

DCS TECHNOLOGIES LIMITED

ACN: 084 800 902

ANNUAL REPORT

30 June 2005

DCS TECHNOLOGIES LIMITED
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DCS Technologies Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

DCS Technologies Limited
Level 9, 356 Collins Street
Melbourne VIC 3000

A description of the nature of the company's operations and its principal activities is included in the directors' report.

DCS TECHNOLOGIES LIMITED
COMPANY PARTICULARS

Directors	Peter K Abotomey <i>Chairman</i> D Wesley Ferguson <i>Executive Director</i> John R Love <i>Non-Executive Director</i> John J Geddes (appointed 15 July 2005) <i>Non-Executive Director</i>
Secretary	William L Bass
Principal registered office in Australia	Level 9 356 Collins Street MELBOURNE VIC 3000 Telephone: 0410 558 674 Facsimile: (03) 9923 6066
Notice of annual general meeting	The annual general meeting of DCS Technologies Limited will be held at the office of Phillips Fox, Level 21, 140 William Street, Melbourne on 28 November 2005 at 12.30PM
Share registers	Advanced Share Registry Services 110 Stirling Highway NEDLANDS WA 6009 Telephone: (08) 9389 8033 Facsimile: (08) 9389 7871
Auditor	Ian D Riley Chartered Accountant Ground Floor 3 Raglan Street SOUTH MELBOURNE VIC 3205
Solicitors	Phillips Fox Level 21, 140 William Street MELBOURNE VIC 3000
Bankers	National Australia Bank
Stock exchange listing	DCS Technologies Limited shares are listed on the Australian Stock Exchange but suspended from trading at this time.

DCS TECHNOLOGIES LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

The directors present their report together with the consolidated financial statements of DCS Technologies Limited being the Company and its controlled entities for the year ended 30 June 2005 and the auditors' report thereon.

Principal activities

The company's principal activity during the year was provision of information technology services to industry in "value added" services.

Consolidated results

The consolidated net loss for the consolidated entity for the year ended 30 June 2005 was \$ 42,594 (2004: net loss \$59,578).

Dividend payment

The directors recommend that no dividend be declared or paid.

Review of operations

The company has operated in New Zealand in the full financial year ended 30 June 2005 and this business has traded profitably in the 2005 financial year. It has been successful in winning new business with customers in Australia and New Zealand, with the full effect on revenue still to complete as the customer programmes are implemented.

DCS entered into a Chinese joint venture with Shanghai Sand Bankcard-Link Information & Service Co., Ltd to create Shanghai Smart Service Co., Ltd. The DCS share of joint venture start up expenses was \$40,964.

Significant changes in the state of affairs

A shareholders meeting convened on 15 June 2005 approved the following resolutions:-

[1] allotment of 20 million ordinary shares at \$0.125 to FCPA China Investments Limited, being 38.595% of voting ordinary shares issued after all resolutions were approved;

[2] allotment of 768,000 ordinary shares to Messrs Abotomey & Ferguson, and 576,000 ordinary shares to Messrs Love and Bass in consideration of services to 30 June 2005;

[3] conversion of \$940,000 debt to shares at \$0.10.

There was no other significant change in the state of affairs of the Company during the financial year, or arising since 30 June 2005 to the date of this report.

DCS TECHNOLOGIES LIMITED
DIRECTORS' REPORT (CONTINUED)

Events subsequent to balance date

Mr John J Geddes was appointed a director of DCS Limited on 15 July 2005. Mr Geddes has considerable financial and operational experience with FCPA China Investments Limited. FCPA China Investments have a right to appoint a further director (subject to acceptability to the remainder of the Board) to the business pursuant to an agreement signed between the parties.

As of the date of these Financial Statements the Directors are of the opinion that the Company is a going concern.

Except for the above matters, since the end of the financial year the directors are not aware of any matter or circumstance not otherwise dealt with in the consolidated financial statements that has or may significantly affect the operation of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Directors' information

Director	Responsibilities	Qualifications	Shareholding	30 June 2006 Options
P Abotomey	Chairman and Executive director	BSc MBA	2,218,000	3,750,000
DW Ferguson	Executive director	FAICD	2,118,000	3,750,000
J Love	Non-executive director	BComm, MBA, CPA, FCIS, FAICD	601,000	-
J Geddes	Non-executive director		-	-

Details of options are fully detailed at Note 16 in the financial statements.

Directors meetings

	Number of Director meetings eligible to attend	Number of Director meetings attended	Number of Audit Committee meetings eligible to attend	Number of Audit Committee meetings attended
P Abotomey	12	12	6	6
DW Ferguson	12	12	6	6
J Love	12	12	6	6

Remuneration Report

Directors and executive remuneration packages are determined by the Board. Remuneration packages are set at levels that are intended to attract and retain directors and executives capable of managing the consolidated entity's operations. Whilst the company continues to deploy its restructure strategy, remuneration of directors, the company secretary and senior managers will be closely monitored.

Directors have not been remunerated recent years whilst strategies to commence the business restructure were implemented. Remuneration in the form of shares was proposed by resolution to shareholders at the General

DCS TECHNOLOGIES LIMITED
DIRECTORS' REPORT (CONTINUED)

Meeting conducted on 15 June 2005. Details of the nature and amount of each of the emoluments of each director of DCS Technologies Limited, paid in accordance with the approved resolution, are set out in the following tables.

Remuneration Report (continued)

Non-executive directors of DCS Technologies Limited

Name	Remuneration paid whilst Director	Superannuation	Options	Other	Total
	\$	\$	\$	\$	\$
J Love	72,000	-	-	-	72,000
J Geddes	-	-	-	-	-

Executive directors of DCS Technologies Limited

Name	Remuneration paid whilst Director	Superannuation	Options	Other	Total
	\$	\$	\$	\$	\$
P Abotomey	96,000	-	-	-	96,000
DW Ferguson	96,000	-	-	-	96,000

Other executive officers of DCS Technologies Limited

Name	Remuneration paid	Superannuation	Options	Other	Total
	\$	\$	\$	\$	\$
W Bass	72,000	-	-	-	72,000

There were no other employees of the company that form part of the executive management team as at balance date.

Company Secretary

Mr William Bass has held the position of company secretary since 2003. His qualifications and experience are:

Fellow – Chartered Secretaries Australia
Fellow – Taxation Institute of Australia
Associate – Institute of Chartered Accountants

He has substantial experience as a company secretary with a number of leading Australian and international public and private companies.

Auditors Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 33.

