufactures and distributes the microdots, which DataDot receiving a share of the revenues (as a 7.5% royalty).

The company primarily captures value through the sale of the manufactured product with an inscribed code leaving the distributors to capture significant additional value through the packaging and final sale of the product. Advanced microdot technology based on new substrates such as ceramics and metals is likely to lead to higher margins due to reduced competition in new market segments.

In 2010, the Australia/Pacific region contributed 56% of gross revenues compared with 10% from the Americas and 34% from Europe. In 2011, the Americas share is expected to significantly increase, mostly at the expense of Europe. Over the next few years, we expect the share attributable to Australia to markedly decline as sales into new geographies and market segments gathers momentum.

The DataTraceDNA technology was originally developed within the CSIRO, and has several advantages over competing solutions in that it is chemically inert, withstands high temperatures, does not degrade in sunlight, is highly robust, and significantly more cost effective than competing solutions. Moreover, particles last for the lifetime of the product to which they are bonded, even in harsh environments.

The DataTraceDNA business model is still evolving but it is already evident that the company is pursuing different avenues to capture additional value compared with the DataDot distribution model. The fact that the success of DataTraceDNA will be built on long term OEM customer relationships rather than with one-off sales, as is sometimes the case with DataDot, aides this process. Accordingly, DataTraceDNA may deal directly with customers or operate through joint ventures, as with AgTechnix or joint manufacturing arrangements as with AuthentiCable and TraceCoat, to capture higher value and stronger margins.

In December 2010, DataDot acquired the CSIRO's 50% shareholding in the DataTrace joint venture. The CSIRO also assigned the DataTrace Intellectual Property to DataTraceDNA providing DataTraceDNA with full ownership and control. DataTraceDNA may now access additional potential markets in currency, passports, national identification documents or instruments and national security which have previously been inaccessible under the CSIRO-DataTraceDNA licensing arrangements. The total consideration was \$1.4 million which was settled through the issue of shares which gave the CSIRO a 9% shareholding in DataDot Technology (subsequently reduced to less than 5%).

AgTechnix Pty Ltd was established by DataDot Technology and Ipeco Pty Ltd to commercialise agricultural seed and bulk commodity identification technologies incorporating the former's DataTraceDNA and DataDot technologies with the latter's seed coating technology. AgTechnix has patent pending ownership for the novel use of the technology which combines hi-tech IT reader components with specialised material formulations which is marketed as IntelliSeed.

Whilst business development is underway, the structure for delivering the value proposition, such as sales channels, warehousing and distribution, is yet to be settled.

HEALTHY CASH POSITION UNDERPINS GROWTH STRATEGY

DataDot Technology achieved a maiden profit in 2008 after revenue increased by 10.6% to a record \$13 million. Optimism at the time proved to be illusory as this high water mark heralded a period of corporate instability and high cash burn which forced the Board to restructure the company.

The most significant financial impact was a major restructuring charge in 2009 reflecting bad debt write-offs as well as impairment charges against various development programs and investments. The consequence of these charges and write-offs was to cut the value of the asset base from \$15.7 million at June 2008 to \$4.7 million at June 2009, with the equity base falling from \$10.9 million to \$2.3 million. Over the past 18 months, the asset and equity bases have strengthened due to profitable operations, injections of new equity and consolidation of DataTraceDNA which was previously a joint venture with the CSIRO. As at 31 December 2010, the value of the asset base had recovered to \$11.2 million with the equity base standing at \$8.7 million. At this date, cash of \$5 million represented 60% of the company's equity base, whilst gross debt amounted to only \$134K. Cash levels have since fallen back to \$4 million, approximately 45% of shareholders equity.

During November 2010, the company undertook a significant capital raising via a Share Purchase Plan. The issue raised nearly \$4 million and markedly boosted cash reserves. This funding ensures that the company will have adequate financial resources to pursue a range of business development initiatives to support the global development of the DataDot business as well as the commercialisation of DataTraceDNA.

Despite the impact of restructuring, the company still achieved a modest operating profit (EBITDA) in 2009. Operating costs were substantially reduced which in 2010 were 42% lower than in 2007. In 2010, as revenues rebounded, EBITDA almost reached the 2008 level with a much higher margin reflecting the lower cost base. Due to the continuing overhang from the GFC, however, sales and margins declined significantly in the December 2010 half year pointing to a weaker result in 2010-11. Nonetheless, the company's balance sheet is strong and it has the financial resources to weather the downturn and fund various growth initiatives.

The profit result for the six months ended 31 December 2010 was a setback for the company with a substantial reduction in operating profit primarily due to a marked reduction in sales in Europe and some increased expenditure attributable to various growth initiatives including the acquisition of the CSIRO's interest in AgTechnix. This latter item resulted in the DataDot recording a valuation gain on its shareholding which boosted pre tax profit by \$0.6 million. Revenue for the period was \$3.7 million compared with \$4.6 million for the previous corresponding period. Operating profit fell from \$1.05 million to \$215K whilst pre tax profit (including the valuation gain) was \$485K compared with \$637K previously.

