



Webfirm Group Limited  
ASX: WFM

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Webfirm Group Limited Annual Report 2009 : > >> / / /







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# Report from the Chairman and Chief Executive Officer



## Dear Webfirm Group Shareholders,

It gives us great pleasure to present to our stakeholders, the Director's Report and Financial Report for the year just ended.

The year just passed has seen the Webfirm Group achieve a large number of its corporate objectives despite the fact that the new management team were faced with historical Company issues that have taken longer to resolve than previously planned.

Firstly, we are nearing completion of our first corporate objective, being to structure the Company and provide suitable corporate foundations. This objective included improving our corporate governance practices, business restructuring, cost reduction programs including the cutting of a number of non-performing projects, consolidating our share register and capitalising the business. It also included a change of company name and brand to Webfirm Group Limited, a name that better encapsulates the broader range of both our customers, and our ever-expanding suite of products and services.

Our second corporate objective involved the directors defining and expanding the scope and purpose of the business. The Webfirm Group has been built around the global shift to online marketing, and the Company is now firmly entrenched in the online and digital media space. The principle aim of the Company is to help organisations connect with new and existing customers online – and in turn profit from their online activities.

The Company has commenced on the third corporate objective – executing on a range of marketing, business development and operational strategies that realise value in the digital media

opportunities we have identified. This involves expanding our range of products and services, as well as our geographic reach. It requires strengthening our business partnerships and developing new ones. It necessitates investing in our people, increasing our efficiency, and improving our service delivery. It also entails growing our intellectual property and developing our own technical platforms.

Our efforts over the past year have been rewarded, and demonstrated our ability to significantly improve our financial results compared to the previous year, both at an EBITDA and net earnings level, even though revenue fell short of our targets as a result of cutting non-strategic initiatives, redefining our business models and the global financial crises. We are targeting further significant improvement this year. The prevailing economic conditions, whilst not conducive to business development last year, nevertheless provided an opportunity for the Company to focus its efforts on preparing the business to execute on its expansion plans.

Digital media is a relatively young industry, and is growing and evolving rapidly. In such a market, the key challenges for the Company are to be responsive to the many changes in our market environment, and to identify and grasp new opportunities early in their cycle. In essence we must be a vigilant and adaptive company.

The focus for the Webfirm Group is across three key markets: Webfirm – helping SME's profit from their online activity; Searchworld – continuing to expand our search advertising syndication business; and Webfirm Media – assisting companies to facilitate online media sales.

The forecast for all three business models look promising with Sensis recently reporting in their e-business report that:

"The proportion of online small businesses with a website continued to increase over the past year from 54 per cent to 57 per cent. A further 12 per cent of small businesses indicated an intention to have one within the next 12 months".

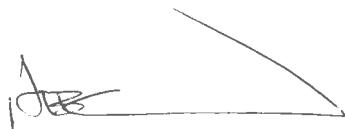
In addition, the IAB report for the June 2009 quarter showed online advertising expenditure in Australia totalled \$453 million, the largest second-quarter recorded. This is an increase of \$13.5 million (or 3.1%) from the first-quarter 2009 (3 months ended 31 March), and is an increase of \$40.5 million (or 9.8%) from the second-quarter 2008. This has potential benefits for both Webfirm Media and Searchworld.

Last year the Company identified several new opportunities, including developing a new technological platform in the Searchworld division to meet the new quality expectations in the search advertising industry, and a partnership with AdSlot to commercialise their ad auction technology. Looking forward, the Company is continuing to evaluate new digital media opportunities; particularly those that will see the Company increase its ownership of technical intellectual property.

Operationally, the Webfirm division is under new management and completing a range of projects aimed at increasing sales, production and service delivery efficiency, which will underpin the expansion of new national outlets. The Searchworld division, which operates in the challenging and evolving search advertising industry, plans further geographic expansion this year, moving into the United Kingdom as well as expanding in the United States. The Webfirm Media division was impacted heavily by the economic downturn last year, and as a result we have reinvented this business with the new AdSlot business partnership and new product lines to take into this coming year.

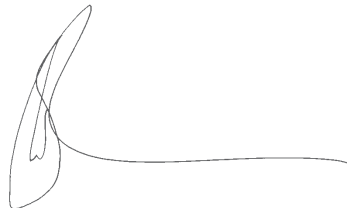
We would like to thank our fellow directors, the management, and the committed team of Webfirm Group employees for the time, effort and energy they have invested in the Company over this past year. We would also like to thank our shareholders for their ongoing support and our valued clients both here and around the world for their continued patronage.

The Company has managed to see its way through the economic turmoil of the last 18 months, rebuild itself and emerge with its foundations strong. We have high aspirations for this year, with aggressive revenue targets for all divisions, and we anticipate that the coming year will be both challenging but rewarding for all our stakeholders.



**Andrew Barlow**  
Chairman

The year just passed has seen the Webfirm Group achieve a large number of its corporate objectives...



**David Burden**  
Chief Executive Officer

**Webfirm Group Limited** 18 September 2009

# Directors' Report

Your Directors present their report, together with the financial report of Webfirm Group Limited (formerly Ansearch Limited) ACN 001 287 510 ('the Company') and its controlled entities for the financial year ended 30 June 2009 and the auditor's report thereon.

## Note to shareholders and readers of this report

This report will make a number of references to commercial dealings between Webfirm Group Limited or its wholly owned subsidiaries and AdSlot Pty Ltd.

Andrew Barlow is a non-executive director (chairman) and a substantial shareholder of both Webfirm and AdSlot. Similarly, Adrian Vanzyl is also a non-executive director and a shareholder of Webfirm and a consultant to AdSlot. In accordance with the appropriate standards of corporate governance, neither Mr Barlow nor Dr Vanzyl took part on behalf of Webfirm in any material discussions relating to either the formation of the joint venture with AdSlot which will receive a grant of the rights to the AdSlot technology in Australia, New Zealand and elsewhere in the world, or the decision by Webfirm to enter into the investment agreement with AdSlot.

The other directors of Webfirm are Adrian Giles and David Burden. Mr Giles is a small shareholder (less than 1 per cent) of AdSlot. He does not hold office in or have any employment or other consulting arrangement with AdSlot. Mr Burden is neither a shareholder nor officer of AdSlot. As the shareholding of Mr Giles in AdSlot is immaterial in the context of his personal financial circumstances, the decision by Webfirm to enter into the agreement with AdSlot was made by Mr Giles and Mr Burden. The decision was made only after they had satisfied themselves that the agreement with AdSlot was in the interests of Webfirm and on arm's length commercial terms that were fair and reasonable to Webfirm.

The investment in AdSlot is subject to both Webfirm shareholder approval and independent verification that the terms of the agreement between Webfirm Group and AdSlot are fair and reasonable to shareholders of Webfirm. Accounting and corporate advisory firm Grant Thornton has been appointed to conduct an evaluation of the transaction and provide an independent experts report to shareholders prior to directors seeking approval for the transaction from shareholders.

## Directors

The Directors in office during financial year and until the date of this report were:

| Director         | Appointed |   |
|------------------|-----------|---|
| Mr Andrew Barlow | 22-Oct-07 | Non-Executive Chairman from 7 Dec 2007  |
| Mr David Burden  | 08-Apr-08 | Chief Executive Officer from 6 Feb 2008 |
| Mr Adrian Giles  | 19-Dec-07 | Non-Executive Director                  |
| Mr Adrian Vanzyl | 28-Apr-08 | Non-Executive Director                  |

### Information on Directors



Mr Andrew Barlow (Age 36)

#### Chairman

Mr Barlow is an experienced entrepreneur who acts as an investor and mentor to early-stage technology companies with unique IP, highly scalable business models and strong executive teams. Mr Barlow is well-known as a Founder of Hitwise, a US-based company that provides real-time competitive intelligence on website performance to Fortune 500 companies around the world. Hitwise was ranked one of the Top 10 fastest growing companies by Deloitte for 5 years running, before being sold to Experian Group (LSX.EXP) in May 2007 for US\$240m. Mr Barlow is also the Founder of Max Super, a low-cost, commission-free, retail superannuation fund distributed directly to Australians via the web. Max Super was sold to Orchard Funds Management in May 2007. Mr Barlow is also a Founder of Adslot, a revenue optimisation platform for online media publishers, and is an investor in a number of other technology ventures, including NitroPDF (the second biggest

distributor of PDF editing software in the world), Qmecom (which personalises video advertising on the fly) and QMCodes (makes print media interactive via mobile devices). Mr Barlow has significant expertise in online media and business building with a strong understanding of the UK and North America markets.

Directorships held in other listed entities: no directorships currently or formerly held in listed companies.

Interests in shares and options: 5,418,064 ordinary shares and 4,000,000 unlisted options.

## Information on Directors (continued)



### Mr David Burden (Age 47)

#### Managing Director and Chief Executive Officer

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Mr David Burden is an entrepreneur and one of the true pioneers of interactive marketing and services within Australia. David founded Australia's largest and best-recognised interactive and mobile services company Legion Interactive in 1994. As CEO from 1994 to 2006, David spearheaded the evolution and growth of the product, the growth of the sales and marketing and Research & IT Development teams, and guided the business through its MBO from the French Lagardere Group in 2001, the acquisition of BlueSkyFrog (Australia's first mobile ringtone company) and MediaZoo and the subsequent push of the business into the mobile space commencing in 1998. During his time at Legion, David was a worthy Industry Activist with leading roles on the Premium Rate Advisory Council (PRAC),

the Telephone Information Services Standards (TISSC) and the Vice Chairman of Australian Direct Marketing Association (ADMA). David was also founding Chairman of ADMA's Mobile Marketing Council which was primarily responsible for the introduction of regulation and consumer protection for mobile services.

Directorships held in other listed entities: no directorships currently or formerly held in listed companies.

Interests in shares and options: 4,900,731 ordinary shares.



### Mr Adrian Giles (Age 35)

#### Director

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Adrian Giles is an entrepreneur, venture consultant and investor specialising in the Internet and information technology industry. Adrian founded Australia's first SEO (Search Engine Optimisation) company with Andrew Barlow in 1997, the same year they founded Hitwise. As joint Managing Director from 1997 to 2000, Adrian spearheaded the evolution and growth of the product, the growth of the sales and marketing and Research & Development teams, and guided the business through numerous capital raisings to help fund its international growth. Hitwise provides real-time competitive intelligence on website performance to Fortune 500 companies around the world. With over 280 staff and operations in Australia, New Zealand, Hong Kong, Singapore, the UK and USA, Hitwise was ranked one of the top 10 fastest growing companies by Deloitte for 5 years running, before being sold to Experian (LSX:EXPN) in May 2007 for US\$240M.

Prior to forming Hitwise, Adrian led numerous Internet divisions for corporate groups, including the Beam Group of Companies, Australia's largest software and multimedia developers, where he was responsible for developing and marketing a range of technical products and solutions around the world. Adrian studied a Bachelor of Computing Degree at Monash University as well as an Associate Diploma of Business. Adrian was also a finalist in the 2003 'Entrepreneur of the Year' awards.

Directorships held in other listed entities: no directorships currently or formerly held in listed companies.

Interests in shares and options: 5,963,850 ordinary shares and 2,000,000 unlisted options.





## Dr Adrian Vanzyl (Age 41)

### Director

Dr. Vanzyl has spent his career in Silicon Valley and Australia, working as a technology executive with software, advertising driven search, ad network and security focused Internet companies. His experience includes working as a Principal at the technology/investment bank Gramercy Ventures (where he focused on cross border technology deals particularly between the US and Asia), as VP of Business Development for Eurekster (the leading provider of vertical, community and social network based search). Prior to this he was CTO and Entrepreneur in Residence at Blumberg Capital in San Francisco. Whilst at Blumberg he ran two of their portfolio companies, and as the CEO of Seclarity, a security hardware and software firm, successfully raised funding from Intel Capital, Valley Ventures and Blumberg Capital. Adrian was Group Business Development Manager for Microsoft's bCentral small business portal, where his group managed business both in the US and internationally (where he helped launch in 22 countries in two years). He joined Microsoft as a result of his role as VP International at LinkExchange (the largest global

ad network at the time). Adrian worked for two years as CTO of LookSmart, where he was responsible for managing the core search engine technology as well as building the company's US-based team of engineers. Before moving to the US, he worked as CTO at Sausage Software (creators of the HotDog web publishing tool), Australia's first listed Internet software company. He was a member of the three-person board of directors that successfully took the company public on the Australian Stock Exchange. Adrian has an MD degree (MB BS degrees with Honours) from Monash University Australia.

Directorships held in other listed entities: no directorships currently or formerly held in listed companies.

Interests in shares and options: 1,155,833 ordinary shares and 2,000,000 unlisted options.



## Damian Element (Age 39)

### Company Secretary & Chief Financial Officer

Damian Element was appointed Company Secretary and Chief Financial Officer of Webfirm Group Limited on 1 November 2007. He was formerly Chief Financial Officer and Company Secretary of Myinternet Limited and prior to that held a range of technical and commercial senior management positions in the ICT industry. He has previously held roles as both General Manager Marketing and before that Manager Carrier Relations at Connect.com.au Pty Ltd and Analyst at AAPT. He has also undertaken a number of consulting and contracting assignments for various commercial and not for profit organisations. Damian is a member of CPA

Australia, a member of the Australian Institute of Company Directors and a Chartered Secretaries Australia affiliate.

Interests in shares and options: 795,091 ordinary shares and 1,200,000 unlisted options.

## Operating Results

The consolidated operating loss after income tax attributable to the members of Webfirm Group Limited is \$4,150,364 (2008: Loss \$6,720,666).

## Dividends

The Directors do not recommend the declaration of a dividend. No dividend has been declared or paid during the year.