DCS TECHNOLOGIES LIMITED
DIRECTORS' REPORT (CONTINUED)

The directors are satisfied that the provision of non-audit services by the external auditors during the year is compatible with the requirements for independence of auditors imposed by the Corporations Act 2001, and did not compromise the auditor's independence as the nature of the services did not compromise the general principles relating to auditor independence contained in Professional Statement F1: Professional Independence as promulgated by the Institute of Chartered Accountants in Australia and CPA Australia.

Indemnification and insurance of officers

At the Annual General Meeting of the Company held on 30 May 2003 the shareholders resolved to approve the execution of a Deed of Indemnity, Insurance & Access ('Deed') with its Directors in accordance with ordinary commercial practice. The Deed provides:

- [a] that the Company will indemnify its Directors against certain liabilities, costs and expenses as permitted under the Corporations Act 2001 during each Directors period of office and for a period of seven years after a Director ceases to hold office;
- [b] the Company will use its best endeavours to obtain and maintain a commercially prudent level of Directors and Officers insurance during each Directors' period of directorship and for a period of seven years after the director ceases to hold office;
- [c] the Company will in certain circumstances grant former Directors access to books and records relating to their period in office; and
- [d] the Company will ensure that, where Directors seek access to legal advice obtained by the Company during their period in office, legal advice will be obtained for the benefit of the Company and all of its Directors at that time.

No indemnities have been given or insurance premiums paid, or agreed to be paid, during or since the end of the financial year, for any person who is or has been a director or officer of the company.

Future developments

The directors propose to continue to explore and consolidate loyalty card and smart card technology opportunities in the Australia, New Zealand and Asian regions.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation.

Signed in accordance with a resolution of the Board of Directors.



Chairman
30 September 2005
Melbourne

DCS TECHNOLOGIES LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

Corporate Governance Statement

The directors support and are committed to maintaining best practice in Corporate Governance, pursuant to the Australian Stock Exchange Corporate Governance Councils "Principles of Good Corporate Governance".

The Board may comprise from three to ten directors in accordance with the Articles of Association and currently consists of three directors.

In view of the size of the Company, the Directors have considered that establishing committees for Board nominations and remuneration levels of directors and senior executives would contribute little to its effective management and accordingly the nomination of new directors and the setting or review of remuneration levels of directors and senior executives are reviewed by the Board as a whole, and then approved by resolution of the Board. Where the Directors consider that particular expertise or information is required, which is not available from within their number, then appropriate external advice is taken and reviewed prior to final decisions being made.

Your directors have been focussed on implementing measures to ensure the short and medium term stability of the Group. Your directors have departed from the Principles where the Principles were not considered appropriate or relevant for the business during this process. Application of the Principles, including exceptions and the reasons for such departures are:-

Principle 1 – Foundations for management & board oversight

- 1.1 The Company has not formalised functions reserved to the Board and those delegated to management, as the Board is maintaining close focus and practical involvement on all aspects of the business.

Principle 2 – Structure of Board to add value

- 2.1 The Chairman is also the Chief Executive Officer ("CEO") as elected unanimously by the non executive directors.
- 2.2 The Constitution provides for up to 10 Directors. The Board considers that this mix is appropriate at this time for the effective operation of the company.
- 2.3 The board comprises 4 members. No formal annual board performance review has been conducted, although all directors are of the view that the board functions efficiently and effectively to discharge all relevant obligations
- 2.4 The non-executive independent directors did not meet in scheduled sessions without the Executive Director and Chairman, at their election
- 2.5 The Constitution does not prescribe the maximum length of service before a non-executive director should retire. The Board proposes to review this in the ensuing year
- 2.6 No director entered into business dealings that could potentially constitute a conflict of interest.
- 2.7 With the exception of the Audit Committee, all other matters of business including director nominations and remuneration are considered within the normal business of periodic director meetings.

DCS TECHNOLOGIES LIMITED
CORPORATE GOVERNANCE STATEMENT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2004

Principle 3 – Promote ethical and responsible decision making

- 3.1 The Company has not implemented a formal code of conduct to guide directors the directors, CEO or other key executives, in reflection of the small size of the Company and close monitoring of all aspects of the business by the Chairman/CEO and the Board. The Board proposes to review this as circumstances warrant.
- 3.2 The Company has not implemented a policy concerning trading in company securities. The Board proposes to review this when the Company is granted re-quoting to the ASX

Principle 4 – Safeguard integrity in financial reporting

- 4.1 The Company has not implemented formal written signoff to the Board as to the integrity of the financial reports, reflecting the current size of the operation and the practical daily involvement of the Chairman/CEO and other directors in the day to day operations. The Board proposes to review this as circumstances warrant.
- 4.2 All directors are members of the Audit Committee, and audit committee functions are currently being undertaken by the full board of directors. The full Board decides on the following issues;
- [i] accounting policies, practices and disclosure;
 - [ii] the scope and outcome of the external audit;
 - [iii] the link between the external auditors and the board;
 - [iv] the accuracy, timeliness and level of disclosure of the company's published accounts;
 - [v] compliance with the requirements of regulatory authorities;
 - [vi] the recommendation to the board on the appointment and remuneration of external auditors.
- 4.3 The Chairman/CEO is a member of the Audit Committee. His involvement on the Committee is considered to be critical to the ability of the Committee to complete its obligations. The Company does not have proposals to amend this arrangement in the foreseeable future.
- 4.4 All non-executive directors have considerable relevant financial experience in the practical operation of Audit Committees, and the Company has accordingly not implemented a formal charter as to how the Audit Committee is to operate. The Board proposes to review this as circumstances warrant.

Principle 5 – Make timely and balanced disclosure

- 5.1 The Company has not implemented formal written policies and procedures to ensure compliance with ASX Listing Rules. The Board proposes to review this in the ensuing year.

Principle 6 – Respect the rights of shareholders

- 6.1 The Company communicates via the ASX at least quarterly to its shareholders with respect to its performance and future expectations where not previously advised. The Company will assess additional use of its website in the ensuing year to promote better shareholder communication.
- 6.2 The auditor attends each General Meeting and is available to answer shareholder questions on the conduct of the audit and preparation of the auditors report.

DCS TECHNOLOGIES LIMITED
CORPORATE GOVERNANCE STATEMENT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2004

Principle 7 – Recognise and manage risk

- 7.1 The Company is not of sufficient size to warrant a committee separate to the Board to assess business risk and implement appropriate mechanisms to manage risk. While it is generally understood that a business organisation needs to be exposed to some level of risk to provide the returns required by investors, it is important that the risk exposure is identified and evaluated together with any necessary actions for control. This risk is being managed by the directors on a day to day basis and any exposures are brought to the attention of the full Board.
- 7.2 The Company has not adopted written reports to the Board from the CEO as to the existence of a sound system of risk oversight and management and internal control, as the directors individually and collectively have close practical experience with all relevant aspects of the business that override the practical need for this process. The Board proposes to review this as circumstances warrant.

