

4C SECURITY SOLUTIONS LTD

ABN 89 000 029 265

And CONTROLLED ENTITIES

**FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2008**

This half year financial report is to be read in conjunction with the financial report
of the year ended 30 June 2008

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

FINANCIAL REPORT FOR THE HALF-YEAR ENDED

31 DECEMBER 2008

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The accompanying notes form part of these statements

**4C SECURITY SOLUTIONS LTD AND
CONTROLLED ENTITIES DIRECTORS' REPORT**

The directors presents their report together with the condensed financial report of the consolidated entity consisting of 4C SECURITY Solutions Ltd and the entities it controlled, for the half-year ended 31 December 2008 and independent review report thereon. This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards.

Directors Names

The names of the directors in office at any time during or since the end of the half-year are:

Name	Period of directorship
Michael I Nissen	Since 6 July 1998
Allan N K Kwok	Since 26 November 2002
Abdulrahman Falaknaz	Since 28 November 2002
Anastasios Angeloglou	Since 3 March 2008

The director has been in office since the start of the financial period to the date of this report unless otherwise stated.

Review of Operations

The company's global half year sales revenue increased by 10 % compared to the previous corresponding period to \$2 809 011, outlining the direction in which 4C Security Solutions will continue to push her ultimate reader's and smart-card technology.

The consolidated loss of the group for the half-year, after providing for income tax, amounted to \$1,295,271 (2007: Loss of \$ 5,133,177). This vast decrease of expense coming from consecutive policy adopted from the new management and improved financial discipline The financial crunch did not pass through the company without impact. The increased competition push the management to undertake some additional measures more than already announced on extraordinary meeting held in June and regular Annual meeting held in November.

The Company's investment in research and development has continued and during the period an ATO R&D tax Offset payment was received of r \$336,585, which related to the eligible R&D during the 2006-7 financial year.

-Share Capital Movements

During the half-year period the Company received \$2 704 960 AUD from selling shares and options.

Auditor's Declaration

A copy of the auditor's declaration in relation to the review for the half-year is provided with this report.

Signed in accordance with a resolution of the directors:

Director Anastasios Angeloglou

Dated this 27th day of
February 2008

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of 4C SECURITY SOLUTIONS Ltd.

I In relation to the half-year independent review for the six months to 31 December 2008, to the best of my knowledge and belief there have been:

- ~ (i) No contraventions of the auditor independence requirements of the Corporations Act 2001
- (ii) No contraventions of any applicable code of professional conduct

I
Date 27 February 2008
Sydney

Wong & Mayes
Martin G Thompson
Partner

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Half year	
	2008	2007
Sales revenue	2 713 178	2 550 414
Services	95 833	
Total revenue	2 809 011	2 550 414
Changes in inventories of finished goods and work in progress	(1 056 733)	(992 104)
Employee benefits expense	(1 645 393)	(1 394 561)
Depreciation and amortisation expenses	(26 830)	(91 899)
Set-up expenses for UAE branch office		(655 186)
Finance costs	(8 079)	(942)
Administration expenses	(1 258 812)	(658 091)
Consulting fees	(150 913)	(1 749 811)
Marketing expenses	(53 005)	(743 870)
Share based payment expenses		(999 600)
Other expenses	(283 931)	(515 182)
Total expenses	(3 426 963)	(6 809 142)
FX Gain/(loss)	26 375	(25 564)
Interest income	17 592	143 219
Interest Expense	(1 138)	-
Profit before income tax	(1 631 856)	(5 133 177)
Income tax expense (income tax benefit)	336 586	-
Profit from continuing operations	(1 295 271)	(5 133 177)
Profit (loss) from discontinued operations	-	-
Profit for the half-year	(1 295 271)	(5 131 177)
Profit attributable to minority interests		
Profit attributable to the members of the parent	(1 295 271)	(5 133 177)
Basic earnings per share (cents)	(0.02)	(1.5)
Diluted earnings per share (cents)	(0.02)	(1.3)

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008**

	31.12.2008	31.12.2007
CURRENT ASSETS		
Cash and cash equivalents	192 609	1 605 069
Trade receivables	2 136 363	1 186 922
Inventories	1 692 228	1 585 174
TOTAL CURRENT ASSETS	4 021 199	4 377 165
NON-CURRENT ASSETS		
Other financial assets	232 958	184 655
Property plant and equipment	372 675	576 183
Intangible assets	1 520 500	5 447 698
TOTAL NON-CURRENT ASSETS	2 126 133	6 208 536
TOTAL ASSETS	6 147 333	10 585 701
CURRENT LIABILITIES		
Trade and other payables	1 785 733	1 220 337
Short-term provisions	624 740	332 129
Other current liabilities	414 641	
TOTAL CURRENT LIABILITIES	2 825 114	1 552 466
NON-CURRENT LIABILITIES		
Long-term provisions	-	112 636
TOTAL NON-CURRENT LIABILITIES		112 636
TOTAL LIABILITIES	2 825 114	1 665 102
NET ASSETS	3 322 219	8 920 599
EQUITY		
Share capital	58 087 501	53 833 750
Other reserves	24 291 340	24 291 339
Retained earnings	(77 761 351)	(64 071 313)
Current year Profit(loss)	(1 295 271)	(5 133 177)
Parent entity interest	3 322 219	8 920 599
TOTAL EQUITY	3 322 219	8 920 599