## Review of Operations

### *Webfirm Division*

The Webfirm Division offers the full spectrum of web design and development services, including search engine marketing, optimisation, hosting, marketing consultancy, e-commerce, permission-based marketing, content management tools, and domain name management. With more than 60 staff Webfirm continues to develop products and services aimed at helping small and medium enterprise (SME) customers profit from their online marketing.

Revenue for the division increased in FY2009 as a result of steady sales and a lift in website production. This was a pleasing achievement given that SME businesses have taken a more cautious approach to spending in FY2009. Webfirm's approach has been to demonstrate to potential and existing customers the value of an online presence, and the additional business leads that online marketing can deliver for the client.

Webfirm was appointed Yahoo Search Marketing Ambassador in September 2008, allowing Webfirm to market jointly with Yahoo to a number of Australian SME businesses in offering search engine marketing services. This program has carried through from September 2008, and provides Webfirm with a strong brand partner and an attractive product offering to a wide range of SME prospects.

In March 2009 Webfirm appointed Mr Matthew Chamley to the position of general manager for its Perth operation, tasked with driving greater operational efficiency from the team. Matt has brought great leadership skills to Webfirm and the team has responded well, embracing the task of improving the turn-around times on new website development projects.

During the year Webfirm acquired the intangible assets, including the customer list, of Human Traffic Pty Ltd, a Perth based website development and online marketing company. The founder of

Human Traffic, Andrew Dalton has joined Webfirm as National Sales and Marketing Manager, and will assist Webfirm to achieve its FY2010 revenue goals.

The focus for Webfirm during FY2010 will be two-fold: increasing sales of both website developments and recurring search engine marketing products, particularly in the Melbourne outlet; and completing the productivity and efficiency program commenced in late FY2009.

### *Searchworld Division*

Searchworld powers website publishers' profits with premium quality search monetisation solutions, delivering effective global and local paid search advertising feeds to search engines, portals, directory publishers, parked domains, downloadable applications and ad networks.

Searchworld had a somewhat fickle year in FY2009, with peaks and troughs in demand resulting in financial performance that was more volatile than desired. The revenues for the Searchworld division were down 14% on the previous year, partly as a result of the Company taking a decision to follow the industry lead on improving quality of search traffic being provided to advertisers. Improving search query traffic effectively means forgoing traffic that is from low quality sources, and forgoing the corresponding revenues. However it is expected that Searchworld's commitment to quality will make it more attractive to the leading advertising networks, and will result in higher volumes and revenues over time from the premium advertising.

During the year the Searchworld division undertook a range of new initiatives, with the majority demonstrating excellent results.

Key to Searchworld's strategy of being a global business, the division re-launched its US operation with the appointment of several sales and marketing staff in the US whose role is to drive US sourced sales and leads for Searchworld. These leads include search advertising feed providers as well as US-based website publishers or publisher networks to whom Searchworld on-sells the feeds. The US operation has seen some early successes, with strong revenue gains in the last three quarters of last financial year. Some of these revenue gains have slowed in this current quarter as a result of some feed providers providing sub-optimal services, and we are yet to see consistent and reliable revenues in this division. We have undertaken an extensive risk analysis and implemented mitigation strategies in order to address this issue and ensure consistent and sustainable revenues and profitability over the remainder of FY2010.

Europe represents a lucrative market for Searchworld, and the Company has commenced a program to establish itself in the United Kingdom. It will be necessary for Searchworld to acquire additional UK and Europe-specific advertising feeds from providers in that local region, as well as sign up publishers and publisher networks to receive the feeds and provide search queries from their users.

In late 2008 the division launched a new and improved Australian search engine – ansearch.com.au – and continued with its answers.com.au site. Early in 2009 additional search engines ansearch.com, soush.com, and klickeroo.com were all successfully launched to service the growing US market.

An initiative that was very successful was the launch of Searchworld's AdFeedEngine, a technology platform that allows Searchworld to control both the quality and volume of search queries being submitted from website publisher networks to advertisers. The AdFeedEngine platform was developed in house by Searchworld's technical development team, and there is an emerging opportunity to commercialise this platform in the form of a service that can be offered to other search industry participants, an opportunity that Searchworld is exploring in FY2010.

Searchworld has implemented a number of new paid search advertising feeds during the year, and discontinued a number of those feeds that were of poor quality or not providing the expected results for the business. The business operation is highly reliant on these advertising feed providers, the termination of a number of these feeds will see revenues fall behind our first quarter target; however Searchworld is currently in the process of executing more agreements and expects to boost revenues back to the levels that have been recorded in previous months. Searchworld is in discussions with a number of tier one and tier two search advertising networks with the aim of firming up new agreements in first and second quarter 2010.

Despite the setbacks in the first quarter of FY2010, Searchworld anticipate that the addition of new, higher quality feeds, as well as the expansion into the UK market, will see the division achieve its FY2010 revenue targets. It should be noted that the search advertising industry, whilst growing and representing opportunity, is also an immature industry that is evolving and consolidating, and as such Searchworld remains an exciting but relatively speculative business.

## **Webfirm Media Division**

Webfirm Media represents advertising inventory from third-party Australian, US and UK-based websites and third party advertising networks to Australian advertisers and exclusively represents advertising on all Australian and New Zealand Navteq navigational maps.

The Webfirm Media division was most affected by the economic conditions prevailing during FY2009, with the global financial crises causing many businesses to curb their spending on online display advertising, with less volume and lower pricing affecting revenues. These outcomes were further exacerbated by Australian advertising agencies consolidating their spend with fewer distribution networks. The result of these developments was that Webfirm Media's traditional display media business was adversely affected during the year, with revenues down approximately \$1 million or 50% on the previous year.

It has therefore been necessary for the director's to reinvent this business whilst continuing to acquire traditional display media revenue where available. Two steps have been taken in this regard – firstly to increase the focus on sales of advertising on Navteq navigational maps, and secondly to enter into a commercial partnership with AdSlot Pty Ltd to commercialise the AdSlot auction technology and its application to the media space.

In respect of Navteq map sales, the Media division has been working closely with some large and well-known Australian and international brands to deliver a value proposition for map users which involves locating points of presence or points of interest on navigational maps providing users with a simple and easy method of physically locating the advertiser's services.

Webfirm has also entered into an agreement with AdSlot Pty Ltd which provides Webfirm Media the opportunity to commercialise the AdSlot technologies in Australia and New Zealand. The AdSlot platform is an industry changing technology which provides an online marketplace for advertisers and website publishers to trade advertising inventory using proprietary auction algorithms developed and patented by AdSlot. Our business partner AdSlot recently announced that it was one of only a few companies, and the only Australian company, chosen by Microsoft to trial the Microsoft Azure computing cloud, and to participate in the global launch of the Azure platform in November 2009.

Whilst the commercialisation of the platform is early stage, a successful implementation of the platform into the key top tier Australian website publishers would provide significant revenues and benefits to Webfirm Media in the coming years.

## Corporate

During one of the most challenging financial environments in recent times, the business of Webfirm Group Limited has held up well. Group revenues were down 9.5% on the previous year, to \$11 million, and NPAT improved by 38% or more than \$2.5 million to \$4.1 million – a significant improvement on the previous year result.

This result included a \$500,000 impairment charge against goodwill in Webfirm Pty Ltd, and a write off of leasehold improvements in the amount of \$250,000 following the relocation of office premises. The result also included \$433,000 of non-cash share based expenses, \$230,000 in depreciation and amortisation expense, \$140,000 in foreign exchange losses related to cash assets held in US dollars, a provision for doubtful debts in Searchworld of \$290,000 and tax expense of \$88,000. There was a one-off R&D cash grant of \$225,000.

The normalised operating result before these adjustments was a loss of \$2.4 million, an improvement on last year's normalised loss of \$2.8 million. Notwithstanding the improved result and two profitable months, the prevailing economic climate had an adverse effect on Webfirm Group's stated objective of achieving sustainable profitability during the FY2009 year. A level of confidence appears to be returning to economic markets, however it is anticipated that it will be some months before SME spending returns to levels seen prior to the financial crises. Whilst directors have set management the dual targets of high revenue growth and returning to profitability during this current year, the current economic climate remains uncertain making forecasting difficult.

Webfirm Group Limited has undertaken several corporate and structuring initiatives during the year under review.

The year under review commenced with a small equity raising in July 2008, which was over-subscribed, to raise a total of \$1.4 million. The funds were used to expand our Webfirm office in Melbourne, building out our Webfirm product offering, and phase one of expansion of Searchworld internationally. Funds were also directed to the technical development of the Searchworld AdFeedEngine discussed above.

As part of this capital raising, a share purchase plan program was offered to existing shareholders in the latter part of 2008 to give an opportunity for all shareholders to participate in the capital raising program on the same terms as new investors.

In the latter part of 2008 the Company undertook a share reorganisation program, resulting in a consolidation of shares on issue. This program was undertaken as Webfirm Group had an extremely large number of shares on issue, with the consequence that the per-share market price on the ASX was relatively low. The consolidation has given the Company a capital structure that is more appropriate to its size and business.

In May 2009 the Company changed its name to Webfirm Group Limited (formerly Ansearch Limited). Now a very different organisation from the Ansearch of previous years, the name Webfirm better encapsulates the Group's products, services and primary objective of helping clients achieve superior results from doing business on the Internet. The name change was part of a broader change of corporate identity for Webfirm Group, which included a new logo and a change of our corporate colours to charcoal and orange. The change of name also resulted in a corresponding change to the Company's ASX code, now WFM.

Having been a listed company for some 22 years, the Company found itself with a large number of shareholders with holdings consisting of very small numbers of shares. After receiving approval from shareholders at the AGM held in November 2008, the director's commenced a program for the sale of these small unmarketable parcels of shares. The aim of this program was twofold, to give shareholders a cost effective opportunity to dispose of their shares, and secondly to reduce the administrative and communication costs to the Company of managing a large share register. This program was completed in September 2009.

As part of our FY2009 cost reduction program, Webfirm Group relocated its Melbourne corporate head office, downsized its Sydney premises and also relocated the Webfirm Perth office to new premises in East Perth.

Since the end of the financial year, the Company announced a second equity raising program to raise funds which will strengthen Webfirm's balance sheet in these uncertain economic times, as well as provide the Company with the opportunity to accelerate a number of business development programs. In particular the new funds will be applied to an investment in a joint venture arrangement with AdSlot Pty Ltd, announced on 7 September 2009, and to the commercialisation of the AdSlot technologies in the Australian and New Zealand display advertising market, as well as to the ongoing technical development of phase 2 of Searchworld's AdFeedEngine, expansion of Searchworld into the United Kingdom, and working capital.

The corporate actions during FY2009 were very much driven towards structuring and capitalising the Company to take advantage of emerging opportunities in the digital media space.

Webfirm Group Limited is subject to risks and vagrancies of the new and rapidly evolving digital media industry, however the existing and emerging opportunities make it an exciting space in which to operate. The rewards from the presenting opportunities, if successfully executed, could be substantial.

### Principal Activities

The principal activities of the group during the year comprised:

- Online display advertising sales and publisher representation
- Syndication of paid and organic contextual search
- Website design, development and promotion
- Search engine marketing and optimization
- Operating owned and operated search engines

There have been no material changes in the nature of the activities during the year except as detailed below.

### Significant Changes in the State of Affairs

The following significant changes in the state of affairs of Webfirm Group Limited occurred during the financial year:

On 29 July 2008 the Company announced a capital raising program consisting of the issue of fully paid ordinary shares in the company at an issue price of \$0.012 in three tranches as follows:

- i) the issue of 72,000,000 fully paid ordinary shares to sophisticated investors and specialist institutions;
- ii) the issue of approximately 34,333,334 fully paid ordinary shares to directors and senior management subject to shareholder approval; and
- iii) an offer to all shareholders under a share purchase plan that commenced on 29 September 2008.

On 15 August 2008 the Company called an extraordinary general meeting in order that shareholders be given an opportunity to approve the issue of shares and options to directors, and to ratify the various elements of the capital raising program (referred to in the paragraph above). The meeting was held 16 September 2008 and all resolutions put to the meeting were passed.

On 27 August 2008, pursuant to the board approved 2009 staff remuneration plan, shares and options were granted to executive and non-executive employees for services performed or to be performed (an employee share option plan was approved by an extraordinary general meeting of the shareholders on 16 June 2006), as follows.

- i) 4,142,824 ordinary shares (in aggregate) were issued to the majority of employees of the Group for nil consideration;
- ii) 30,100,000 options (in aggregate) were allotted to executives and managers of the Group for nil consideration. These options vest in three tranches and have vesting conditions attached.

On 8 September 2008 four 100% owned Webfirm Group Limited subsidiary companies effected a change of name. Refer to note 18.

On 11 September 2008 the Company announced its intention to expand the business development activities of its Searchworld division into the United States.

After receiving approval from shareholders at the Annual General Meeting held on 26 November 2008, on 5 December 2008 the Company completed a share re-organisation whereby every five shares held was converted to one share. Prior to the share consolidation, the Company had an extremely large number of shares on issue, with the consequence that the per-share market price on ASX was relatively low.

During April 2009 Webfirm Group Limited relocated its head office and the registered offices of all active group companies to 23 Union Street South Melbourne. It relocated its Perth offices from Bentley to East Perth.

On 7 May 2009 the Company effected a change of name from Ansearch Limited to Webfirm Group Limited. At the same time the Company launched a new brand and Company logo.

Also on 7 May 2009, the Company announced that Directors had resolved to undertake a forced sale of the shares of those holders who hold less than a marketable parcel of shares, unless the holder advised the Company in writing that the holder

wished to retain the shares. The forced sale would allow shareholders with very small holdings to dispose of their shares free of brokerage costs, and would reduce administration and communication costs for the Company in the management of its share register.