Principle 8 – Encourage enhanced performance

- 8.1 The Company has not implemented performance evaluation processes for the Board, the Audit Committee, individual directors and key executives. The Board has conducted a review and re-engineering of part of its New Zealand operation, including reviewing and initiating relevant management Key Performance Indicators. A more formal process for board review will be investigated as circumstances warrant.

Principle 9 – Remunerate fairly and responsibly

- 9.1 The Company has not remunerated either the Board or key executives in the financial year, in recognition of the substantial work required, and limited resources available, to restore the business. Proposals for compensation are detailed in the Notice of Annual General Meeting. A more formal process for remuneration assessment relative to performance will be investigated as circumstances warrant.
- 9.2 For the reasons outlined above, the Company has not implemented a Remuneration Committee. This will be reviewed as circumstances warrant.
- 9.3 Any compensation payable to directors, as fully detailed in this Annual Report, is dependent on agreed commercial milestones being met within prescribed timeframes. The milestones were agreed at a previous Annual General Meeting, and are reasonable and appropriate to the Company's circumstances. Further amendments will be considered as circumstances warrant.

Principle 10 – Recognise the legitimate interests of stakeholders

- 10.1 The Company has not implemented a formal code of conduct to guide compliance with legal and other obligations to legitimate stakeholders. This will be reviewed as circumstances warrant.

DCS TECHNOLOGIES LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

		Consolidated		Parent Entity	
	Notes	2005	2004	2005	2004
		\$	\$	\$	\$
Revenue from ordinary activities	2	1,541,717	1,112,010	4,354	1,895
Employee costs		(648,408)	(537,911)	(336,000)	-
Depreciation and amortisation expense	3	(104,666)	(83,056)	(235)	-
Borrowing costs expense	3	(146,342)	(109,668)	(146,342)	(109,668)
Consultants fees		(9,347)	(61,672)	(9,347)	(61,672)
Other expenses from ordinary activities		<u>(675,548)</u>	<u>(379,281)</u>	<u>(741,052)</u>	<u>(12,671)</u>
Loss from ordinary activities before income tax expense		(42,594)	(59,578)	(1,228,622)	(182,116)
Income tax expense	4	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss from ordinary activities after income tax expense		<u>(42,594)</u>	<u>(59,578)</u>	<u>(1,228,622)</u>	<u>(182,116)</u>
Net loss attributable to members of DCS Technologies Limited	17	<u>(42,594)</u>	<u>(59,578)</u>	<u>(1,228,622)</u>	<u>(182,116)</u>
Total changes in equity other than those resulting from transactions with owners as owners	18	<u>(42,594)</u>	<u>(59,578)</u>	<u>(1,228,622)</u>	<u>(182,116)</u>

DCS TECHNOLOGIES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

		Consolidated		Parent Entity	
	Notes	2005	2004	2005	2004
		\$	\$	\$	\$
Current assets					
Cash assets	5	1,363,178	154,226	1,243,304	38,642
Receivables	6	400,960	166,226	50,160	-
Other	7	2,205	2,080	-	336
Total current assets		1,766,343	322,532	1,293,464	38,978
Non-current assets					
Receivables	8	-	-	512,546	1,274,219
Other financial assets	9	-	-	1,351,100	1,351,100
Property, plant and equipment	10	300,448	17,784	8,318	-
Interest in joint venture entity	11	1,272,665	-	1,272,665	-
Intangibles	12	496,766	549,226	-	-
Total non-current assets		2,069,879	567,010	3,144,629	2,625,319
Total assets		3,836,222	889,542	4,438,093	2,664,297
Current liabilities					
Payables	13	92,830	97,073	19,422	10,000
Interest bearing liabilities	14	196,412	775,000	196,412	775,000
Provisions	15	7,866	7,345	-	-
Total current liabilities		297,108	879,418	215,834	785,000
Total liabilities		297,108	879,418	215,834	785,000
Net assets		3,539,114	10,124	4,222,259	1,879,297
Equity					
Contributed equity	16	16,542,326	12,970,742	16,542,326	12,970,742
Accumulated losses	17(a)	(13,003,212)	(12,960,618)	(12,320,067)	(11,091,445)
Reserves	17(b)	-	-	-	-
Total equity	18	3,539,114	10,124	4,222,259	1,879,297

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

DCS TECHNOLOGIES LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

		Consolidated		Parent Entity	
	Notes	2005	2004	2005	2004
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		1,336,002	1,185,550	-	-
Payments to suppliers		(998,772)	(1,973,035)	(755,757)	(814,031)
Interest received		3,533	1,895	3,533	1,895
Borrowing costs		(139,602)	(109,409)	(139,602)	(109,409)
Net cash outflow from operating activities	29	<u>201,161</u>	<u>(894,999)</u>	<u>(891,826)</u>	<u>(921,545)</u>
Cash flows from investing activities					
Payments for property, plant and equipment		(335,576)	(7,088)	(8,552)	-
Loans to related parties		-	-	761,673	-
Net cash outflow from investing activities		<u>(335,576)</u>	<u>(7,088)</u>	<u>753,121</u>	<u>-</u>
Cash flows from financing activities					
Proceeds from issue of shares		2,500,000	-	2,500,000	-
Proceeds from borrowings		421,412	525,000	421,412	525,000
Repayment of borrowings		(60,000)	-	(60,000)	--
Joint venture funding contribution		(1,313,629)	-	(1,313,629)	-
Introduction fee – capital subscription		(125,000)	-	(125,000)	-
Share issue costs		(79,416)	-	(79,416)	--
Net cash inflow from financing activities		<u>1,343,367</u>	<u>525,000</u>	<u>1,343,367</u>	<u>525,000</u>
Net (decrease)/increase in cash held		1,208,952	(377,087)	1,204,662	(396,545)
Cash at the beginning of the financial period		<u>154,226</u>	<u>531,313</u>	<u>38,642</u>	<u>435,187</u>
Cash at the end of the financial period	5	<u>1,363,178</u>	<u>154,226</u>	<u>1,243,304</u>	<u>38,642</u>
Non-cash financing activities	30	940,000	-	940,000	-

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies

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

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Going concern

As of the date of these Financial Statements the Directors are of the opinion that the Company is a going concern, and is able to meet its debts and commitments as they fall due.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by DCS Technologies Limited ("company" or "parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. DCS Technologies Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date of when control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised as operating income or expense in the consolidated statement of financial performance, and its share of movement in reserves is recognised in consolidated reserves. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(d) Foreign currency translation

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of transaction. At balance date amounts payable and receivable in foreign currency are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

(ii) Specific commitments

Hedging is undertaken as the Company seeks to avoid or minimise possible adverse financial effects of movements in exchange rates on certain transactions. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase of goods or services, together with the subsequent exchange gains and losses resulting from those transactions are deferred up to the date of the purchase and sale and

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(ii) Specific commitments (continued)

included in the measurement of purchase and sale. In the case of hedges of monetary items, exchange gains or losses are brought into account in the financial year in which the exchange rate changes. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the statement of financial performance over the life of the hedges.