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Half-year	
	2008	2007
TOTAL EQUITY AT BEGINNING OF	<u>1,913,270</u>	<u>12,649,776</u>
THE HALF-YEAR		
Share based payment reserve	<u>-</u>	<u>999,600</u>
Net income recognized directly in equity		999,600
Profit/loss for the year	(1,295,271)	(5,133,177)
Total recognized income and expense for the period	(1,295,271)	(4,133,577)
Attributable to:		
Members of the parent	(1,295,271)	(4,133,577)
Minority interest	-	-
Transactions with equity holders in their capacity as		
equity holders		
Contributions	<u>2,704,960</u>	<u>404,400</u>
TOTAL EQUITY AT THE END OF YEAR	3,222,219	8,920,599

**4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Half-year	
	2008	2007
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from customers	2,551,440	2,711,889
Operating grant receipts	336,585	363,825
Payments to suppliers and employees	(5,388,067)	(7,084,393)
Interest received	7,764	131,971
Net cash provided by operating activities	<u>(2,492,278)</u>	<u>(3,876,708)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Payment for property, plant and equipment	(58,978)	(63,053)
Payment for other non-current asset	(67,485)	
Net cash provided by investing activities	<u>(126,463)</u>	<u>(63,053)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from share issue	2,704,960	404,400
Net cash provided by financing activities	<u>2,704,960</u>	<u>404,400</u>
Net increase in cash and cash equivalents	85,717	(3,535,361)
Cash and cash equivalents at beginning of half year	106,892	5,140,430
Cash and cash equivalents at end of the half-year	192,609	1,605,069

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

31 DECEMBER 2008

NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This general purpose half year financial report has been prepared in accordance with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001.

This half-year financial report does not include all the notes of the type usually included in an annual financial report. It is recommended that this financial report be read in conjunction with the financial report for the year ended 30 June 2008 and any public announcements made by 4C SECURITY Solutions Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of preparation of the half-year financial report

This is the first financial report of 4C SECURITY Solutions Ltd prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS). The financial reports of 4C SECURITY Solutions Ltd were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below.

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes on assets as described in the accounting policies.

Summary of the significant accounting policies under AIFRS:

(b) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which 4C SECURITY Solutions Limited controlled from time to time during the year and at balance date. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist. All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

(c) Revenue Recognition

Revenue from the sale of goods is recognized upon the delivery of goods to customers. Revenue from the rendering of a service is recognized upon delivery of the service to the customer.

Government grants received that relate to specific assets or expenses are deferred and recognized as income in the same period as the asset is consumed or when the associated expenses are incurred.

Interest revenue is recognized on a proportional basis taking into account the interest rates applicable to the financial assets.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method.

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

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows: Raw materials and consumables: purchase cost on a first-in-first-out basis; Finished goods and work-in-progress: cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

(f) Property, plant and equipment

Cost and valuation

Freehold land and buildings are measured at fair value. At each balance date the carrying value of each asset is reviewed to ensure that it does not differ materially from the asset's fair value at reporting date. Where necessary, the asset is revalued to reflect its fair value. Changes in the carrying amounts arising on revaluation of land and buildings are credited to other reserves in shareholders' equity after bringing to account any capital gains tax that would arise on disposal of that asset.

All other classes of property, plant and equipment are measured at cost.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. Refer to note 1(i).

Depreciation

Land is not depreciated. The depreciable amounts of all other fixed assets are depreciated on a straight-line basis over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	2008	2007
Plant and equipment:	4 to 7 years	4 to 7 years
Leased plant and equipment:	5 years	5 years

(g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

Finance Leases

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalized, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

The cost of improvements to or on leasehold property is capitalized, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Operating Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

(g) Intangibles

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entities at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Intellectual Property

Intellectual Property is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

Research and Development

The expenditure on research activities is recognized as an expense when incurred.

Expenditure on development activities is capitalized only when it is expected beyond reasonable doubt that future benefits will exceed the deferred costs. Capitalized development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period, during which the related benefits are expected to be realized, once commercial production is commenced. Other development expenditure is recognized as an expense when incurred.

(h) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

(i) Taxes

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities. A balance sheet approach is adopted under which deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognized in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognized for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilize those temporary differences and losses. Current and deferred tax balances attributable to amounts recognized directly in equity are also recognized directly in equity.

(j) Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Share-based payments

The group operates an employee share option plan and an employee share scheme. The bonus element over the exercise price for the grant of shares and options is recognised as an expense in the Income Statement in the period(s) when the benefit is earned.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at grant date. Under the transitional arrangements for first-time adoption of AIFRS, no expense has been recognised for options granted before 7 November 2002 and/or vested before 1 January 2005. For options granted after 7 November 2002 and vesting after 1 January 2005 the fair value of options at grant date is determined using a Black-Scholes option pricing model, and is recognised as an employee expense over the period during which the employees become entitled to the option.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an expense when the employees become entitled to the shares.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

(I) Financial Instruments

Classification

The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Financial assets at fair value through profit or loss

Investments in listed securities are carried at fair value through profit and loss. They are measured at their fair value at each reporting date and any increment or decrement in fair value from the prior period is recognized in the profit and loss of the current period. Fair value of listed investments are based on current bid prices.