On 29 June 2009 the Company announced that it had completed the acquisition of the business assets and customers of Human Traffic Pty Ltd for \$40,000 cash and 385,000 ordinary shares, and that Human Traffic's founder Andrew Dalton had taken a senior management position in the Webfirm division.

### Matters Subsequent to 30 June 2009

On 7 September 2009 Webfirm Group Limited announced its intention to form a separate 50:50 joint venture entity with AdSlot Pty Ltd, and to acquire a 15% shareholding in Adslot Pty Ltd. The consideration is to be \$1.0 million in cash to be placed in the joint venture, and 12,500,000 shares provided to shareholders of AdSlot in return for 15% of the equity in AdSlot. Adslot builds and operates large scale 'private electronic marketplaces' for media publishers to sell their premium advertising inventory to agencies and also to self-serve advertisers at an increase in average yield.

On 9 September 2009 the Company completed a capital raising program consisting of the issue of fully paid ordinary shares in the Company at an issue price of \$0.06 per share in two tranches as follows:

- i) the issue of 20,338,720 fully paid ordinary shares to sophisticated investors and specialist institutions in July 2009 to raise \$1.2m (which was received on 28 July 2009) and
- ii) the issue of up to 39,661,680 fully paid ordinary shares to sophisticated investors and specialist institutions in September 2009 to raise \$2.4m (which was received on 9 September 2009) following shareholder approval received at an Extraordinary General Meeting held on 3 September 2009.

On 3 September 2009 the Company held an Extraordinary General Meeting of members in order that shareholders be given an opportunity to approve the issue of shares and options to directors, and to ratify the various elements of the capital raising program (referred to in the paragraph above). All resolutions put to the meeting were passed.

### Likely future developments and expected results

In the opinion of the Directors, disclosure of information regarding future developments in the operations of Webfirm Group Limited in forthcoming financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, beyond information contained elsewhere in this report, no further information has been disclosed.

### Environmental Regulations

The economic entity's operations are not subject to any significant environmental regulations under the Commonwealth, State or any other country in which the entity operates.

### Directors' Meetings

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2009 and the number of meetings attended by each Director.

| Director         | No of Meetings Eligible to Attend | No of Meetings Attended |
|------------------|-----------------------------------|-------------------------|
| Mr Andrew Barlow | 13                                | 12                      |
| Mr David Burden  | 13                                | 13                      |
| Mr Adrian Giles  | 13                                | 12                      |
| Mr Adrian Vanzyl | 13                                | 11                      |

All matters previously delegated to the Audit Committee have been attended to by the full board in consultation with the Company's auditors.

# REMUNERATION REPORT (Audited)

The remuneration report is set out under the following headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited.

## A. Principles used to determine the nature and amount of remuneration

### *Directors' and Executives' Remuneration*

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the Executive Team.

The Board assesses the appropriateness of the nature and amount of emoluments of such

officers on a periodic basis by reference to relevant employment market conditions with overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive Team. Director's remuneration consists of a fixed cash component and a long term incentive component in the form of share options linked to the performance of the Company. Executive's remuneration consists of a fixed cash component, short term incentives in the form of cash bonuses, and long term incentives in the form of share options linked to the performance of the Company.

## B. Details of remuneration

Details of the remuneration of the directors and the key management personnel (as defined by AASB 124 *Related Party Disclosures*) of Webfirm Group Limited and its controlled entities are set out in the following tables.

The key management personnel of Webfirm Group Limited and its controlled entities include the following directors and executive officers:

| Directors          |  |   |
|--------------------|--|---|
| Mr Andrew Barlow   | Non-Executive Director<br>Chairman             | Appointed 22 October 2007<br>From 7 December 2007 |
| Mr David Burden    | Chief Executive Officer<br>Managing Director   | Appointed 6 February 2008<br>From 8 April 2008    |
| Mr Adrian Giles    | Non-Executive Director                         | Appointed 19 December 2007                        |
| Mr Adrian Vanzyl   | Non-Executive Director                         | Appointed 28 April 2008                           |
| Executive Officers |  |   |
| Mr Damian Element  | Company Secretary<br>Chief Financial Officer   | Appointed 1 November 2007                         |
| Mr Andrew Beecher  | Executive Officer – Webfirm Pty Ltd            | Resigned 28 July 2009                             |
| Mr Josh Edis       | Global Head of Search – Searchworld<br>Pty Ltd |   |
| Mr Steve Jones     | General Manager – Webfirm Media Pty Ltd        |   |

## B. Details of remuneration (continued)

| Consolidated Entity 2009              | Short-term benefits |                |                       |               | Long-term benefits   |                                      | Post-employment benefits | Share-based payment |                  | Total            | Performance based remuneration (i) |
|---------------------------------------|---------------------|----------------|-----------------------|---------------|----------------------|--------------------------------------|--------------------------|---------------------|------------------|------------------|------------------------------------|
|                                       | Salary & fees       | Bonus          | Non-monetary benefits | Other         | Termination benefits | Long service leave employee benefits | Super-annuation          | Shares              | Options & rights |                  |                                    |
| Name                                  | \$                  | \$             | \$                    | \$            | \$                   | \$                                   | \$                       | \$                  | \$               | \$               | %                                  |
| <i>Executive director</i>             |                     |                |                       |               |                      |                                      |                          |                     |                  |                  |                                    |
| Mr D Burden                           | 367,860             | 126,360        | -                     | 18,985        | -                    | -                                    | 14,890                   | -                   | -                | 528,095          | 23.9%                              |
| <i>Non-executive directors</i>        |                     |                |                       |               |                      |                                      |                          |                     |                  |                  |                                    |
| Mr A Barlow                           | 50,000              | -              | -                     | -             | -                    | -                                    | -                        | -                   | 60,144           | 110,144          | -                                  |
| Mr A Giles                            | 50,000              | -              | -                     | -             | -                    | -                                    | -                        | -                   | 60,144           | 110,144          | -                                  |
| Mr A Vanzyl                           | 50,000              | -              | -                     | -             | -                    | -                                    | -                        | -                   | 60,144           | 110,144          | -                                  |
| <i>Other key management personnel</i> |                     |                |                       |               |                      |                                      |                          |                     |                  |                  |                                    |
| Mr D Element                          | 304,625             | 45,000         | -                     | -             | -                    | -                                    | -                        | 1,000               | 43,774           | 394,399          | 18.5%                              |
| Mr A Beecher                          | 199,688             | -              | 26,095                | 4,461         | -                    | -                                    | 13,745                   | 1,000               | 43,774           | 288,763          | 9.6%                               |
| Mr J Edis                             | 201,255             | 14,490         | -                     | 1,761         | -                    | 11,252                               | 13,745                   | 1,000               | 43,774           | 287,277          | 14.7%                              |
| Mr S Jones                            | 123,853             | -              | -                     | 18,780        | -                    | -                                    | 12,497                   | 1,000               | 43,774           | 199,904          | 13.9%                              |
| <b>Totals</b>                         | <b>1,347,281</b>    | <b>185,850</b> | <b>26,095</b>         | <b>43,987</b> | <b>-</b>             | <b>11,252</b>                        | <b>54,877</b>            | <b>4,000</b>        | <b>355,528</b>   | <b>2,028,870</b> | <b>14.6%</b>                       |

(i) Performance based remuneration is remuneration that is provided to the key management personnel only upon the achievement of individual and/or company performance conditions, and so is at risk. For the executive director the amount at risk subject to achievement of performance conditions is the Bonus amount. For the non-executive directors there is no amount subject to performance conditions and so no amount at risk. For the other key management personnel the amount subject to performance conditions, and therefore at risk, is the Bonus amounts and approximately two-thirds of the Options and Rights amount.



## **Bonuses**

Mr. David Burden was granted a cash bonus of \$60,000 on 30 September 2008. The bonus was given on his success in the capital raising exercise during the month.

At a meeting on 21 July 2009 directors resolved to award the following cash bonuses related to achievement of performance KPI's for the year ended 30 June 2009. The bonus amounts form part of the short term incentive component of the remuneration of key management personnel. The bonuses have been accrued into the accounts for the year ended 30 June 2009 and were paid to the respective key personnel in the first quarter of the 2010 financial year. The amounts awarded are as follows:

- Mr. David Burden: \$66,360 out of a possible \$120,000 available for achievement of financial and non-financial performance related KPI's.
- Mr. Damian Element: \$45,000 out of a possible \$45,000 available for achievement of non-financial performance related KPI's.
- Mr. Josh Edis: \$14,490 out of a possible \$30,000 available for achievement of financial and non-financial performance related KPI's.

## **Employee shares**

During the year, all permanent executives and employees of the consolidated group (excluding the CEO) were granted \$1,000 value of shares as a performance benefit related to the financial year ended 30 June 2008. The shares were issued on 27 August 2008 at the market price on day being \$0.014 per share (pre-consolidation, equivalent to \$0.07 per share post consolidation).

## **Shares and share options**

At an extraordinary general meeting (EGM) of members held 16 September 2008, shareholders approved the issue of 10,000,000 options (pre-consolidation, equivalent to 2,000,000 options post consolidation) to each of directors Mr Andrew Barlow, Mr Adrian Giles and Mr Adrian Vanzyl. The issue of director's options was made outside of the Company ESOP. The options were granted for nil consideration and vest in three (3) tranches. The first exercise dates of the three tranches of directors' options are 23 September 2008, 1 April 2009 and 1 April 2010 with no performance condition and the service condition attached that the directors hold office at the date of exercise. The options expire on 30 June 2012.

The board considered the appropriateness of attaching performance conditions to these options, however, on the basis that the options by their nature are linked to the financial performance and share price performance of the Company, it was deemed appropriate that this element of compensation was not dependant on the satisfaction of a performance condition.

The Company has had these options valued in accordance with accounting standards. The total value of the options issued to directors was assessed at \$220,000. On the assumption that all directors remain employed with the Company beyond the vesting dates for the options, the remaining amount to be expensed in future years is 2010: \$39,567

The board has no formal policy in place for limiting the risk of directors in relation to the options issued. No financial benefit will accrue to the recipient until the market price of the ordinary shares of the Company exceeds \$0.10.

At the EGM held 16 September 2008, shareholders also approved the issue of 10,000,000 ordinary shares to Mr David Burden, CEO of Webfirm Group Limited, which vest in three equal tranches at 30 June 2009, 30 June 2010, and 30 June 2011 on the condition that Mr Burden remains employed by the Company.

The Shares were funded by a loan made by the Company to Mr Burden of an amount equal to the total purchase price (i.e. \$200,000). As a consequence, particular conditions attach to the Shares and the ancillary loan arrangements, which are outlined in the EGM explanatory statement.

## **Employee share option plan**

Webfirm Group Limited operates an ownership-based scheme for executives and senior employees of the group. In accordance with the provisions of the plan, as approved by shareholders at the 2006 annual general meeting, executives and senior employees were granted options to purchase parcels of ordinary shares at an exercise price of \$0.02 pre-share consolidation (converted to \$0.10 post consolidation) per ordinary share.

Each share option converts into one ordinary share of Webfirm Group Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry no voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

## B. Details of remuneration (continued)

The exercise dates of the three option tranches of executives and senior employees are 1 July 2009, 1 July 2010 and 1 July 2011 respectively. While the first tranche did not have any employee performance criteria, the latter two tranches were based on the group's quantitative criteria of achievement of at least 85% of budget EBITDA.

The board considered the appropriate targets to link to the share option plan. For the year ended 30 June 2009 the performance condition linked to the plan were based on Group financial objectives to ensure that the company continues to strive to reach the budgeted targets for the Group.

Executives provided with options during the year are Mr Damian Element, Mr Josh Edis, Mr Andrew Beecher and Mr Steve Jones. The number of options awarded to each executive was 1,200,000 (expressed on a post consolidation basis). For each of these executives the conditions attaching to the options are as follows:

- 400,000 options were issued without performance conditions and vested in the employee on 1 July 2009 on the service condition that the employee was employed by the company on the vesting date.
- 400,000 options were issued with the performance condition that the company achieve at least 85% of budgeted 2009 EBITDA and vests in the employee on 1 July 2010 on the service condition that the employee is employed by the company on the vesting date. On 21 July 2009 the Directors resolved to waive the performance condition but not the service condition for this tranche of options.
- 400,000 options were issued with the performance condition that the company achieve at least 85% of budgeted 2010 EBITDA and vests in the employee on 1 July 2011 on the service condition that the employee is employed by the company on the vesting date.

The options granted to executives and senior employees expire on 30 June 2012 or after three months from the resignation of the executive or senior employee, whichever is earlier. No financial benefit will accrue to the recipient until the market price of the ordinary shares of the Company exceeds \$0.10.