When anticipated purchase or sales transactions have been hedged, actual purchases or sales which occur during the hedged period are accounted for as having been hedged until the amounts of those transactions are fully allocated against the hedged amounts.

In those circumstances where a hedging transaction is terminated prior to maturity because the hedged transaction is no longer expected to occur, any previously deferred gains and losses are recognised in the statement of financial performance on the date of termination.

(iii) General commitments

Exchange gains or losses on other hedge transactions are brought into account in the statement of financial performance in the financial year in which the exchange rate changes. Gains or costs arising on entry into hedges of general commitment are brought to account at the time of entry into the hedges and are amortised over the lives of the hedges.

(e) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity. Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Goodwill is brought to account on the basis described in Note 1(t).

(f) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised when the economic entity's switching or other services are utilised under a service contract.

(g) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists and in any event when the debt is more than 60 days overdue.

(h) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is revalued to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(h) Recoverable amount of non-current assets (continued)

basis of the relevant group of assets. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the profit and loss statement.

Unless otherwise stated, the expected net cash flows included in determining recoverable amounts of non-current assets are not subject to discounting.

(i) Investments

Interests in listed and unlisted securities, other than controlled entities and associated in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in note 1(b)

(j) Depreciation of plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of plant and equipment over its expected useful life to the Company. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful life for plant and equipment is 3 to 5 years.

Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

Fixed assets are depreciated from the moment they are brought into use.

(k) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease, or the estimated useful life of the asset of the improvement to the company, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 5 years.

(l) Lease non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risk and benefits. Finance leases are capitalised. A lease assets and liabilities are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease from the moment the asset is brought into use, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Lease assets held at reporting date are being amortised over three years.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from lease assets.

(m) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

1. Summary of significant accounting policies (continued)

(n) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses when incurred.

(o) Employee entitlements

The Company has adopted the revised Australian Accounting Standard AASB 1028 (*Employee Benefits*), which has resulted in a change to the accounting policy for the measurement of employee benefit liabilities. Previously the consolidated entity measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The quantified effect of the change in policy is immaterial.

(p) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the cost of qualifying assets.

All borrowing costs during the period relate to finance lease charges.

(q) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(r) Earnings per share

The consolidated entity has applied AASB 1027, (*Earnings Per Share*) (issued June 2001) from 1 July 2001.

Basic earnings per share

Basic earnings per share are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential number of ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

1 Summary of significant accounting policies (continued)

(s) Interests in Joint Ventures

The economic entity accounts for its interest in the Chinese joint venture with Shanghai Sand Bankcard-Link Information & Service Co., Ltd to create Shanghai Smart Service Co., Ltd using the investment method.

(t) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over six years, being the period during which the benefits are expected to arise. The cost of acquisition is discounted as described in Note 1(e) where settlement of any part of cash consideration is deferred.

2. Revenue

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenue from operating activities				
Revenue	<u>589,594</u>	<u>532,523</u>	<u>-</u>	<u>-</u>
Revenue from outside the operating activities				
Sub-lease rentals	-	699	-	-
Interest	3,531	1,895	3,531	1,895
Licence fees	837,012	554,523	-	-
Foreign exchange gains	15,819	-	823	-
Other	<u>95,761</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>952,123</u>	<u>579,487</u>	<u>4,354</u>	<u>1,895</u>
Total revenue from ordinary activities	<u>1,541,717</u>	<u>1,112,010</u>	<u>4,354</u>	<u>1,895</u>

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

3. Operating loss

Net gains and expenses

Profit from ordinary activities before income tax expense includes the following net gains and expenses:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Net gains				
Net gains (loss) on disposal of plant and equipment	2,774	(3,762)	-	-
Expenses				
<i>Loss from ordinary activities before income tax expense includes the following specific expenses.</i>				
Depreciation				
Plant and equipment	52,206	30,956	235	-
Amortisation of Goodwill	52,460	52,460	-	-
Total amortisation and depreciation	<u>104,666</u>	<u>83,056</u>	<u>235</u>	<u>-</u>
Other charges against assets				
Bad debts	72,253	-	-	-
Loans forgiven	-	-	517,044	-
Borrowing costs				
Finance charges paid	146,342	109,668	146,342	109,668
Other provisions				
Employee entitlements	-	-	-	-
Rental expenses relating to operating leases	92,094	88,654		1,591
Individually significant items				
Expenses				
Deed of Company Arrangement costs	-	61,672	-	61,672
Foreign exchange losses	34,272	-	-	-

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

4. Income tax

The aggregate amount of income tax attributable to the financial period differs from the amount calculated on the operating loss. The differences are reconciled as follows:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Loss from ordinary activities before income tax	(42,594)	(59,758)	(1,228,622)	(182,116)
Income tax calculated at 30%	(12,778)	(17,927)	(368,587)	(54,635)
Tax effect of permanent differences:				
Sundry items	15,768	15,780	15,768	15,780
Income tax adjusted for permanent differences	2,990	(2,147)	(352,819)	(38,855)
Net future income tax benefit not brought to account	(2,990)	2,147	352,819	38,855
Income tax expense	-	-	-	-

Potential future income tax benefits estimated at \$ 3,301,910 (2004: \$2,649,847) for the consolidated entity and \$3,227,092 (2004: \$2,401,644) for the parent entity, attributable to tax losses carried forward have not been brought to account because the directors do not believe it is appropriate to record the realisation of the future income tax benefits as virtually certain. The benefits will only be obtained if:

- (i) the parent entity or its controlled entities derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the parent entity or its controlled entities continues to comply with the conditions for deductibility imposed by tax legislation in both Australia and New Zealand; and
- (iii) no changes in tax legislation adversely affect the parent entity or its controlled entities in realising the benefit from the deductions for the losses.

5. Current assets – Cash assets

	Consolidated		Parent Entity	
	2005	2004	2005	2004
Cash at bank and on hand	1,363,178	154,226	1,243,304	38,642

The above figures are as shown in the statement of cash flows.

