

DATADOT TECHNOLOGY LIMITED

Chairman's Address

Ladies & Gentlemen,

I am pleased to report that DataDot Technology Limited is now back on track following the upheaval during the latter part of the 2006 calendar year.

I would, first, like to make some observations and comments for the benefit of shareholders, after which I will ask our CEO, Ian Allen, to provide you with a more comprehensive overview of the Company's operations throughout the world and further information regarding the Company's proposed strategy in engaging those markets.

During the year ended June 30, 2007 consolidated revenue grew 41% to \$12.07million with Australasia growing 42% to \$6.9 million, South Africa growing 135% to \$3.1 million, Europe growing 7% to \$0.43 million whilst the USA suffered a 12% reduction in revenue at \$1.9 million.

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 when compared to the previous year.

Core EBITDA excludes all net finance costs and taxation, share based-payments, the contribution to profit and loss from the DataTrace DNA joint venture and four non-recurring items amounting to \$960,000. These four items were termination payments of \$220,000, a European consulting fee of \$179,000, legal costs and management system software of \$186,000 and US expenses of \$375,000.

Australasia

Total revenues in Australasia grew by 42% to \$6,944,692 with net profit increasing by 108% to \$1,640,973. A significant contribution to this growth came from Yamaha's decision to apply DataDotDNA to its entire range of imported products, using the Group's new DataDot DNA 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.

In relation to Australasia I also wish to clarify an entry in the company's Annual Report. In the Review of Results and Operations, at page 7 of the Report, the sub-heading "Australasia" was inadvertently omitted from the first paragraph of the Group Overview in typesetting, and the annual growth figure for Australasia was incorrectly published in the same paragraph as 48% rather than 42%. While neither error was significant and both became evident when reconciling this paragraph with the financial statements and notes, it is important to correct the record.

The protracted delay in implementation of the New Zealand Government's mandatory whole-of-vehicle marking (WOVM) policy has been of concern for the Company however it now appears that WOVM will commence in New Zealand in the middle of 2008.

The Company has raised capital specifically to manufacture DataDotDNA in New Zealand and 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.

In 2008 the Group will therefore proceed with its earlier announcement 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.

South Africa

The South African business performed well during the year and 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 apply DataDotDNA to all new vehicles sold in South Africa, Namibia, Botswana, Swaziland and Lesotho. South African operations have continued to expand in the current financial year, putting this subsidiary company on track for a pre-tax profit of \$2 million this year. I take this opportunity to congratulate the South African team on their efforts.

Europe and United Kingdom – The United Kingdom 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.

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.

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 DataTrace DNA 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 three segments of the market which will be the focus of the Company's attention 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 Board is confident that several of these prospective clients on which management are now focusing will become fee paying customers next year, which will, in turn, reduce the reliance which the company places on DataDot Technology Limited for ongoing funding.

DataDot “Robot” – The DataDot Robot is a fully automated DataDotDNA spray application system that will, in many instances, replace the time-consuming process of applying DataDotDNA to vehicles manually.

Using the DataDot Robot 7,000 DataDot DNA 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 is expected to greatly enhance the Group’s entry into OE vehicle fitment in all markets.

Current Developments

Europe

In Europe the police commissioners of all EU member states have formally supported a proposal to make Whole-of-Vehicle-Marking using microdots mandatory for all new cars. Their decision has been endorsed by an executive advisory body within the EU and will now be submitted as a recommendation to the Council of Europe. We don’t yet know whether the recommendation will be accepted, and even if it is, how or when it will be implemented by the EC. What is clear, however, is that this whole-of-vehicle-marking policy initiative in the EU has made considerable progress in the last year and is now tracing a similar path to what happened in both New Zealand and Taiwan – namely,

policy change is being driven by the police, supported by compelling evidence that whole-of-vehicle-marking substantially reduces organised vehicle theft.

Outside the EU there are similar encouraging developments in the drive to reduce vehicle crime using DataDots.

Turkey

In Turkey the police have endorsed mandatory whole-of-vehicle-marking and recommended the government enact whole-of-vehicle-marking legislation. Our distributor is working closely with the police and with manufacturers and insurers to achieve this result and with the huge motor scooter and moped industry in Turkey to reduce the widespread incidence of theft in that market.

Central and Eastern Europe

In Romania, Moldova and neighbouring countries we have been engaged for some time with government authorities to introduce DataDots into the automotive registration and inspection processes and to include DataTrace in the printing of official excise stamps. Our best estimate is that final decisions on these projects will be made in early 2008, though I must say that our timing forecasts in relation to government policy decisions must be highly qualified by processes that are beyond our control.

And in South-Eastern Europe, member nations of the Stability Pact, the broader European organisation of national governments that extends beyond the bounds of the EU, have resolved to support whole-of-vehicle-marking using microdots.

These policy initiatives are unlikely to crystallise quickly because government policy processes are invariably slow. But that said, it is unmistakeable that the trend towards mandatory vehicle identification policies using microdots is gaining in momentum across many regions.

South America

In South America there are other promising avenues that the company is currently exploring.

In each of Brazil, Argentina and Colombia we are holding discussions with significant local commercial organisations that are themselves involved in back-to-back discussions with local vehicle manufacturers and national governments. In these countries there is a very large vehicle market and an incidence of vehicle theft that is unacceptable to the local authorities, so the markets have the potential to generate strong growth in our core

DataDot business. However, these are not countries to which we can sensibly export as the import duty on finished product is prohibitively high. So we are looking in each country at the feasibility of local manufacture, which operationally can be easily accomplished due to the portability of our manufacturing operation. The key consideration on whether we establish operations in Brazil, Argentina and Colombia is therefore strategic, in particular whether the commercial arrangements that can be concluded with local vehicle manufacturers and insurers, and whether the support for vehicle marking provided by government regulation, constitute a compelling business case for major development in South America. This is a major item for resolution in the months ahead.

Hong Kong & China

Shareholders will be aware from our market announcement on October 2 that DataTraceDNA Pty Ltd had granted distribution rights for China to a company that had paid the first \$1 million of its licence fee and then defaulted on the balance of \$9 million that was due and payable by September 30, 2007. As that amount of \$9 million had not previously been recognised as revenue in DataTraceDNA Pty Ltd this default did not require a write-off in the company's accounts. The Board said in its announcement that DataTraceDNA Pty Ltd would examine all options for recovery in its protection of shareholders' interests.

I can now report that DataTraceDNA Pty Ltd served notice on the distributor to remedy the breach but received no response within the prescribed 30-day period. The current situation therefore is that the licence has been terminated, the distribution rights have reverted to DataTraceDNA and the non-refundable \$1 million has been retained by DataTraceDNA. The Board of DataTrace has decided that in all the circumstances, including the fact that, unfortunately, the directors of the distributor did not guarantee payment, DataTraceDNA will not proceed to exercise its rights of recovery in the courts.

Future Capital Requirements

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

Allan Farrar
Chairman
27 November 2007