The Company has had these options valued in accordance with accounting standards. The total value of these options was assessed at \$260,867. Mr Andrew Beecher is no longer employed

(subsequent to year end) by the Company and options expense related to his options will be partly expensed in 2009 and the remainder of the anticipated expense (\$18,000) will not be booked into the accounts in future years. On the assumption that all other executives remain employed with the Company beyond the vesting dates for the options, the amount remaining to be expensed in future years is 2010: \$49,047

The board has no formal policy in place for limiting the risk of executive and senior employees of the Group in relation to the options issued.

| Consolidated Entity 2008              | Short-term benefits |               |                       | Long-term benefits   | Post-employment benefits | Share-based payment               |               | Total          | Performance based remuneration |                  |
|---------------------------------------|---------------------|---------------|-----------------------|----------------------|--------------------------|-----------------------------------|---------------|----------------|--------------------------------|------------------|
|                                       | Short-term benefits | Bonus         | Non-monetary benefits | Termination benefits | Super-annuation          | Other Long-term employee benefits | Shares        |                |                                | Options & rights |
| Name                                  | \$                  | \$            | \$                    | \$                   | \$                       | \$                                | \$            | \$             | %                              |                  |
| <i>Executive director</i>             |                     |               |                       |                      |                          |                                   |               |                |                                |                  |
| Mr D Burden (from 09/04/2008)         | 151,096             | -             | -                     | -                    | 5,058                    | -                                 | -             | 40,500         | 196,654                        | -                |
| <i>Non-executive directors</i>        |                     |               |                       |                      |                          |                                   |               |                |                                |                  |
| Mr A Barlow (from 22/10/07)           | 34,589              | -             | -                     | -                    | -                        | -                                 | -             | 72,000         | 106,589                        | -                |
| Mr P Jermyn (to 7/12/07)              | 100,000             | -             | -                     | -                    | -                        | -                                 | -             | -              | 100,000                        | -                |
| Mr G Ridge (to 22/10/07)              | 53,271              | -             | -                     | -                    | -                        | -                                 | -             | -              | 53,271                         | -                |
| Mr C Ellison (to 28/04/08)            | 35,000              | -             | -                     | -                    | -                        | -                                 | -             | -              | 35,000                         | -                |
| Mr T Grigg (to 22/10/07)              | 10,859              | -             | -                     | -                    | -                        | -                                 | -             | -              | 10,859                         | -                |
| Mr D Jones (to 11/04/08) (i)          | 105,281             | 24,473        | -                     | -                    | -                        | -                                 | -             | 72,000         | 201,754                        | 12.1%            |
| Mr A Giles (from 19/12/07)            | 26,644              | -             | -                     | -                    | -                        | -                                 | -             | -              | 26,644                         | -                |
| Mr A Vanzyl (from 28/04/08)           | 8,750               | -             | -                     | -                    | -                        | -                                 | -             | -              | 8,750                          | -                |
| <i>Other key management personnel</i> |                     |               |                       |                      |                          |                                   |               |                |                                |                  |
| Mr R Edge (to 1/11/07)                | 114,474             | -             | -                     | 100,000              | 4,046                    | -                                 | -             | 3,600          | 222,120                        | -                |
| Ms J Macpherson (to 22/11/07) (ii)    | 43,412              | -             | -                     | -                    | -                        | -                                 | -             | 16,667         | 60,079                         | -                |
| Mr D Element (from 1/11/07)           | 217,500             | -             | -                     | -                    | -                        | -                                 | -             | -              | 217,500                        | -                |
| Mr A Beecher (from 21/09/07) (iii)    | 195,500             | 10,000        | 7,600                 | -                    | 9,554                    | -                                 | -             | -              | 222,654                        | 4.5%             |
| Mr J Edis (iii)                       | 200,000             | 10,000        | -                     | -                    | 12,139                   | -                                 | 70,000        | -              | 292,139                        | 3.4%             |
| Mr S Jones (from 7/4/08)              | 29,605              | -             | -                     | -                    | 2,327                    | -                                 | -             | -              | 31,932                         | -                |
| <b>Totals</b>                         | <b>1,325,981</b>    | <b>44,473</b> | <b>7,600</b>          | <b>100,000</b>       | <b>33,124</b>            | <b>-</b>                          | <b>70,000</b> | <b>204,767</b> | <b>1,785,945</b>               | <b>2.5%</b>      |

(i) Mr Dean Jones was paid a one-off cash bonus of \$24,473 on 31 October 2007. The bonus was given for his identification of a range of sales opportunities and the generation of a number of sales leads in the United States earlier in the reporting period.

(ii) Paid to Flexpertise who engages Blairgowrie Pty Ltd, Ms Macpherson's employer to provide General Counsel and Company Secretary services.

(iii) Mr Andrew Beecher and Mr Josh Edis were paid a one off cash bonus of \$10,000 each on 31 March 2008. The bonus was given in recognition of their assumption of additional duties and responsibilities during the period 22 October 2007 to 6 February 2008 whilst the CEO position was vacant.

## B. Details of remuneration (continued)

The following grants of share-based compensation to directors and senior management relate to the current financial year:

| Name         | Option Series       | Number Granted | During the Financial year |                   |                      | % of Compensation for the year Consisting of Options |
|--------------|---------------------|----------------|---------------------------|-------------------|----------------------|--|
|              |                     |                | Number Vested             | % of Grant Vested | % of Grant Forfeited |  |
| Mr A Barlow  | Issued on 23 Sep 08 | 2,000,000      | 1,333,333                 | 66.67%            | nil                  | 63.4%  |
| Mr A Giles   | Issued on 23 Sep 08 | 2,000,000      | 1,333,333                 | 66.67%            | nil                  | 63.4%  |
| Mr A Vanzyl  | Issued on 23 Sep 08 | 2,000,000      | 1,333,333                 | 66.67%            | nil                  | 63.4%  |
| Mr D Element | Issued on 27 Aug 08 | 1,200,000      | nil                       | 0%                | nil                  | 12.9%  |
| Mr A Beecher | Issued on 27 Aug 08 | 1,200,000      | nil                       | 0%                | nil                  | 17.5%  |
| Mr J Edis    | Issued on 27 Aug 08 | 1,200,000      | nil                       | 0%                | nil                  | 17.6%  |
| Mr S Jones   | Issued on 27 Aug 08 | 1,200,000      | nil                       | 0%                | nil                  | 25.0%  |

## C. Service agreements

The remuneration and other terms of agreement for the directors and other key management personnel appointed since 1 November 2007 are formalised in service agreements. The remuneration and other terms of agreement for the directors and some key management personnel appointed prior to 1 November 2007 were not formalised in service agreements as there was previously no legal expertise on staff. The service agreement summarises the Board policies and terms, including compensation, relevant to the office of director or key management personnel. The major provisions of the agreements entered into subsequent to 1 November 2007 are set out below.

### Andrew Barlow, *Chairman and Non-Executive Director*

- Term of agreement – effective 22 October 2007. Base salary, inclusive of superannuation, of \$75,000 per annum, to be reviewed annually by the Board of Directors (Mr Barlow agreed to cap his director's fees at \$50,000 for the year ended 30 June 2009).
- Period of notice of termination: immediately upon notice by Mr Barlow.
- No termination benefits payable on termination by the Company.

### David Burden, *Managing Director and Chief Executive Officer*

- Term of agreement – on-going commencing 6 February 2008.
- Base salary, inclusive of superannuation, of \$380,000 per annum, to be reviewed annually by the Board of Directors.
- Performance based short term incentive being a cash bonus of up to \$120,000 for the achievement of performance related KPI's.
- Period of notice of termination: six months notice by either party.
- No termination benefits payable on termination by the Company.

### Mr Adrian Giles, *Non-Executive Director*

- Term of agreement – effective 19 December 2007.
- Base salary, inclusive of superannuation, of \$50,000 per annum, to be reviewed annually by the Board of Directors.
- Period of notice of termination: immediately upon notice by Mr Giles.
- No termination benefits payable on termination by the Company.

### **Mr Adrian Vanzyl, *Non-Executive Director***

- Term of agreement – effective 28 April 2008.
- Base salary, inclusive of superannuation, of \$50,000 per annum, to be reviewed annually by the Board of Directors.
- Period of notice of termination: immediately upon notice by Mr Vanzyl.
- No termination benefits payable on termination by the Company.

### **Damian Element, *Company Secretary and Chief Financial Officer***

- Term of agreement – on-going commencing 1 November 2007.
- Professional fees of \$1,250 plus GST per day, calculated daily.
- Performance based short term incentive being a cash bonus of up to \$60,000 for the achievement of performance related KPI's.
- Period of notice of termination: seven days notice by either party.
- No termination benefits payable on termination by the Company.

Mr Element entered into a new services agreement with the Company effective 1 July 2009 of which the core terms are: Base salary inclusive of superannuation of \$272,500 per annum, to be reviewed annually by the Board of Directors, a performance based short term incentive being a cash bonus of up to \$50,000 per annum for the achievement of performance related KPI's, three month notice of termination by either party and termination benefits equal to one month's remuneration payable for each year (or part thereof) of service with the Company.

### **Steve Jones, *General Manager, Webfirm Media Pty Ltd***

- Term of agreement – on-going commencing 7 April 2008.
- Base salary, inclusive of superannuation, of \$150,000 per annum, to be reviewed annually by the Board of Directors.
- Period of notice of termination: three months notice by either party.
- No termination benefits payable on termination by the Company.

### **Mr Josh Edis, *Global Head of Searchworld Pty Ltd***

- Term of agreement – ongoing.
- Base salary, inclusive of superannuation, of \$215,000 per annum, to be reviewed annually by the Board of Directors.
- Performance based short term incentive being a cash bonus of up to \$40,000 per annum for the achievement of performance related KPI's.
- Period of notice of termination: three months notice by either party.
- No termination benefits payable on termination by the Company.

### **Mr Andrew Beecher, *Executive Officer, Webfirm Pty Ltd***

- Term of agreement – ongoing.
- Base salary, inclusive of superannuation, of \$220,000 per annum, to be reviewed annually by the Board of Directors.
- Performance based short term incentive being a cash bonus of up to \$42,000 per annum for the achievement of performance related KPI's.
- Period of notice of termination: three months notice by either party.
- No termination benefits payable on termination by the Company.

Mr Beecher resigned from the Company effective on 28 July 2009.



## D. Share-based compensation

The following options were granted to key management personnel during the year, for services performed:

### Options - 2009

| Issue Date  | Number of Options (i) | Expiry Date | Exercise Price \$ | Value of options at grant date \$ | Fair Value Per Option \$ | Date vested and exercisable |
|-------------|-----------------------|-------------|-------------------|-----------------------------------|--------------------------|-----------------------------|
| 27-Aug-2008 | 1,600,000             | 30-Jun-2012 | 0.10              | 64,000                            | 0.04                     | 01-Jul-2009                 |
| 27-Aug-2008 | 1,600,000             | 30-Jun-2012 | 0.10              | 72,000                            | 0.045                    | 01-Jul-2010                 |
| 27-Aug-2008 | 1,600,000             | 30-Jun-2012 | 0.10              | 72,000                            | 0.045                    | 01-Jul-2011                 |
| 23-Sep-2008 | 2,000,000             | 30-Jun-2012 | 0.10              | 70,000                            | 0.035                    | 23-Sep-2008                 |
| 23-Sep-2008 | 2,000,000             | 30-Jun-2012 | 0.10              | 70,000                            | 0.035                    | 01-Apr-2009                 |
| 23-Sep-2008 | 2,000,000             | 30-Jun-2012 | 0.10              | 80,000                            | 0.04                     | 01-Apr-2010                 |
|             |                       |             |                   | <b>428,000</b>                    |                          |                             |

(i) Following shareholder approval at Annual General Meeting held on Friday, 28 November 2008 a reorganisation of capital of Webfirm Group Limited was effected by way of a share consolidation whereby every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share. The options on issue were consolidated on the same ratio as the ordinary shares with the exercise price amended in inverse proportion to that ratio. The options above are stated on a post consolidation basis

### Options - 2008

| Issue Date  | Number of Options (i) | Expiry Date | Exercise Price \$ | Value of options at grant date \$ | Fair Value Per Option \$ | Date vested and exercisable |
|-------------|-----------------------|-------------|-------------------|-----------------------------------|--------------------------|-----------------------------|
| 17-Oct-2007 | 833,333               | 30-Jun-2010 | 0.15              | 16,667                            | 0.0200                   | 30-Jun-2008                 |
| 03-Mar-2008 | 20,500,000            | 10-Apr-2011 | 0.10              | 147,600                           | 0.0072                   | Immediately                 |
| 02-Apr-2008 | 5,000,000*            | 30-Jun-2009 | 0.10              | 8,500                             | 0.0017                   | Immediately                 |
| 02-Apr-2008 | 5,000,000*            | 30-Jun-2009 | 0.15              | 4,500                             | 0.0009                   | 30-Jun-2008                 |
| 02-Apr-2008 | 5,000,000*            | 31-Dec-2009 | 0.20              | 6,500                             | 0.0013                   | 31-Dec-2008                 |
| 02-Apr-2008 | 5,000,000*            | 30-Jun-2010 | 0.25              | 9,000                             | 0.0018                   | 30-Jun-2009                 |
| 02-Apr-2008 | 5,000,000*            | 31-Dec-2010 | 0.30              | 12,000                            | 0.0024                   | 31-Dec-2009                 |
|             |                       |             |                   | <b>204,767</b>                    |                          |                             |

\* These options were cancelled on 25 September 2008.

(i) The options in the 2008 comparative table are stated on a pre-consolidation basis.

The exercise price of the options is based on a pre-set exercise price. Options granted carry no dividend or voting rights. There is no Board policy in place to limit the executive employees' exposure to risk in relation to securities issued as remuneration.

Details of options over ordinary shares in the company provided as remuneration to each director of Webfirm Group Limited and each of the key management personnel of the Group are set out below:

| Name                                      | Options Granted During the Year |          |            |          | Options Vested During the Year |          |            |          |
|---|---------------------------------|----------|------------|----------|--------------------------------|----------|------------|----------|
|   | 2009                            |          | 2008       |          | 2009                           |          | 2008       |          |
|   | Number (i)                      | \$       | Number (i) | \$       | Number (i)                     | \$       | Number (i) | \$       |
| <b>Directors of Webfirm Group Limited</b> |                                 |          |            |          |                                |          |            |          |
| Mr A Barlow Chairman                      | 2,000,000                       | \$86,666 | 2,000,000  | \$72,000 | 1,333,333                      | \$56,666 | 2,000,000  | \$72,000 |
| Mr David Burden*<br>CEO & MD              | -                               | -        | 5,000,000  | \$40,500 | -                              | -        | 2,000,000  | \$13,000 |
| Mr Adrian Giles                           | 2,000,000                       | \$86,666 | -          | -        | 1,333,333                      | \$56,666 | -          | -        |
| Mr Adrian Vanzyl                          | 2,000,000                       | \$86,666 | -          | -        | 1,333,333                      | \$56,666 | -          | -        |
| <b>Other Key Management Personnel</b>     |                                 |          |            |          |                                |          |            |          |
| Mr D Element                              | 1,200,000                       | \$52,000 | -          | -        | -                              | -        | -          | -        |
| Mr J Edis                                 | 1,200,000                       | \$52,000 | -          | -        | -                              | -        | -          | -        |
| Mr A Beecher                              | 1,200,000                       | \$52,000 | -          | -        | -                              | -        | -          | -        |
| Mr S Jones                                | 1,200,000                       | \$52,000 | -          | -        | -                              | -        | -          | -        |

\* These options were cancelled on 25 September 2008.