6. Current assets – receivables

Trade debtors	361,116	212,100	-	-
Provision for doubtful debts	(10,316)	(45,874)	-	-
Other receivables	50,160	-	50,160	-
	400,960	166,226	50,160	-

These amounts generally arise from transactions within the usual operating activities of the consolidated entity.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

7. Current assets – other

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Prepayments			1	
			5	
			2	
			7	
	2,205	1,744	-	4
Sundry	-	336	-	336
	<u>2,205</u>	<u>2,080</u>	<u>-</u>	<u>336</u>

8. Non-current assets – receivables

Loans to controlled entities	<u>-</u>	<u>-</u>	<u>512,546</u>	<u>1,274,219</u>
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9. Non-current assets – other financial assets
Other (non-traded) investments

Shares in controlled entities at cost	<u>-</u>	<u>-</u>	<u>1,351,100</u>	<u>1,351,100</u>
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10. Non-current assets – property, plant and equipment

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Plant and equipment – at cost	104,658	83,743	8,552	-
Less accumulated depreciation	<u>(85,248)</u>	<u>(75,905)</u>	<u>(234)</u>	<u>-</u>
	<u>19,410</u>	<u>7,838</u>	<u>8,318</u>	<u>-</u>
Software – at cost	350,224	35,562	-	-
Less accumulated amortisation	<u>(69,186)</u>	<u>(25,616)</u>	<u>-</u>	<u>-</u>
	<u>281,038</u>	<u>9,946</u>	<u>-</u>	<u>-</u>
	<u>300,448</u>	<u>17,784</u>	<u>8,318</u>	<u>-</u>

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

10. Non-current assets – property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below:

	2005		2004	
	Plant & equipment \$	Software \$	Plant & equipment \$	Software \$
Consolidated				
Carrying amount at 1 July 2004	7,838	9,946	9,492	35,562
Additions	22,982	314,662	7,088	-
Disposals	(2,774)	-	(3,762)	-
Depreciation/amortisation expense (note 3)	(8,636)	(43,570)	(4,980)	(25,616)
Carrying amount at 30 June 2005	<u>19,410</u>	<u>281,038</u>	<u>7,838</u>	<u>9,946</u>
Parent entity				
Carrying amount at 1 July 2004	-	-	-	-
Additions	8,553	-	-	-
Disposals	-	-	-	-
Depreciation/amortisation expense (note 3)	(235)	-	-	-
Carrying amount at 30 June 2005	<u>8,318</u>	<u>-</u>	<u>-</u>	<u>-</u>

11. Non-current assets – interest in joint venture

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Investment made during the year	1,313,629	-	1,313,629	-
Less – share of loss to 30 June 2005	<u>(40,964)</u>	<u>-</u>	<u>(40,964)</u>	<u>-</u>
	<u>1,272,665</u>	<u>-</u>	<u>1,272,665</u>	<u>-</u>

DCS Technologies Limited acquired a 50% joint venture interest in Shanghai Smart Service Co., Ltd during the year, which enabled the pursuit of opportunities within the emerging China market for loyalty systems, charge card, and smart card technology. Joint venture losses to 30 June 2005 substantially attribute to business establishment.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

12. Non-current assets – Intangible assets

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Goodwill	1,510,362	1,510,362	-	-
Less: recoverable amount write down (Note 3)	(399,081)	(399,081)	-	-
Less: accumulated amortisation (Note 3)	(614,515)	(562,055)	-	-
	<u>496,766</u>	<u>549,226</u>	<u>-</u>	<u>-</u>

13. Current liabilities – Payables

Trade creditors	37,735	44,209	-	-
Other creditors	55,095	52,864	19,422	10,000
	<u>92,830</u>	<u>97,073</u>	<u>19,422</u>	<u>10,000</u>

14. Current liabilities – Interest bearing liabilities

Secured loans	<u>196,412</u>	<u>775,000</u>	<u>196,412</u>	<u>775,000</u>
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The loans are secured by mortgage debenture over the assets of the company. Interest is payable monthly at the rate of 15% per annum. The loan was repaid in full on 11 July 2005.

15. Current liabilities – Provisions

Employee entitlements	<u>7,866</u>	<u>7,345</u>	<u>-</u>	<u>-</u>
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DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

16. Contributed equity

	Parent entity		Parent entity	
	2005	2004	2005	2004
	Shares	Shares	\$	\$
Share capital				
Ordinary shares – fully paid	<u>51,819,990</u>	<u>19,731,990</u>	<u>16,542,326</u>	<u>12,970,742</u>

Movements in share capital since 30 June 2004 were as follows:

Date	Details	Shares	Issue Price	\$
1/07/04	Balance	19,731,990		12,970,742
30/6/05	Ordinary shares issued	22,688,000	\$0.125	2,836,000
		9,400,000	\$0.100	940,000
	Transaction costs			(204,416)
30/06/05	Balance	<u>51,819,990</u>		<u>16,542,326</u>

The additional ordinary share issue were approved by shareholders at a General Meeting of the Company held on 15 June 2005.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

On a show of hands each holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

Options

No options were granted or exercised during the 2004 or 2005 financial year.

At the Annual General Meeting of the Company on 30 May 2003, options were granted to certain shareholders of DCS Technologies Limited as follows:-

Number of options	Exercise price - cents	Option expiration	Condition for exercise	Class of instrument over which option granted
1,500,000	2.7	30 June 2006	Company to raise \$1.4 million	Capital options
6,000,000	2.7	30 June 2006	Volume weighted average price of DCS ordinary shares exceeds \$0.15 on 10 consecutive trading days prior to 30 June 2006	\$0.15 options to acquire fully paid ordinary shares
6,000,000	2.7	30 June 2006	Volume weighted average price of DCS ordinary shares exceeds \$0.25 on 10 consecutive trading days prior to 30 June 2006	\$0.25 options to acquire fully paid ordinary shares

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

16. Contributed equity (continued)

At 30 June 2005 the interests in shares and options held by the directors directly or by director-related entities were as follows:-

Director	Fully paid ordinary shares	Options over ordinary shares
P Abotomey	2,218,000	3,750,000
DW Ferguson	2,118,000	3,750,000
J Love	601,000	Nil

Options over ordinary shares are held as follows:-

Class	Director	Exercise price \$	Expiry	Number held
Class 1 options (a)	P Abotomey	\$0.027	30 June 2006	750,000
	DW Ferguson	\$0.027	30 June 2006	750,000
Class 2 options (b)	P Abotomey	\$0.027	30 June 2006	1,500,000
	DW Ferguson	\$0.027	30 June 2006	1,500,000
	Other	\$0.027	30 June 2006	3,000,000
Class	Director	Exercise price \$	Expiry	Number held
Class 3 options (c)	P Abotomey	\$0.027	30 June 2006	1,500,000
	DW Ferguson	\$0.027	30 June 2006	1,500,000
	Other	\$0.027	30 June 2006	3,000,000
TOTAL				14,000,000