In late April 2011, the company informed the market that sales in the June 2011 half year would be further adversely affected primarily due to the serious disruptions to the automotive industry supply chain in Japan caused by the devastating earthquake and tsunami. Directors now expect sales in 2010-11 to be some 20% to 30% below the \$10 million achieved in 2009-10. Accordingly, we expect the company to report a loss for the year.

The company reports that overall costs in 2011 are much the same as the prior year due to the full year consolidation of DataTraceDNA and AgTechnix as well as some additional business development costs. However, operating expenses on a like-for-like basis are about 10% lower than in the prior year which places the company in an excellent position to restore profitability and strengthen margins as sales recover in FY 2012.

The disruption to the Japanese auto industry supply chain was abrupt with, hopefully, a short term impact. Accordingly, DataDot sales should quickly return to normal levels, notwithstanding the sharp, short term impact of a

near halt on sales to vehicles originating in Japan and distributed globally. Sales revenue in 2001-12 will be further boosted by a full year contribution from DataTraceDNA. A return to profit is expected, although overall margin recovery will be constrained by relatively high business development costs from DataTraceDNA and AgTechnix as they build their market presence. Given the degree of uncertainty regarding the pace of recovery in DataDotDNA's core markets and the timing of new business emergence for DataTrace and AgTechnix, we have estimated a likely range within which 2011-12 profit will fall.

The company is yet to achieve stability and consistency in its financial performance, although we expect this to occur over the next two years, as economic recovery takes hold in Europe and the US, as the Japanese auto industry supply chain returns to normal, new distributors build sales momentum and as recent business development initiatives bear fruit. The 2011-12 result will also reflect a full year consolidation of DataTraceDNA.

INCOME STATEMENT					
(\$'000)	2007-08 (A)	2008-09 (A)	2009-10 (A)	2010-11 (E)	2011-12 (F)
Revenue	13,024	8,130	9,993	7,000	12,000 – 15,000
EBITDA	1,653	20	1,576	-730	1,440 -2,440
Depreciation & Amort.	-471	-389	-289	-350	-400
Net Finance Cost	80	-35	-31	43	60
Special Items*	-586	-9,237	-307	552	0
PRE TAX PROFIT	676	-9,641	949	-485	1,100–2,000
Tax	630	-1,176	-18	-15	-100
Minority Interests	-281	-129	0	0	0
NET PROFIT	1,025	-10,946	931	-500	1,000 – 2,000
- *JV losses, Restructuring charges & valuation gains (2011)					

CASH FLOW			
(\$'000)	2008-09	2009-10	Interim 2011
Net Cash Flow From Operations	-2,383	1874	272
Net Cash Flow From Investing	-1,010	-602	-498
Net cash Flow From Financing	1,507	-221	3,664
Net Change In Cash	-1,886	1051	3,438

BALANCE SHEET			
(\$'000)	June 2009	June 2010	December 2010
Current Assets			
Cash & Equivalents	761	1,796	5,237
Receivables	2,215	1,473	1,882
Inventories	631	655	852
Other			
	3,607	3,924	7,971
Non Current Assets			
Investments & Other Financial Assets	0	143	0
Plant & Equipment	760	678	735
Intangibles	300	395	2,538
Other	0	0	
	1,060	1,216	3,273
Total Assets	4,667	5,140	11,244
Current Liabilities			
Payables	1,044	1,175	1,646
Debt	232	52	44
Other	748	273	421
	2,024	1,500	2,111
Non Current Liabilities			
Debt	5	110	90
Provisions	7	4	6
Other	380	355	307
	2,416	1,969	2,514
Shareholders' Equity	2,251	3,171	8,730
Liabilities & Equity	4,667	5,140	11,244

DIRECTORS AND SENIOR MANAGEMENT

Bruce Rathie, Chairman

Bruce has an extensive background in investment banking and commercial law. He is currently director of several public companies in the biosciences, technology and resources industries.

Ben Bootle, Managing Director and CEO

Ben has a background in agricultural economics and was a Nuffield Scholar in 2001. He has had considerable senior management experience with companies operating in a wide range of industry sectors. Ben was appointed as CEO in 2009 to drive the restructuring of DataDot Technology and realise the potential of its technologies and development programs.

Gary Flowers, Non Executive Director

Gary has a legal background and brings to DataDot extensive management experience. He was previously Managing Director and CEO of Australian Rugby Union and is currently Chief Operating Officer of property developer, Mirvac Ltd.

Alison Coutts, Non-Executive Director

Alison has a biotechnology and engineering background and has spent much of her career providing strategy consulting, with a particular focus on assisting young, innovative companies with the development and implementation of growth and commercialisations strategies.

Ross Hawkey, Chief Financial Officer

Ross has held various senior finance, IT and general management roles with technology companies in the USA, UK, NZ and Australia and more recently in a substantial Not-for-Profit organisation.

Graham Loughlin, Company Secretary and Group General Manager Strategy

Graham has been with DataDot Technology for six years. He has previously held general management roles in retail financial services and a senior advisory role in government.

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