- (i) The options in the table above have been restated in accordance with the share consolidation that occurred on 5 December 2008 whereby every five options held were converted into one option and the exercise price of each option was increased by a factor of five.

The assessed fair value at issue date of the options granted to the executive is allocated equally over the period from issue date to vesting date, and the amount is included in the remuneration tables above. Fair values at issue date are independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at issue date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

| Model Input             | Class #1 | Class #2 | Class #3 | Class #4 | Class #5 | Class #6 |
|-------------------------|----------|----------|----------|----------|----------|----------|
| Grant Date              | 27/08/08 | 27/08/08 | 27/08/08 | 23/09/08 | 23/09/08 | 23/09/08 |
| Exercise Date           | 01/07/09 | 01/07/10 | 01/07/11 | 23/09/08 | 01/04/09 | 01/04/10 |
| Expiry Date             | 30/06/12 | 30/06/12 | 30/06/12 | 30/06/12 | 30/06/12 | 30/06/12 |
| Exercise Price          | \$0.10   | \$0.10   | \$0.10   | \$0.10   | \$0.10   | \$0.10   |
| Exercise Factor         | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      |
| Price at Grant Date     | \$0.07   | \$0.07   | \$0.07   | \$0.065  | \$0.065  | \$0.065  |
| Expected Volatility     | 105.0%   | 105.0%   | 105.0%   | 105.0%   | 105.0%   | 105.0%   |
| Expected Dividend Yield | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       |
| Risk Free Interest Rate | 5.63%    | 5.63%    | 5.63%    | 5.58%    | 5.58%    | 5.58%    |

## D. Share-based compensation (continued)

The model inputs for options granted during the year ended 30 June 2008 included:

| Model Input             | Class #1 | Class #2 | Class #3 | Class #4 | Class #5 | Class #6 | Class #7 |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|
| Grant Date              | 17/10/07 | 03/03/08 | 02/04/08 | 02/04/08 | 02/04/08 | 02/04/08 | 02/04/08 |
| Exercise Date           | 30/06/08 | 03/03/08 | 02/04/08 | 30/06/08 | 31/12/08 | 30/06/09 | 31/12/09 |
| Expiry Date             | 30/06/10 | 10/04/11 | 30/06/09 | 30/06/09 | 31/12/09 | 30/06/10 | 31/12/10 |
| Exercise Price          | \$0.15   | \$0.10   | \$0.10   | \$0.15   | \$0.20   | \$0.25   | \$0.30   |
| Exercise Factor         | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      |
| Price at Grant Date     | \$0.064  | \$0.019  | \$0.015  | \$0.015  | \$0.015  | \$0.015  | \$0.015  |
| Expected Volatility     | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   |
| Expected Dividend Yield | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       |
| Risk Free Interest Rate | 6.56%    | 6.26%    | 6.26%    | 6.26%    | 6.26%    | 6.26%    | 6.26%    |

## E. Additional information

Further details relating to options are set out below:

| Name         | A<br>Remuneration consisting<br>of options | B<br>Value at grant date | C<br>Value at exercise date | D<br>Value at lapse date |
|--------------|--|--------------------------|-----------------------------|--------------------------|
| Mr A Barlow  | 63.4%                                      | \$86,666                 | -                           | -                        |
| Mr D Burden  | -  | -                        | -                           | -                        |
| Mr A Giles   | 63.4%                                      | \$86,666                 | -                           | -                        |
| Mr A Vanzyl  | 63.4%                                      | \$86,666                 | -                           | -                        |
| Mr D Element | 12.9%                                      | \$52,000                 | -                           | -                        |
| Mr J Edis    | 17.6%                                      | \$52,000                 | -                           | -                        |
| Mr A Beecher | 17.5%                                      | \$52,000                 | -                           | -                        |
| Mr S Jones   | 25.0%                                      | \$52,000                 | -                           | -                        |

- A. The percentage of value of remuneration consisting of options based on the value at grant date as set out in column B
- B. The value at grant date calculated in accordance with AASB 2 *Share Based Payment* of options granted during the year as part of remuneration
- C. The value at exercise date of options that were granted as part of remuneration and were exercised during the year
- D. The value at lapse date of options that were granted as part of remuneration and that lapsed during the year

This marks the end of the audited remuneration report.



## OTHER INFORMATION

### Shares under option

Unissued ordinary shares of Webfirm Group Limited under option at the date of signing this report:

| Issue Type                   | Expiry Date | Exercise Price<br>\$ | Number under option |
|------------------------------|-------------|----------------------|---------------------|
| Options over ordinary shares | 10 Apr 2011 | 0.50                 | 2,000,000           |
| Options over ordinary shares | 10 Apr 2011 | 0.50                 | 100,000             |
| Options over ordinary shares | 30 Jun 2012 | 0.10                 | 5,660,001           |
| Options over ordinary shares | 30 Jun 2012 | 0.10                 | 6,000,003           |
| <b>Total</b>                 |             |                      | <b>13,760,004</b>   |

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

### Indemnification and Insurance of Officers

The Company has during the financial year, in respect of each person who is or has been an officer of the company or a related body Corporate, made a relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Since the end of the financial year, the Company has paid premiums to insure all directors and officers of Webfirm Group Limited and the Webfirm Group of companies, against costs incurred in defending any legal proceedings arising out of their conduct as a director and officer of the Company, other than for conduct involving:

- (a) a wilful breach of duty; or
  - (b) a contravention of Sections 232(5) or (6) of the Corporations Act,
- as permitted by section 241A(3) of the Corporations Act.

Disclosure of the premium amount is prohibited by the insurance contract.

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

## Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 25 of the financial report.

## Non Audit Services

The board of directors' is satisfied that the provision of non-audit services during the year is compatible with the general standard on independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by Directors, prior to commencement to ensure they do not adversely effect the integrity and objectivity of the auditor; and
- The nature of the services provided did not compromise the general principals relating to the auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

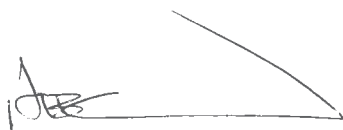
The following fees were paid/payable to the external auditors for non-audit services during the year ended 30 June 2009:

|  | 2009   | 2008  |
|--|--------|-------|
|  | \$     | \$    |
| <b>Non-audit services</b>                                |        |       |
| Related practice of auditor Taxation compliance services | 19,500 | 8,000 |

## Auditor

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd is the Company's appointed auditor.

This report is made in accordance with a resolution of directors.



**Andrew Barlow**

**Chairman**

18 September 2009

## DECLARATION OF INDEPENDENCE BY MICHAEL CLIMPSON TO THE DIRECTORS OF WEBFIRM GROUP LIMITED

As lead auditor of Webfirm Group Limited for the year ended 30 June 2009 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Webfirm Group Limited and the entities it controlled during the period.



**Michael Climpson**  
Director

**BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd**  
Chartered Accountants

Melbourne, 18<sup>th</sup> September 2009

# Income Statements

## For the year ended 30 June 2009

|   | Notes | CONSOLIDATED       |                    | COMPANY            |                    |
|---|-------|--------------------|--------------------|--------------------|--------------------|
|   |       | 2009               | 2008               | 2009               | 2008               |
|   |       | \$                 | \$                 | \$                 | \$                 |
| Total revenue from continuing operations                      | 3     | 10,801,422         | 12,150,476         | -                  | -                  |
| Other income  | 3     | 298,001            | 116,484            | 277,399            | 79,752             |
| Website publishers & related costs                            |       | (4,786,868)        | (5,232,046)        | -                  | -                  |
| Depreciation and amortisation expenses                        | 4     | (238,650)          | (180,520)          | (120,321)          | (96,177)           |
| Finance costs   | 4     | (303)              | (6,862)            | -                  | (2,111)            |
| Salaries and employment related costs (including contractors) |       | (6,366,016)        | (7,845,629)        | (393,730)          | (1,785,780)        |
| Telephone and internet  |       | (225,971)          | (198,029)          | (2,705)            | (78,685)           |
| Share based payment expense                                   |       | (433,309)          | (295,167)          | (433,309)          | (295,167)          |
| Marketing costs   |       | (261,320)          | (196,699)          | (7,000)            | (52,467)           |
| Lease – rental premises                                       | 4     | (494,959)          | (452,151)          | -                  | (203,121)          |
| Impairment of intangibles                                     | 4     | (500,000)          | (2,442,469)        | -                  | -                  |
| Impairment of receivables                                     | 4     | (321,730)          | (220,016)          | (684,792)          | (1,585,491)        |
| Listing & registrar fees                                      |       | (153,245)          | (153,326)          | (153,245)          | (153,326)          |
| Legal fees  |       | (106,935)          | (240,066)          | (35,854)           | (146,102)          |
| Travel expenses   |       | (249,962)          | (465,320)          | (1,670)            | (275,018)          |
| Audit and accountancy fees                                    |       | (209,284)          | (271,703)          | (205,151)          | (255,536)          |
| Other expenses  |       | (812,838)          | (787,623)          | (562,021)          | (434,091)          |
| <b>Loss before income tax expense</b>                         |       | <b>(4,061,967)</b> | <b>(6,720,666)</b> | <b>(2,322,399)</b> | <b>(5,283,320)</b> |
| Income tax expense  | 5     | (88,397)           | -                  | -                  | -                  |
| <b>Loss attributable to members of Webfirm Group Limited</b>  | 16    | <b>(4,150,364)</b> | <b>(6,720,666)</b> | <b>(2,322,399)</b> | <b>(5,283,320)</b> |

|  | 2009  | 2008   |
|--|-------|--------|
|  | Cents | Cents  |
| Earnings per share (EPS) from loss from continuing operations attributable to the ordinary equity holders of the company |       |        |
| Basic earnings per share   | 17    | (3.10) |
| Diluted earnings per share   | 17    | (3.10) |
| Earnings per share (EPS) from loss attributable to the ordinary equity holders of the company                            |       |        |
| Basic earnings per share   | 17    | (3.10) |
| Diluted earnings per share   | 17    | (3.10) |

During the year under review a reorganisation of capital of Webfirm Group Limited was effected by way of a share consolidation whereby every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share. The Basic loss per share and Diluted loss per share in for the period to 30 June 2008 in the table above has been restated accordingly.

The above Income Statements should be read in conjunction with the accompanying notes.

# Balance Sheets

## As at 30 June 2009

|                                | Notes | CONSOLIDATED |              | COMPANY      |              |
|--------------------------------|-------|--------------|--------------|--------------|--------------|
|                                |       | 2009         | 2008         | 2009         | 2008         |
|                                |       | \$           | \$           | \$           | \$           |
| <b>CURRENT ASSETS</b>          |       |              |              |              |              |
| Cash and cash equivalents      | 7     | 695,376      | 1,443,689    | 239,968      | 327,167      |
| Trade and other receivables    | 8     | 2,456,591    | 1,433,876    | 216,303      | 54,711       |
| Total current assets           |       | 3,151,967    | 2,877,565    | 456,271      | 381,878      |
| <b>NON-CURRENT ASSETS</b>      |       |              |              |              |              |
| Trade and other receivables    | 8     | -            | -            | -            | -            |
| Other financial assets         | 9     | -            | -            | 1,965,442    | 1,935,028    |
| Property, plant & equipment    | 10    | 231,962      | 647,310      | 54,303       | 385,016      |
| Intangible assets              | 11    | 2,938,087    | 3,150,000    | -            | -            |
| Total non-current assets       |       | 3,170,049    | 3,797,310    | 2,019,745    | 2,320,044    |
| Total assets                   |       | 6,322,016    | 6,674,875    | 2,476,016    | 2,701,922    |
| <b>CURRENT LIABILITIES</b>     |       |              |              |              |              |
| Trade and other payables       | 12    | 3,679,577    | 2,091,757    | 477,048      | 398,100      |
| Other liabilities              | 13    | 864,893      | 692,894      | -            | -            |
| Provisions                     | 14    | 152,733      | 123,833      | -            | -            |
| Total current liabilities      |       | 4,697,203    | 2,908,484    | 477,048      | 398,100      |
| <b>NON-CURRENT LIABILITIES</b> |       |              |              |              |              |
| Provisions                     | 14    | 20,767       | -            | -            | -            |
| Total non-current liabilities  |       | 20,767       | -            | -            | -            |
| Total liabilities              |       | 4,717,970    | 2,908,484    | 477,048      | 398,100      |
| <b>NET ASSETS</b>              |       | 1,604,046    | 3,766,391    | 1,998,968    | 2,303,822    |
| <b>EQUITY</b>                  |       |              |              |              |              |
| Issued capital                 | 15    | 37,358,173   | 35,714,937   | 37,358,173   | 35,714,937   |
| Reserves                       | 16    | 3,975,503    | 3,630,720    | 4,005,029    | 3,630,720    |
| Retained losses                | 16    | (39,729,630) | (35,579,266) | (39,364,234) | (37,041,835) |
| <b>TOTAL EQUITY</b>            |       | 1,604,046    | 3,766,391    | 1,998,968    | 2,303,822    |

The above Balance Sheets should be read in conjunction with the accompanying notes.