- (a) Options exercisable only when the Company has raised, no later than 30 June 2006, at least \$1.4 million
- (b) Options exercisable only if the volume weighted average price of the Company's ordinary shares exceeds \$0.15 on 10 consecutive trading days in any calendar month prior to 30 June 2006
- (c) Options exercisable only if the volume weighted average price of the Company's ordinary shares exceeds \$0.25 on 10 consecutive trading days in any calendar month prior to 30 June 2006.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

17. Accumulated losses and reserves

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
(a) Accumulated losses				
Accumulated losses at the beginning of the financial year	(12,960,618)	(12,901,040)	(11,091,445)	(10,909,329)
Net loss attributable to the members of DCS Technologies Limited	(42,594)	(59,578)	(1,228,622)	(182,116)
Accumulated losses at the end of the year	<u>(13,003,212)</u>	<u>(12,960,618)</u>	<u>(12,320,067)</u>	<u>(11,091,445)</u>
(b) Foreign currency translation reserve				
Balance at the beginning of the year	-	-	-	-
Net exchange difference on translation of Foreign controlled entities	-	-	-	-
Balance at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

18. Equity

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Total equity at the beginning of the financial year	10,124	69,702	1,879,297	2,061,413
Total changes in equity recognised in the statement of financial performance	(42,594)	(59,578)	(1,228,622)	(182,116)
Movement in foreign currency translation reserve	-	-	-	-
<i>Transactions with owners as owners:</i>				
Contributions of equity, net of transaction costs	3,571,584	-	3,571,584	-
Total equity at the end of the year	<u>3,539,114</u>	<u>10,124</u>	<u>4,222,259</u>	<u>1,879,297</u>

19. Financial instruments

(a) Credit risk exposures

The credit risk on financial assets of the entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

Bank bills which have been purchased at a discount to face value, are carried on the statement of financial position at an amount less than the amount realisable at maturity. The total credit risk exposure of the entity could also be considered to include the difference between the carrying amount and the realisable amounts (refer note 5).

For off-balance sheet financial instruments, including derivatives, which are deliverables, credit risk also arises from the potential failure of counter parties to meet their obligations under the respective contracts at maturity. A material exposure arises from forward exchange contracts and the consolidated entity is exposed to loss in the event that counter parties fail to deliver the contracted amount

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

19. Financial instruments (continued)

(b) Interest rate risk exposure

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity period for each class of financial assets and financial liabilities is set out in the following table.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

2005	Notes	Fixed interest maturing in:			Non-interest bearing \$	Total \$
		Floating interest rate \$	1 year or less \$	over 1 to 5 years \$		
Financial assets						
Cash and deposits	5	1,363,178	-	-	-	1,363,178
Receivables	6	-	-	-	400,960	400,960
		<u>1,363,178</u>	<u>-</u>	<u>-</u>	<u>400,960</u>	<u>1,764,138</u>
Weighted average interest rate		2.0%				
Financial liabilities						
Trade and other creditors	13				92,830	92,830
Secured loans	14		196,412			196,412
		<u>-</u>	<u>196,412</u>	<u>-</u>	<u>92,830</u>	<u>289,242</u>
Weighted average interest rate		2.0%	15.0%			
Net financial assets (liabilities)		<u>1,363,178</u>	<u>(196,412)</u>	<u>-</u>	<u>308,130</u>	<u>1,474,896</u>

2004	Notes	Fixed interest maturing in:			Non-interest bearing \$	Total \$
		Floating interest rate \$	1 year or less \$	over 1 to 5 years \$		
Financial assets						
Cash and deposits	5	154,226	-	-	-	154,226
Receivables	6	-	-	-	166,226	166,226
		<u>154,226</u>	<u>-</u>	<u>-</u>	<u>166,226</u>	<u>320,452</u>
Weighted average interest rate		2.0%				
Financial liabilities						
Trade and other creditors	13	-	-	-	97,073	97,073
Secured loans	14	-	775,000	-	-	775,000
		<u>-</u>	<u>775,000</u>	<u>-</u>	<u>97,073</u>	<u>872,073</u>
Weighted average interest rate		2.0%	15.0%			
Net financial assets/(liabilities)		<u>154,226</u>	<u>(775,000)</u>	<u>-</u>	<u>69,153</u>	<u>(551,621)</u>

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

19. Financial instruments (continued)

(e) Net fair value of financial assets and liabilities

(1) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance sheet date. For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

(2) Off-balance sheet

For forward exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance sheet date calculated by reference to the current forward rates for contracts with similar maturity profiles.

The carrying amounts and net fair values of the economic entity's financial assets and liabilities at balance date are:

	Carrying amount		Net fair value	
	2005	2004	2005	2004
	\$	\$	\$	\$
On-balance sheet financial instruments				
Financial assets				
Cash	1,363,178	154,226	1,363,178	154,226
Trade debtors	400,960	166,226	400,960	166,226
Other debtors	2,205	2,080	2,205	2,080
Non traded financial assets	<u>1,766,343</u>	<u>322,532</u>	<u>1,766,343</u>	<u>322,532</u>
Financial liabilities				
Trade creditors	92,830	97,073	92,830	97,073
Lease liabilities	196,412	775,000	196,412	775,000
Non-traded financial liabilities	<u>289,242</u>	<u>872,073</u>	<u>289,242</u>	<u>872,073</u>

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

20. Remuneration of directors

	Consolidated		Parent entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Income paid or payable, or otherwise made available, to directors by the company and related parties in connection with the management of affairs of the company	<u>264,000</u>	<u>-</u>	<u>264,000</u>	<u>-</u>

The numbers of parent entity directors whose total income from the parent entity or related parties was within the specified bands are as follows:

		2005	2004
\$	\$		
0	9,999	-	3
70,000	79,999	1	-
90,000	- 99,999	2	-

21. Remuneration of executives

	Executive officers of the consolidated entity		Executive officers of the parent entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Remuneration received from the entity whose remuneration was at least \$100,000	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

22. Remuneration of auditors

Remuneration of the auditors of the parent entity or any entity in the consolidated entity:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Auditors of the parent entity				
Auditing the financial report	18,045	15,700	18,045	10,700
Other	<u>-</u>	<u>1,200</u>	<u>-</u>	<u>1,200</u>
	<u>18,045</u>	<u>16,900</u>	<u>18,045</u>	<u>11,900</u>
Other auditors				
Auditing the financial report	<u>11,365</u>	<u>14,700</u>	<u>-</u>	<u>-</u>
	<u>29,410</u>	<u>31,600</u>	<u>18,045</u>	<u>11,900</u>

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

23. Commitments for expenditure

Capital commitments

There are no commitments for the acquisition of plant and equipment contracted for at the reporting date.