Non-listed investment for which fair value cannot be reliably measured, are carried at cost and tested for impairment.

Held-to-Maturity Investments

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

Loans and Receivables

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Available-for-Sale

Available-for-sale financial assets include any financial assets not included in the above categories and are measured at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity. The cumulative gain or loss is held in equity until the financial asset is de-recognised, at which time the cumulative gain or loss held in equity is recognised in profit and loss. An impairment loss arising in relation to an "available-for-sale" instrument is recognised directly in profit and loss for the period.

Financial Liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Hedge Accounting

Certain derivatives are designated as hedging instruments and are further classified as either fair value hedges or cash flow hedges.

At the inception of each hedging transaction the group documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge transaction. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

(i) Fair value hedge

Changes in fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

To qualify as a cash flow hedge the underlying transactions generating the cash flows must be highly probable. Changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in equity in the cash flow hedging reserve. This gain or loss is released to profit or loss in the same period when the forecast transactions occur, thereby mitigating any exchange fluctuations that would have transpired in the absence of the hedge.

(m) Foreign Currencies

Functional and presentation currency

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity are translated into functional currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

Group Companies

The financial statements of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- * Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- * Income and expenses are translated at average exchange rates for the period; and
- * All resulting exchange differences are recognized as a separate component of equity.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve as a separate component of equity in the balance sheet.

(n) Comparatives

In accordance with the first-time adoption of AIFRS, comparative information has been reclassified where appropriate through retrospective application of AIFRS to the previous year results so as to achieve consistency with current year disclosures.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

NOTE 2: COMPARATIVE INFORMATION SEASONAL OPERATIONS

The entity's operations are not seasonal and therefore there are no substantial variations between levels of revenues or profits for different interim periods during the year.

NOTE 3: SUBSEQUENT EVENTS

There were no material events subsequent to the end of the half-year that have not been recognised in the half-year financial statements.

NOTE 4: SIGNIFICANT ITEMS

	2008	2007
	\$	\$
Share based payments expense		999,600

NOTE 5: REVISION OF ACCOUNTING ESTIMATES

There has been no revision of accounting estimates during the current interim period

NOTE 6: DIVIDENDS

No dividends were declared or paid during the current and previous interim periods.

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES
Notes to the financial statements 31 December 2008

NOTE 7: SEGMENT REPORTING

GEOGRAPHICAL	HALF YEAR	
SEGMENT REVENUE	2008	2007
Australia	1,106,792	1,320,396
UAE	881,716	-
UK	422,181	1,126,714
USA	398,322	103,304
Unallocated revenue	16,454	143,219
Total revenue	<u>2,825,465</u>	<u>2,693,633</u>
SEGMENT RESULT		
Australia	(1,049,003)	(4,288,976)
UAE	(219,068)	-
UK	(7,196)	(560,938)
USA	(20,004)	(283,263)
Profit before income tax	<u>(1,295,271)</u>	<u>(5,133,177)</u>

NOTE 8: ISSURANCES, REPURCHASES, AND REPAYMENTS OF DEBT AND EQUITY SECURITIES

- On 11 July 2008 The company implemented 7 for 1 capital consolidation of all shares and options on issue at that date
- On 1 July 4C Control acquire 15,000,000 old shares for 3,000,000 AUD
- On 22 September On 22 September 2008, listed options with ASX at an exercise price of 10 cents and expiry date of 31 December 2013 were issued under the terms of the SPA to:

• 4C Controls Inc	9,500,000
• Financial Advisors	
• Prime Asset Finance Ltd	12,214,286
• Arimathea Limited	4,500,000

4C SECURITY SOLUTIONS LTD AND CONTROLLED ENTITIES

Notes to the financial statements 31 December 2008

In addition, 714,286 unlisted options with an exercise price of 10 Cents and expiry date of 31 December 2013 were issued to each of the following directors.

- A Falaknaz
- A Angeloglou
- M Nissen
- A Kwok

These options have a performance hurdles whereby the exercised date is conditional on the later of the fund anniversary of the allotment date and when the five day weighted average of the Company's share price on ASX reached \$1.75.

NOTE 9: CHANGES IN THE COMPOSITION OF THE ENTITY

There have been no changes in the composition of the entity during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinued operations.

NOTE 10: CONTINGENT LIABILITIES

There have been no changes in contingent liabilities since 30 June 2008.

4C SECURITY SOLUTIONS LTD

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 6 to 17 are in accordance with the Corporations Act 2001:

- (a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001, and
- (b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2008 and of its performance as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion there are reasonable grounds to believe that BQT Solutions Ltd 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.

ANASTASIOS ANGELOGLOU

DIRECTOR

27 February 2009