# Statements of Changes in Equity

## For the year ended 30 June 2009

|   | Notes | CONSOLIDATED     |                  | COMPANY          |                  |
|---|-------|------------------|------------------|------------------|------------------|
|   |       | 2009             | 2008             | 2009             | 2008             |
|   |       | \$               | \$               | \$               | \$               |
| Total equity at the beginning of the financial year                   |       | 3,766,391        | 6,217,520        | 2,303,822        | 3,317,605        |
| Increase in employee share based payments reserve                     | 16    | 374,309          | 225,167          | 374,309          | 225,167          |
| Movement in foreign exchange translation reserve                      | 16    | (29,526)         | -                | -                | -                |
| Net expense recognised directly in equity                             |       | 344,783          | 225,167          | 374,309          | 225,167          |
| Loss for the year attributable to members of the company              | 16    | (4,150,364)      | (6,720,666)      | (2,322,399)      | (5,283,320)      |
| Total recognised income and expense for the year                      |       | (4,150,364)      | (6,720,666)      | (2,322,399)      | (5,283,320)      |
| Transactions with equity holders in their capacity as equity holders: |       |                  |                  |                  |                  |
| Contributions of equity, net of transaction costs                     |       | 1,643,236        | 4,044,370        | 1,643,236        | 4,044,370        |
| <b>Total equity at the end of the financial year</b>                  |       | <b>1,604,046</b> | <b>3,766,391</b> | <b>1,998,968</b> | <b>2,303,822</b> |

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

# Cash Flow Statements

## For the year ended 30 June 2009

|   | Notes | CONSOLIDATED |              | COMPANY     |             |
|---|-------|--------------|--------------|-------------|-------------|
|   |       | 2009         | 2008         | 2009        | 2008        |
|   |       | \$           | \$           | \$          | \$          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |       |              |              |             |             |
| Receipts from trade and other debtors (inclusive of GST)                      |       | 10,257,072   | 14,462,829   | 29,964      | 87,625      |
| Interest received   |       | 69,585       | 109,513      | 51,521      | 79,752      |
| Government grants and other receipts  |       | 228,416      | -            | 225,878     | -           |
| Payments to trade creditors, other creditors and employees (inclusive of GST) |       | (12,483,998) | (17,118,194) | (1,906,031) | (3,516,857) |
| Interest paid   |       | (303)        | (6,862)      | -           | (2,112)     |
| Net cash outflows from operating activities                                   | 26    | (1,929,228)  | (2,552,714)  | (1,598,668) | (3,351,592) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                   |       |              |              |             |             |
| Payments for property, plant and equipment                                    |       | (85,707)     | (480,787)    | (17,328)    | (309,950)   |
| Payments for controlled entities, net of cash acquired                        |       | -            | (2,246,700)  | (30,414)    | -           |
| Payments for intangible assets  |       | (263,063)    | -            | -           | -           |
| Loans to related entities   |       | -            | -            | -           | (218,199)   |
| Net cash outflows from investing activities                                   |       | (348,770)    | (2,727,487)  | (47,742)    | (528,149)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |       |              |              |             |             |
| Proceeds from issue of shares   |       | 1,559,211    | 3,614,370    | 1,559,211   | 3,614,370   |
| Net cash inflows from financing activities                                    |       | 1,559,211    | 3,614,370    | 1,559,211   | 3,614,370   |
| Net decrease in cash held   |       | (718,787)    | (1,665,831)  | (87,199)    | (265,371)   |
| Cash at the beginning of the financial year                                   |       | 1,443,689    | 3,109,520    | 327,167     | 592,538     |
| Foreign currency translation reserve  |       | (29,526)     | -            | -           | -           |
| <b>CASH AT THE END OF THE FINANCIAL YEAR</b>                                  | 7     | 695,376      | 1,443,689    | 239,968     | 327,167     |

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## For the year ended 30 June 2009

### 1. Summary of Significant Accounting Policies

The financial report covers Webfirm Group Limited and controlled entities ("Group"), and Webfirm Group Limited as an individual parent company ("Company"). Webfirm Group Limited is a listed public company, incorporated and domiciled in Australia. The financial report is for the financial year ended 30 June 2009 and is presented in Australian dollars.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

##### **Compliance with IFRS**

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Webfirm Group Limited comply with International Financial Reporting Standards (IFRS).

##### **Early adoption of standards**

The Group has elected to apply s.334(5) of the *Corporations Act 2001* to apply AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 even though the Standards are not required to be applied until reporting periods beginning on or after 1 January 2009. AASB 8 replaces AASB 114 *Segment Reporting*.

AASB 8 is a disclosure standard which has resulted in a redesignation of the Group's reportable segments (see note 2), but has no impact on the reported results or financial position of the Group. The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by senior management in order to allocate resources to the segment and to assess its performance. This has resulted in a decrease in the number of reportable segments presented. As goodwill is allocated by management to groups of cash generating units at a segment level, the change in reportable segments has required a reallocation of goodwill of \$2,500,000 from the Webfirm Group operating segment to the newly identified operating segment 'Web Development and Hosting'. This in itself has not resulted in any impairment of goodwill.

##### **Historical cost convention**

These financial statements have been prepared under the historical cost convention.

##### **Critical accounting estimates**

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.



## **(b) Going concern**

The financial report for the year ended 30 June 2009 has been prepared on a going concern basis.

The following are indications of potential going concern issues:

- Operating losses (2009: \$4.1m), and negative operating cash flows (2009: \$1.9m) experienced in this development stage of the business
- Working capital deficiency at 30 June 2009 of \$1.5m

The ability of the company to continue as a going concern is in part dependent upon the Group being successful in its current efforts to grow revenues in either the Searchworld division, or upon the successful launch of the AdSlot joint venture operation (refer note 28).

As a result, there is a level of uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

However, the directors are confident that any material uncertainty as to the ability of the group to continue as a going concern has been largely mitigated by the further capital raising subsequent to year end (refer to note 28). \$3.6m has been received in two tranches (July and September) from an oversubscribed equity offering to sophisticated investors announced on 20 July 2009. Additionally, management will continue to monitor and reduce expenditure if further forecast revenues do not materialise. Accordingly the financial report has been prepared on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2009. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amount and classification of liabilities that might be necessary should the Group not continue as a going concern.

## **(c) Principles of consolidation**

### ***Subsidiaries***

The consolidated financial statements comprise those of the Company, and the entities it controlled at the end of, or during, the financial year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intra-group transactions, balances, income and expenses between entities in the group included in the financial statements have been eliminated in full. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

The accounting policies adopted in preparing the financial statements have been consistently applied by entities in the group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Webfirm Group Limited.

### ***Foreign Currency Exchange***

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences are recognised in profit or loss in the period in which they arise.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve.

## **(d) Cash and cash equivalents**

For the purposes of the cash flow statement, cash includes deposits at call which are readily convertible to cash and are not subject to significant risk of changes in value, net of bank overdrafts.

## 1. Summary of Significant Accounting Policies (continued)

### (e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Leasehold improvements are depreciated over the estimated useful life using the straight-line method with any balance written off at termination of lease.

Depreciation is calculated on a straight line basis for all plant and equipment. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of asset and is recognised in profit or loss.

The following depreciation rates are used for each class of depreciable asset:

|                             |                    |
|-----------------------------|--------------------|
| Computer & Office Equipment | 20 – 40% per annum |
| Furniture & Fittings        | 20 – 25% per annum |
| Leasehold Improvements      | 20% per annum      |
| Software                    | 40% per annum      |
| R & D Equipment             | 30 – 40% per annum |

### (f) Receivables

Trade receivables are recognised initially at fair value and thereafter are measured at amortised cost, less provision for impairment. They are non-derivative financial assets with fixed or determinable amounts not quoted in an active market. Trade accounts receivable are generally settled between 14 and 60 days and carried at amounts recoverable.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited against the allowance account.

### (g) Trade and other creditors

Trade accounts payable and other creditors represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

### (h) Borrowings

Borrowings are initially recognised at fair value (less transaction costs) and subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the income statement over the period of the borrowing using the effective interest rate method.

### (i) Finance costs

Finance costs are recognised as expenses in the period in which they are incurred except where they are incurred in the construction of a qualifying asset in which case the finance costs are capitalised as part of the asset.

### (j) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences 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 recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

#### ***Tax consolidation legislation***

Webfirm Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Webfirm Group Limited, and the controlled entities in the tax consolidated group account for their own current and tax deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Webfirm Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

### **(k) Employee benefits**

#### ***Wages and salaries, annual leave and sick leave***

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### ***Long service leave***

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in provisions for employee entitlements and is measured at the amount expected to be paid when the liabilities are settled. The liability for long service leave expected to be settled more than 12 months from the reporting date, is recognised in the non-current provision for employee benefits and is measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

#### ***Share-based compensation benefits***

##### *Shares options granted after 7 November 2002 and vested after 1 January 2005*

Equity-settled share-based payments with employees and other providing similar services are measured at the fair value of the equity instrument at the grant date. The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value determined at the grant date of the equity-settled share-based payments is recognised as an expense, with a corresponding increase in equity (share-based payments reserve) on a straight line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustments to equity-settled share-based payments reserve benefits reserve.

## 1. Summary of Significant Accounting Policies (continued)

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

### (I) Intangible Assets

#### *Goodwill*

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of the identifiable net assets of the entity or operations acquired. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, being allocated to the cash flows of the relevant cash generating unit and is carried at cost less accumulated impairment losses. An impairment loss for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

#### *Research & Development expenditure*

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

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

#### *Intellectual property*

The intellectual property relates to the names, branding and domains acquired as a result of the acquisition of Webfirm and Webfirm Search. The useful life is assessed as indefinite and the assets are not amortised. The carrying value is tested for impairment annually or more frequently if events or changes in circumstances indicate impairment. It is carried at cost less impairment losses.

#### *Domain name*

The Anzwers domain name was acquired in February 2006 and brought to account at cost. The useful life is assessed as indefinite and the assets are not amortised. The carrying value is tested for impairment annually or more frequently if events or changes in circumstances indicate impairment. It is carried at cost less impairment losses.

#### *Customer contracts*

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses.

A summary of the policies applied to the capitalisation of Group's software development and customer contracts is as follows:

|  | Software/Development Costs   | Customer Contracts   |
|--|--|--|
| Useful lives                                   | Finite   | Finite   |
| Method used                                    | Maximum 5 years - Straight line  | Straight-line over the period of customer contracts  |
| Internally generated/ Acquired                 | Internally generated   | Acquired   |
| Impairment test/<br>Recoverable amount testing | Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment | Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment |

**(m) Leased assets**

Leases of assets under which the group assumes substantially all the risks and benefits of ownership are classified as finance leases as distinct from operating leases under which the lessor effectively retains substantially all such risks and benefits. Property, plant and equipment acquired by finance leases is capitalised at the present value of the minimum lease payments as a finance lease asset and as a corresponding lease liability from date of inception of the lease. Lease assets are amortised over the period the entity is expected to benefit from the use of the assets or the term of the lease, whichever is shorter. Finance lease liabilities are reduced by the component of principal repaid. Lease payments are allocated between the principal component of the liability and interest expense.

Operating lease payments are charged to the income statement on a straight-line basis over the period of lease term.

**(n) Other financial assets**

The company only has investments in controlled entities which are carried in the financial report at cost less any impairment losses.

**(o) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. Where the amount of GST incurred is not recoverable from taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. For receivables and payables which are recognised inclusive of GST.

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

**(p) Revenue recognition**

Amounts disclosed as revenue are net of returns, allowances and duties and taxes paid.

Revenue is recognised for the major business activities as follows:

***Rendering of services***

Service revenue is recognised on an accruals basis as and when the service has been passed onto the customer.

Website development revenue is recorded based on a twelve (12) week program of project delivery. Any projects not completed within this period are deemed to be twenty percent (20%) incomplete. Website hosting, search engine renewal and domain name registration revenue is recorded over a one year duration. Prepaid revenue calculated in this regard is excluded from revenue and is being treated as unearned revenue in the Balance Sheet.

***Interest revenue***

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

***Government grants***

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met.

***Sale of non-current assets***

The net gain from the sale of non-current asset sales is recognised in income at the date control of the asset passes to the buyer, usually when the signed contract of sale becomes unconditional.

**(q) Acquisition 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 attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the date of acquisition, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Any deferred settlement of cash consideration is discounted to its present value as at the date of acquisition. The discount rate used is the incremental borrowing rate that the Company can obtain from an independent financier under comparable terms and conditions.

## 1. Summary of Significant Accounting Policies (continued)

### (r) Leasehold improvements

The cost of improvements to leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

### (s) Earnings per share

#### *Basic earnings per share*

Basic earnings per share for continuing operations and total operations attributable to members of the Company are determined by dividing net profit after income tax from continuing operations and the net profit attributable to members of the Company respectively, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period. The number of shares used in the calculation at any time during the period is based on the physical number of shares issued.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (t) Dividends

Provision is made for the amount of any dividend determined or recommended by the directors on or before the end of the financial year but not distributed at balance date.

### (u) Impairment of assets

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

### (v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer.

### (w) Critical accounting judgements and key sources of estimation uncertainty

#### *Critical judgements in applying the entity's accounting policies*

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

#### *Revenue recognition*

In web development and web hosting business operations, management assesses stage of completion of each project and recognises revenue in the period in which development work is undertaken. In making its judgement, management considered the standard duration of such contracts, stage of progress in contracts and commencement date of such contracts. Accordingly, management has deferred recognising some web development and web hosting revenue of an estimated value of services to be rendered in the future.