Operating leases

There are no commitments for minimum lease payments in relation to non-cancellable operating leases .

Finance leases

There are no commitments in relation to financial leases.

24. Employee entitlements

	2005	2004	2005	2004
	Number	Number	Number	Number
Employee numbers				
Average number of employees during the financial year	<u>12</u>	<u>12</u>	<u>-</u>	<u>-</u>

25. Related parties

Directors

The names of persons who were directors of the company for the full financial period are Messrs Peter K Abotomey, Desmond Wesley Ferguson & John R Love. Mr John J Geddes was appointed a director on 15 July 2005.

Remuneration

Information on remuneration of directors is disclosed in note 20.

Transactions of directors and director-related entities concerning shares or share options

No shares or share options of DCS Technologies Limited were acquired or disposed of by directors of the company or consolidated entity or their director-related entities from the company:

Aggregate numbers of shares and share options of DCS Technologies Limited held directly, indirectly or beneficially by directors of the company or consolidated entity or their director-related entities at balance date:

	Parent Entity	Parent Entity
	2005 Number	2004 Number
Ordinary shares	4,937,000	1,525,000
Options over ordinary shares	7,500,000	7,500,000

There were no amounts payable to or receivable from directors and their director-related entities at balance date:

Wholly-owned group

The wholly-owned group consists of DCS Technologies Limited and its wholly-owned controlled entities, Loyalty Management Systems Pty Ltd, MarketSMART International Limited, MarketSMART (NZ) Limited and Mainstreet Marketing Group Limited.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

25. Related parties (continued)

Aggregate amounts receivable from entities in the wholly-owned group at balance date:

	Parent Entity 2005 \$	Parent Entity 2004 \$
Non-current receivables (loans)	-	1,274,219

These loans are interest free and there are no fixed terms for payment of principal on the loans advanced

26 Investments in controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2005 %	2004 %
Loyalty Management Systems Pty Ltd	Australia	Ordinary	100	100
MarketSMART International Limited	Australia	Ordinary	100	100
MarketSMART International (NZ) Limited	New Zealand	Ordinary	100	100
Mainstreet Marketing Group Limited	New Zealand	Ordinary	100	100

MarketSMART International (NZ) Limited is a wholly owned subsidiary of MarketSMART International Limited

Ian D Riley has not acted as auditor of Loyalty Management Systems Pty Ltd as this company is not required to prepare statutory accounts. Ian D Riley has acted as auditor of MarketSMART International (NZ) Limited. Mainstreet Marketing Group Limited has not traded during the year and its Financial Statements have not been audited.

27. Events occurring after reporting date

Since the end of the financial year the Directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operation of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

As of the date of these Financial Statements the Directors are of the opinion that the Company is a going concern, and is able to meet its debts and commitments as they fall due.

28. Segmental information

The economic entity's operations are in one business segment, the provision of intellectual technology services and support in Australia and New Zealand, and as equal joint venture party in China. The economic entity has only operated in New Zealand and as equal joint venture partner in the financial year ended 30 June 2005.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2005

29. Reconciliation of operating loss after income tax to net cash outflow from operating activities

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Operating loss after income tax	(42,594)	(59,578)	(1,228,622)	(182,116)
Depreciation and amortisation	105,372	83,056	234	-
Remuneration taken as equity	336,000	-	336,000	-
Profit on sale of fixed assets	-	3,762	-	-
Share of joint venture loss	40,962	-	40,962	-
<i>Change in net operating assets and liabilities:</i>				
Decrease/(Increase) in trade debtors	(234,398)	8,146	(49,822)	-
Decrease/(Increase) in other debtors	(459)	2,139	-	47,405
Increase in other operating assets	-	-	-	-
Increase in intercompany account	-	-	-	102,480
(Decrease)/Increase in trade creditors	(4,243)	(833,637)	9,422	(788,698)
Decrease in other operating liabilities	-	(100,616)	-	(100,616)
(Decrease)/Increase in provisions	521	1,729	-	-
Net cash outflow from operating activities	<u>201,161</u>	<u>(894,999)</u>	<u>(891,826)</u>	<u>(921,545)</u>

30. Earnings per share

	Consolidated	Consolidated
	2005	2004
	Cents	Cents
Basic earnings per share	(0.02)	(0.03)
Diluted earnings per share	(0.02)	(0.03)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	19,731,990	19,731,990

At a general meeting held on 15 June 2005 the members resolved to issue 32,088,000 ordinary shares. This included the conversion of \$940,000 in interest bearing liabilities to equity. All shares were issued on 30 June 2005, and do not change the weighed average number of shares outstanding for the year ended 30 June 2005.

Pursuant to general meeting's approval for issue of shares, Messrs Abotomey and Ferguson with effect from 30 June 2005 have satisfied the condition for exercise of 1,500,000 options over the same number of ordinary shares on the payment of 2.7 cents per option. At the date of this report no options have been exercised. The options may be exercised up to 30 June 2006. As the condition for exercise was only satisfied on 30 June 2005, they have not been included in the calculation of diluted earnings per share

Information concerning the classification of securities

(a) *Ordinary shares held in escrow:* No ordinary shares were held in escrow during the respective financial periods, or in the period to the date of these financial statements.

(b) *Options:* Options granted to directors which are not contingent on future events are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Details relating to these options are set out in note 17.

31. Impact of adoption of Australian equivalents to International Financial Reporting Standards

The Company has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial year ending 30 June 2006. The Company has allocated internal resources to identify and assess the key areas that will be impacted by the transition to AIFRS.

The Directors are of the opinion that the key financial differences in the Company's accounting policies on conversion to AIFRS, and financial impact, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard setters to the current AIFRS including interpretation of the AIFRS changes required.

The Directors are of the opinion that the key material differences in the Company's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows:-

Goodwill

Goodwill acquired in a business combination will not require amortisation but instead be subject to impairment testing at least annually. If there is any impairment it will be recognised immediately in the statement of financial performance. This will result in lower amortisation expenses, and therefore higher earnings on an annual basis, but increased volatility in the event of impairment.

Impairment testing at 1 July 2004 and 1 July 2005 confirmed no impairment. Previous goodwill amortisation amount of \$52,460 will be reversed resulting in a corresponding increase to retained earnings at 1 July 2004. Also, current period amortisation expense of \$52,460 for the year ended 30 June 2005 will be reversed.

Taxation

A 'balance sheet' approach will be adopted under AIFRS, replacing the 'statement of financial performance' approach currently used by Australian companies. The 'balance sheet' method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. The directors are of the opinion that no deferred tax liability has arisen under AIFRS for either the 2004 or 2005 financial years.