#### *Key sources of estimation uncertainty*

The following are the key assumptions concerning the future and other key estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### *Impairment of goodwill and intangible assets*

Determining whether goodwill and intangible assets are impaired required an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill and intangible assets at the balance sheet date was \$2,938,087 (2008: \$3,150,000) after an impairment loss of \$500,000 (2008: \$2,442,469) was recognised during the current financial year. Refer to Note 11 for further details.

#### **(x) New standards and interpretations issued but not effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods, and have not yet been adopted by the Group. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

- Revised AASB 101 *Presentation of Financial Statements* (issued September 2007) introduces as a financial statement (formerly 'primary' statement) the 'Statement of Comprehensive Income'. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group will apply this revised AASB 101 from 30 June 2010 but it is not expected to have a significant impact on the group's financial statements.
- Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements, but will not represent a change of accounting policy for the Group.
- Revised AASB 3 *Business Combinations* makes certain changes affecting future acquisitions only (such as the requirement to expense instead of capitalising acquisition costs, and a different treatment of step acquisitions). The revised AASB 3 will become mandatory for the Group's 30 June 2010 financial statements. As there is no impact on the accounting treatment of previous acquisitions, there should be no financial impact upon initial adoption of this revised standard.
- Revised AASB 127 *Consolidated and Separate Financial Statements*. The revised standard clarifies that changes in ownership interest which result in control being retained are accounted for within equity as transactions with owners. Losses will be attributed to the non-controlling interest even if this results in a debit balance for the non-controlling interest. Investments retained recognised at fair value at date of sale. The new standard and its amendments are will become mandatory for Webfirm's 30 June 2010 financial statements. As there is no requirement to retrospectively restate the effect of these revisions, there is unlikely to be any impact on the financial statements when this revised standard is first adopted.
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* clarifies vesting conditions, and specify cancellations to receive the same accounting treatment. AASB 2008-1 will become mandatory for the Group's 30 June 2010 financial statements. The Group will apply this revised AASB 2008-1 from 30 June 2010 but it is not expected to have any impact on the group's financial statements.
- AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project* amends AASB 1 and AASB 5 to include requirements relating to a sale plan involving the loss of control of a subsidiary. AASB 2008-6 will become mandatory for the Group's 30 June 2010 financial statements. The Group will apply this revised AASB 2008-6 from 30 June 2010 but it is not expected to have any impact on the group's financial statements.
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* amends AASB 1 to allow first-time adopters, in their separate financial statements, to use a deemed cost option for determining the cost of an investment in a subsidiary. It also removes from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary. It also amends AASB 127 to require, in particular circumstances, a new parent entity established in a group reorganisation to measure the cost of its investment at the carrying amount of the share of the equity items. It also amends AASB 136 to include recognising a dividend from a subsidiary, together with other evidence, as an indication that the investment in the subsidiary may be impaired. AASB 2008-7 will become mandatory for the Group's 30 June 2010 financial statements. The Group will apply this revised AASB 101 from 30 June 2010 but it is not expected to have any impact on the group's financial statements.

## 2. Segment Information

| 2009<br>Business segments                 | Display Media | Search Media | Web Development | Total       |
|---|---------------|--------------|-----------------|-------------|
| <b>Revenue</b>                            |               |              |                 |             |
| External sales                            | 889,500       | 5,666,039    | 4,245,883       | 10,801,422  |
| Segment result from continuing operations | (448,984)     | (322,749)    | (996,140)       | (1,767,873) |
| Depreciation (note 10)                    | 4,285         | 5,351        | 84,161          | 93,797      |
| Amortisation (note 10)                    | -             | -            | 17,876          | 17,876      |
| Additions to non-current assets (PP&E)    | -             | 4,060        | 80,042          | 84,102      |
| <b>Balance Sheet</b>                      |               |              |                 |             |
| Segment assets                            | 82,674        | 1,656,821    | 2,140,333       | 3,879,828   |
| Segment liabilities                       | (207,574)     | (2,480,180)  | (1,287,460)     | (3,975,214) |

| 2008<br>Business segments                 | Display Media | Search Media | Web Development | Total       |
|---|---------------|--------------|-----------------|-------------|
| <b>Revenue</b>                            |               |              |                 |             |
| External sales                            | 1,944,977     | 6,618,757    | 3,586,742       | 12,150,476  |
| Segment result from continuing operations | (831,139)     | 591,239      | (494,779)       | (734,679)   |
| Depreciation (note 10)                    | 7,653         | 8,450        | 53,927          | 70,030      |
| Amortisation (note 10)                    | -             | -            | 13,023          | 13,023      |
| Additions to non-current assets           | 265           | -            | 177,644         | 177,909     |
| <b>Balance Sheet</b>                      |               |              |                 |             |
| Segment assets                            | 450,017       | 740,011      | 3,108,950       | 4,298,978   |
| Segment liabilities                       | (614,850)     | (609,979)    | (1,433,704)     | (2,658,533) |

Segment revenue reconciles to total revenue from continuing operations as follows:

| Revenue   | 2009              | 2008              |
|---|-------------------|-------------------|
|   | \$                | \$                |
| Total segment revenue                           | 10,801,422        | 12,150,476        |
| Interest revenue                                | 69,585            | 109,513           |
| Other income                                    | 228,416           | 6,971             |
| <b>Total revenue from continuing operations</b> | <b>11,099,423</b> | <b>12,266,960</b> |



A reconciliation from segment result to operating profit before income tax is provided as follows:

| Segment Result   | 2009               | 2008               |
|--|--------------------|--------------------|
|  | \$                 | \$                 |
| Total segment result                                       | (1,767,873)        | [734,679]          |
| Interest revenue   | 69,585             | 109,513            |
| Other income   | 228,416            | 6,971              |
| Depreciation   | (178,766)          | (125,135)          |
| Amortisation   | (59,884)           | (55,385)           |
| Impairment of intangibles                                  | (500,000)          | (2,442,469)        |
| Share option expenses                                      | (433,309)          | (295,167)          |
| Other head office expenses                                 | (1,420,136)        | (3,184,315)        |
| <b>Profit before income tax from continuing operations</b> | <b>(4,061,967)</b> | <b>(6,720,666)</b> |

Reportable segment assets are reconciled to total assets as follows:

| Segment Result                               | 2009             | 2008             |
|--|------------------|------------------|
|  | \$               | \$               |
| Total segment assets                         | 3,879,828        | 4,298,978        |
| Head office assets                           | 2,517,173        | 2,893,428        |
| Intersegment eliminations                    | (74,985)         | (517,531)        |
| <b>Total assets as per the balance sheet</b> | <b>6,322,016</b> | <b>6,674,875</b> |

Reportable segment liabilities are reconciled to total liabilities as follows:

| Segment Result                                    | 2009               | 2008               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| Total segment liabilities                         | (3,975,214)        | (2,658,533)        |
| Head office liabilities                           | (738,618)          | (718,773)          |
| Intersegment eliminations                         | (4,138)            | 468,822            |
| <b>Total liabilities as per the balance sheet</b> | <b>(4,717,970)</b> | <b>(2,908,484)</b> |

## Notes to and forming part of the segment information

### Business segments

The group is organised into the following segments by product and service type:

#### *Display Media*

Commercialises the audience by generating revenue from a website's end users through traditional banner display advertising. Also targets point of interest advertising on portable navigational devices.

#### *Search Media*

Driving on-line users to websites through provision of contextually mapped search advertising.

## 2. Segment Information (continued)

### *Web Development and Hosting*

Designing and developing websites, maintenance of the sites, and promoting the websites.

#### **Geographical information**

Revenues from external customers are attributed to individual countries based on the invoiced address for the services.

|   | Revenue from external customers |                   | Non-current assets |                  |
|---|---------------------------------|-------------------|--------------------|------------------|
|   | 2009                            | 2008              | 2009               | 2008             |
|   | \$                              | \$                | \$                 | \$               |
| Continuing Operations                           |                                 |                   |                    |                  |
| Australia                                       | 6,897,981                       | 9,432,527         | 3,166,772          | 3,797,310        |
| North America                                   | 3,592,649                       | 2,834,433         | 3,277              | -                |
| South America                                   | 400,804                         | -                 | -                  | -                |
| Asia  | 207,989                         | -                 | -                  | -                |
| <b>Total revenue from continuing operations</b> | <b>11,099,423</b>               | <b>12,266,960</b> | <b>3,170,049</b>   | <b>3,797,310</b> |

#### **Accounting policies**

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, capitalised R&D and other intangible assets, net of related provisions but does not include non-current inter-entity assets and liabilities which are considered quasi-equity in substance. Segment liabilities consist primarily of trade and other creditors, employee benefits and sundry provisions and accruals. Segment assets and liabilities do not include income taxes.

#### **Inter-segment transfers**

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length basis and are eliminated on consolidation.

|  | CONSOLIDATED |            | COMPANY |        |
|--|--------------|------------|---------|--------|
|  | 2009         | 2008       | 2009    | 2008   |
|  | \$           | \$         | \$      | \$     |
| <b>3. Revenue</b>                        |              |            |         |        |
| <b>Revenue</b>                           |              |            |         |        |
| Total revenue from continuing operations | 10,801,422   | 12,150,476 | -       | -      |
| <b>Other income</b>                      |              |            |         |        |
| Interest income                          | 69,585       | 109,513    | 51,521  | 79,752 |
| R&D tax offset grant                     | 225,878      | -          | 225,878 | -      |
| Sundry income                            | 2,538        | 6,971      | -       | -      |
|  | 298,001      | 116,484    | 277,399 | 79,752 |

|   | CONSOLIDATED |           | COMPANY |           |
|---|--------------|-----------|---------|-----------|
|   | 2009         | 2008      | 2009    | 2008      |
|   | \$           | \$        | \$      | \$        |
| <b>4. Expenses</b>  |              |           |         |           |
| <b>Loss before income tax includes the following specific expenses:</b> |              |           |         |           |
| <b>Amortisation and depreciation</b>                                    |              |           |         |           |
| Amortisation – Leasehold improvements                                   | 59,884       | 55,385    | 42,008  | 42,362    |
| Depreciation – Plant & Equipment  | 178,766      | 125,135   | 78,313  | 53,815    |
| <b>Finance costs</b>  |              |           |         |           |
| Interest paid/payable to unrelated entities                             | 303          | 6,862     | -       | 2,111     |
| <b>Other charges against assets</b>                                     |              |           |         |           |
| Impairment of intangibles   | 500,000      | 2,442,469 | -       | -         |
| Impairment of trade receivables   | 321,730      | 220,016   | -       | -         |
| Impairment of receivable from controlled entities                       | -            | -         | 684,792 | 1,585,491 |
| Rental expense – operating leases                                       | 494,959      | 452,151   | -       | 203,121   |
| Defined contribution superannuation expense                             | 347,136      | 432,422   | -       | -         |
| Loss on write down of PP&E & leasehold improvements                     | 262,406      | -         | 227,720 | -         |

|  | CONSOLIDATED |             | COMPANY     |             |
|--|--------------|-------------|-------------|-------------|
|  | 2009         | 2008        | 2009        | 2008        |
|  | \$           | \$          | \$          | \$          |
| <b>5. Income Tax Expense</b>   |              |             |             |             |
| <b>(a) Numerical reconciliation of income tax expense to prima facie tax benefit</b>   |              |             |             |             |
| Loss before income tax   | (4,061,967)  | (6,720,666) | (2,322,399) | (5,283,320) |
| Prima facie tax benefit on loss before income tax at 30% (2008: 30%)   | (1,218,590)  | (2,016,200) | (696,720)   | (1,584,996) |
| Tax effect of:   |              |             |             |             |
| Investment tax credit  | 5,499        | -           | -           | -           |
| Other non-allowable items  | 82,985       | 48,870      | 2,045       | 19,658      |
| Share options expensed during year   | 112,293      | 67,550      | 112,293     | 67,550      |
| Sundry items   | (8,321)      | (956)       | (8,321)     | (663)       |
|  | (1,026,134)  | (1,900,736) | (590,703)   | (1,498,451) |
| Deferred tax assets not recognised (i)   | 1,114,531    | 1,900,736   | 590,703     | 1,498,451   |
| Income tax expense attributable to entity  | 88,397       | -           | -           | -           |
| <b>(b) Deferred Tax Assets Not Brought to Account</b>  |              |             |             |             |
| Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out on Note 1(j) occur |              |             |             |             |
| Temporary differences  | 244          | 178,053     | 214,562     | 25,317      |
| Tax Losses:  |              |             |             |             |
| Operating losses   | 6,817,284    | 6,019,872   | 6,505,583   | 6,019,872   |
| Capital losses   | 131,879      | 131,879     | 131,879     | 131,879     |
|  | 6,949,407    | 6,329,804   | 6,852,024   | 6,177,068   |
| Potential tax benefit (30%)  | 2,084,822    | 1,898,941   | 2,055,607   | 1,853,120   |

(i) Deferred tax assets not brought to account at 30 June 2009 are less than closing comparative balance plus current year movements. This is due to forfeiture of some carry forward tax losses due to changes in business operations and ownership. These changes have resulted in the group no longer meeting the same business or same ownership tests.

## 6. Dividends

No dividends were declared in the current year or prior year by the Company.