Impairment of assets

Under AASB 136 (Impairment of Assets) the recoverable amount of an asset is determined as the higher of the fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using the risk-adjusted pre-tax discount rate.

DCS has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. The recoverable amount exceeds the carrying value of the assets with no resulting impairment losses.

DCS TECHNOLOGIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

Directors' declaration

The directors declare that the financial statements and notes set out on pages 8 to 38:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of its performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

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

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

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) subject to the matters referred to in the Director's Report and Notes to the Financial Accounts dealing with the ongoing viability of the company, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Peter Abotomey
Chairman

Melbourne
30 September 2005

IAN D RILEY
Chartered Accountant

ABN 86 673 257 016

3 Raglan Street South Melbourne Vic 3205

AUDITORS INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

30 September 2005

The Directors
DCS Technologies Limited
Level 9
356 Collins Street
MELBOURNE VIC 3000

Dear Sirs

AUDITOR'S INDEPENDENCE DECLARATION

As engagement partner for the audit of DCS Technologies Limited for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Ian D Riley', with a large, sweeping flourish extending from the end.

Ian D Riley
Principal
Chartered Accountant

Independent audit report to the members of

DCS Technologies Limited

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both DCS Technologies Limited (the Company) and its controlled entities (the Consolidated Entity), for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

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

(a) Audit Approach

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

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

I formed my audit opinion on the basis of these procedures, which included:

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

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

Independence

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

Audit opinion

In my opinion, the financial report of the Company is in accordance with:

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Inherent uncertainty regarding carrying value of goodwill

Without qualification to the opinion expressed above, attention is drawn to the following matter. As disclosed in Note 12 to the financial statements, goodwill on consolidation is carried in the consolidated financial statements at \$496,766 (2004 \$549,226) in respect of the acquisition of MarketSMART International (NZ) Limited ("MarketSMART"). The carrying value of the intangible asset, goodwill on consolidation, will be determined by the successful development and commercial exploitation of the MarketSMART New Zealand business, or alternatively, sale of the asset.

Inherent uncertainty regarding recoverability of investment in and amount due from controlled entities

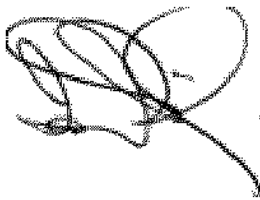
Without qualification to the opinion expressed above, attention is drawn to the following matter. As explained in Note 8 to the financial statements Parent Entity non-current receivables include amounts owing by Controlled Entity with a carrying value of \$512,546 (2004 \$1,274,219). Note 9 (Parent Entity) includes shares in controlled entity with a carrying value of \$1,351,100, (2004 \$1,351,100). The ultimate recoverability of these assets is dependent upon future profitable operating activities of the MarketSMART New Zealand business.

*The audited financial statements of the company's wholly owned subsidiary
MarketSMART International (NZ) Limited includes the following fundamental uncertainty:*

"In forming our unqualified opinion, we have considered the adequacy of the disclosures made on page 10 of the financial statements regarding the ability of the Company to continue their operations into the foreseeable future, the validity of which depends on the company's ability to raise additional capital and improve its trading performance. The outcome of these matters is presently uncertain. The financial statements have been prepared on a going concern basis the validity of which depends on the Company's ability to raise further working capital from operations, by way of issuing new shares or by securing a borrowing facility.

Alternatively, financing for ongoing operations may be available through a commitment of funding by the company's parent, DCS Technologies Limited.

As indicated on page 10, if the Company were unable to continue as a going concern, adjustments may have to be made to the book value of assets in the statement of financial position to reflect their likely realisable value. In addition the Company may have to provide for further liabilities that might arise as a consequence of ceasing operational existence, and non-current assets would need to be reclassified as current assets."

A handwritten signature in black ink, appearing to read 'Ian D Riley', with a stylized flourish extending from the end.

Ian D Riley
Chartered Accountant

Melbourne

30 September 2005

DCS TECHNOLOGIES LIMITED
SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 23 September 2005

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Spread of Shares

		Number of Holders	Number of Units	% of Total Issue Capital
1	– 1,000	805	385,323	0.744
1,001	– 5,000	653	1,548,823	2.989
5,001	– 10,000	81	618,271	1.193
10,001	– 100,000	162	4,310,942	8.319
100,001 and over		25	44,956,631	86.755
		1,726	51,819,990	100.00

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	<u>Ordinary Shares</u> Number held	% of issued shares
1. FCPA China Investments (II) Pty Ltd	20,000,000	38.595
2. H & N Nominees Pty Ltd	4,425,497	8.540
3. Corporate Recruitment Pty Ltd <Peck Super Fund>	3,959,674	7.641
4. SCC Enterprises Pty Ltd	2,319,349	4.475
5. Peter Abotomey (Abotomey Superannuation Fund)	2,218,000	4.280
6. Seafirst Nominees Pty Ltd (David Calvert-Jones Family A/C)	2,000,000	3.859
7. Desmond Wesley Ferguson (Ising Unit A/C)	1,350,000	2.605
8. Princess Nominees Pty Ltd (Princess A/C)	1,094,953	2.112
9. Paul Gregory Harper & Lesley Ann Harper	1,000,000	1.929
10. Christopher Robert Murphy	1,000,000	1.929
11. Desmond Wesley Ferguson (Future Security Super Fund A/C)	768,000	1.482
12. John Norrie	735,000	1.418
13. Susan McCarthy	725,000	1.399
14. William Bass	576,000	1.111
15. John Robert Love	576,000	1.111
16. Dennis George Lindsay	537,500	1.037
17. Navada Holdings Pty Ltd	325,000	0.627
18. Elent Pty Ltd (Parham Family No 2 A/C)	304,959	0.588

DCS TECHNOLOGIES LIMITED
SHAREHOLDER INFORMATION

19. Fishgills Pty Ltd (Gillon S/Fund A/C)	232,449	0.448
20. Oceanside Securities Pty Ltd	200,250	0.386

C. Substantial Shareholders

Substantial holders in the company are set out below:

Name	Number of shares held	% of issued shares
1. FCPA China Investments (II) Pty Ltd	20,000,000	38.595
2. H & N Nominees Pty Ltd	4,425,497	8.540
3. Corporate Recruitment Pty Ltd <Peck Super/Fund>	3,959,674	7.641

D. Voting Rights

The voting rights attached to ordinary shares are set out below:

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

E. Use of cash

Cash and assets readily convertible to cash held by the company at the time of admission to the Australian Stock Exchange are being used in a way consistent with its business objectives as set out in the listing prospectus.