There are no franking credits available to shareholders of the Company.

|                                     | CONSOLIDATED |           | COMPANY |         |
|-------------------------------------|--------------|-----------|---------|---------|
|                                     | 2009         | 2008      | 2009    | 2008    |
|                                     | \$           | \$        | \$      | \$      |
| <b>7. Cash and cash equivalents</b> |              |           |         |         |
| Cash at bank and on hand            | 695,376      | 1,443,689 | 239,968 | 327,167 |

|                                       | CONSOLIDATED |           | COMPANY |        |
|---------------------------------------|--------------|-----------|---------|--------|
|                                       | 2009         | 2008      | 2009    | 2008   |
|                                       | \$           | \$        | \$      | \$     |
| <b>8. Trade and other receivables</b> |              |           |         |        |
| <b>Current:</b>                       |              |           |         |        |
| Trade debtors                         | 2,574,997    | 1,500,502 | -       | -      |
| Less provision for impairment         | (507,356)    | (249,647) | -       | -      |
|                                       | 2,067,641    | 1,250,855 | -       | -      |
| Other receivables                     | 129,616      | 111,262   | 16,303  | 38,945 |
| Prepayments                           | 51,951       | 71,759    | -       | 15,766 |
| Employee loans                        | 207,383      | -         | 200,000 | -      |
|                                       | 2,456,591    | 1,433,876 | 216,303 | 54,711 |

### Impairment of trade receivables

The average credit period on sale of goods and rendering of services in the Search Media and Display Media segments is 45 days. No interest is charged on trade receivables exceeding normal credit terms. An allowance has been made for estimated non-recoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

The Website Development and Hosting segment invoices the customer on the full sales values at sale date with collection terms being related to various contract completion stages of website development and annual hosting services. A particular debt exceeding 90 days does not necessarily mean delinquent debt as the contract may still be at work in progress stage with corresponding debtor balance not due for collection.

Before accepting any new customers, the Group internally reviews the potential customer's credit quality. A substantial deposit on contract in website development and hosting segment of the Group mitigates initial credit risk.

Included in the Group's trade receivable balances are debtors with a carrying amount of \$1,643,712 (2008: \$1,206,844) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 97 days (2008: 96 days).

## 8. Trade and other receivables (continued)

### Ageing of trade receivables is as follows:

(a) Ageing of past due but not impaired

|              | CONSOLIDATED |           | COMPANY |      |
|--------------|--------------|-----------|---------|------|
|              | 2009         | 2008      | 2009    | 2008 |
|              | \$           | \$        | \$      | \$   |
| 0 – 30 days  | 771,482      | 658,317   | -       | -    |
| 30 – 60 days | 655,723      | 371,801   | -       | -    |
| 61 – 90 days | 54,986       | 131,897   | -       | -    |
| Over 91 days | 161,521      | 44,829    | -       | -    |
|              | 1,643,712    | 1,206,844 | -       | -    |

(b) Movement in the provision for impairment

|                                       | CONSOLIDATED |          | COMPANY |          |
|---------------------------------------|--------------|----------|---------|----------|
|                                       | 2009         | 2008     | 2009    | 2008     |
|                                       | \$           | \$       | \$      | \$       |
| Balance at beginning of the year      | 249,647      | 96,737   | -       | 29,056   |
| Impairment recognised during the year | 482,388      | 277,614  | -       | -        |
| Amounts written off as uncollectible  | (64,021)     | (63,385) | -       | (29,056) |
| Amounts recovered during the year     | (160,658)    | (61,319) | -       | -        |
| Balance at the end of the year        | 507,356      | 249,647  | -       | -        |

In determining the recoverability of a trade receivable, the Group considers any recent history of payments and the status of the projects to which the debt relates to. No payment terms have been renegotiated. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

### Fair value of receivables

Fair value of receivables at year end is measured to be the same as receivables net of provision for impairment.

|                                      | CONSOLIDATED |             | COMPANY     |             |
|--------------------------------------|--------------|-------------|-------------|-------------|
|                                      | 2009         | 2008        | 2009        | 2008        |
|                                      | \$           | \$          | \$          | \$          |
| <b>Non-current:</b>                  |              |             |             |             |
| Receivables from controlled entities | -            | -           | 8,317,665   | 7,632,873   |
| Less provision for impairment        | -            | -           | (8,317,665) | (7,632,873) |
| Sub-total                            | -            | -           | -           | -           |
| Receivables – Optum ES Pty Ltd (i)   | 2,163,343    | 2,163,343   | 2,163,343   | 2,163,343   |
| Less provision for impairment        | (2,163,343)  | (2,163,343) | (2,163,343) | (2,163,343) |
| Total                                | -            | -           | -           | -           |

Movement in the provision for impairment: non-current receivables

|                                       | CONSOLIDATED |      | COMPANY   |           |
|---------------------------------------|--------------|------|-----------|-----------|
|                                       | 2009         | 2008 | 2009      | 2008      |
|                                       | \$           | \$   | \$        | \$        |
| Balance at beginning of the year      | -            | -    | 7,632,873 | 6,047,382 |
| Impairment recognised during the year | -            | -    | 684,792   | 1,585,491 |
| Balance at the end of the year        | -            | -    | 8,317,665 | 7,632,873 |

(i) Included in other receivables is an amount of \$800,000 due under the terms of a Sale and Purchase Agreement pursuant to the disposal of 65% equity in Optum ES Pty Ltd. This amount has become delinquent and the company has continued legal action in the Supreme Court of Western Australia. A full provision has therefore been made against this amount. Also included is an amount of \$1,363,343 which was the outstanding balance on the intercompany loan from Webfirm Group Limited to Optus E S Pty Ltd at the date of deconsolidation. The balance has also been fully provided for in prior years.

The recoverability of loans to controlled entities is determined with reference to the net assets of each controlled entity.

Non-current receivables generally arise from transactions outside the usual operating activities of the group. No interest is chargeable and collateral is generally not obtained.

|                                   | Notes | CONSOLIDATED |      | COMPANY   |           |
|-----------------------------------|-------|--------------|------|-----------|-----------|
|                                   |       | 2009         | 2008 | 2009      | 2008      |
|                                   |       | \$           | \$   | \$        | \$        |
| <b>9. Other Financial Assets</b>  |       |              |      |           |           |
| <b>Non-current:</b>               |       |              |      |           |           |
| Investment in controlled entities | 18    | -            | -    | 1,965,442 | 1,935,028 |

Following a review of the carrying of the Group's investment in other controlled entities in the year ended 30 June 2009, the Board concluded that the amount and probability of receipt of the cash flows expected to be generated by the Group's investment in these businesses justified the net carrying value and no further change to the impairment amount was made during the year.

Webfirm Group Limited was issued 1,000 Ordinary Shares at USD 25.00 each of Ansearch Inc (a wholly owned entity registered in Delaware, USA) as at 30 June 2009.

|   | CONSOLIDATED |          | COMPANY  |          |
|---|--------------|----------|----------|----------|
|   | 2009         | 2008     | 2009     | 2008     |
|   | \$           | \$       | \$       | \$       |
| <b>10. Non-Current Assets – Property, plant and equipment</b> |              |          |          |          |
| Leasehold improvements – at cost                              | 71,293       | 336,848  | -        | 242,652  |
| Less: Accumulated amortisation                                | (8,139)      | (55,149) | -        | (42,125) |
|   | 63,154       | 281,699  | -        | 200,527  |
| Plant and equipment – at cost                                 | 176,667      | 271,894  | 139,243  | 248,724  |
| Less: Accumulated depreciation                                | (91,724)     | (67,113) | (84,940) | (64,235) |
|   | 84,943       | 204,781  | 54,303   | 184,489  |
| Computer equipment – at cost                                  | 234,697      | 231,170  | -        | -        |
| Less: Accumulated depreciation                                | (150,832)    | (70,340) | -        | -        |
|   | 83,865       | 160,830  | -        | -        |
| Total carrying amount of property, plant and equipment        | 231,962      | 647,310  | 54,303   | 385,016  |

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

| 2009                              | Leasehold Improvements | Plant and Equipment | Computer Equipment | Total     |
|-----------------------------------|------------------------|---------------------|--------------------|-----------|
|                                   | \$                     | \$                  | \$                 | \$        |
| <b>CONSOLIDATED</b>               |                        |                     |                    |           |
| Carrying amount at 1 July 2008    | 281,699                | 204,781             | 160,830            | 647,310   |
| Additions                         | 47,397                 | 19,663              | 18,642             | 85,702    |
| Disposals/write offs (i)          | (206,057)              | (54,573)            | (1,770)            | (262,400) |
| Depreciation/amortisation expense | (59,885)               | (84,928)            | (93,837)           | (238,650) |
| Carrying amount at 30 June 2009   | 63,154                 | 84,943              | 83,865             | 231,962   |
| <b>COMPANY</b>                    |                        |                     |                    |           |
| Carrying amount at 1 July 2008    | 200,527                | 184,489             | -                  | 385,016   |
| Additions                         | -                      | -                   | -                  | -         |
| Disposals/write offs (i)          | (158,519)              | (51,873)            | -                  | (210,392) |
| Depreciation/amortisation expense | (42,008)               | (78,313)            | -                  | (120,321) |
| Carrying amount at 30 June 2009   | -                      | 54,303              | -                  | 54,303    |



| 2008                              | Leasehold Improvements | Plant and Equipment | Computer Equipment | Total     |
|-----------------------------------|------------------------|---------------------|--------------------|-----------|
|                                   | \$                     | \$                  | \$                 | \$        |
| <b>CONSOLIDATED</b>               |                        |                     |                    |           |
| Carrying amount at 1 July 2007    | 106,761                | 98,586              | 141,696            | 347,043   |
| Additions                         | 248,391                | 165,488             | 108,538            | 522,417   |
| Disposals/write offs              | (18,068)               | (2,839)             | (20,723)           | (41,630)  |
| Depreciation/amortisation expense | (55,385)               | (56,454)            | (68,681)           | (180,520) |
| Carrying amount at 30 June 2008   | 281,699                | 204,781             | 160,830            | 647,310   |
| <b>COMPANY</b>                    |                        |                     |                    |           |
| Carrying amount at 1 July 2007    | 80,505                 | 90,739              | -                  | 171,244   |
| Additions                         | 180,452                | 147,566             | -                  | 328,018   |
| Disposals/write offs              | (18,068)               | -                   | -                  | (18,068)  |
| Depreciation/amortisation expense | (42,362)               | (53,816)            | -                  | (96,178)  |
| Carrying amount at 30 June 2008   | 200,527                | 184,489             | -                  | 385,016   |

(i) During the year, the Group carried out a review of the recoverable amount of its non-current assets, having regard to closure of Sydney office and re-location of offices in Melbourne and Perth. This review led to the write off of leasehold costs associated with these office premises and write off of furniture and equipment no longer in use at new offices premises.

There was no depreciation during the period that was capitalised as part of the cost of other assets.

## 11. Non-Current Assets – Intangible Assets

|                                     | Intellectual Property | Domain Name | Goodwill    | Internally developed Software | Customer Contracts | Total       |
|-------------------------------------|-----------------------|-------------|-------------|-------------------------------|--------------------|-------------|
|                                     | \$                    | \$          | \$          | \$                            | \$                 | \$          |
| <b>CONSOLIDATED</b>                 |                       |             |             |                               |                    |             |
| <b>Year ended 30 June 2009</b>      |                       |             |             |                               |                    |             |
| Opening net book amount             | 50,000                | 100,000     | 3,000,000   | -                             | -                  | 3,150,000   |
| Acquisitions                        | -                     | -           | -           | 223,062                       | 65,025             | 288,087     |
| Impairment of assets                | -                     | -           | (500,000)   | -                             | -                  | (500,000)   |
| Carrying amount at 30 June 2009     | 50,000                | 100,000     | 2,500,000   | 223,062                       | 65,025             | 2,938,087   |
| <b>At 30 June 2009</b>              |                       |             |             |                               |                    |             |
| Cost                                | 3,897,328             | 250,000     | 5,132,469   | 223,062                       | 65,025             | 9,567,884   |
| Accumulated amortisation/impairment | (3,847,328)           | (150,000)   | (2,632,469) | -                             | -                  | (6,629,797) |
| Carrying amount at 30 June 2009     | 50,000                | 100,000     | 2,500,000   | 223,062                       | 65,025             | 2,938,087   |

## 11. Non-Current Assets – Intangible Assets (continued)

|                                      | Intellectual Property | Domain Name | Goodwill    | Internally developed Software | Customer Contracts | Total       |
|--------------------------------------|-----------------------|-------------|-------------|-------------------------------|--------------------|-------------|
|                                      | \$                    | \$          | \$          | \$                            | \$                 | \$          |
| <b>CONSOLIDATED</b>                  |                       |             |             |                               |                    |             |
| <b>Year ended 30 June 2008</b>       |                       |             |             |                               |                    |             |
| Opening net book amount              | 200,000               | 250,000     | 4,532,823   | -                             | -                  | 4,982,823   |
| Acquisitions                         | 10,000                | -           | 599,646     | -                             | -                  | 609,646     |
| Impairment of assets                 | (160,000)             | (150,000)   | (2,132,469) | -                             | -                  | (2,442,469) |
| Carrying amount at 30 June 2008      | 50,000                | 100,000     | 3,000,000   | -                             | -                  | 3,150,000   |
| <b>At 30 June 2008</b>               |                       |             |             |                               |                    |             |
| Cost                                 | 3,897,328             | 250,000     | 5,132,469   | -                             | -                  | 9,279,797   |
| Accumulated amortisation/ impairment | (3,847,328)           | (150,000)   | (2,132,469) | -                             | -                  | (6,129,797) |
| Carrying amount at 30 June 2008      | 50,000                | 100,000     | 3,000,000   | -                             | -                  | 3,150,000   |

### Goodwill

Goodwill relates to the acquisition of Webfirm and Searchworld as disclosed in Note 20 – Business Combinations.

#### (a) Impairment tests for goodwill

For the purpose of impairment testing, goodwill is allocated to the cash generating unit (“CGU”) which represents the lowest level within the group at which the goodwill is monitored for internal management purposes. All goodwill relates to the acquisition of Webfirm and Searchworld as disclosed in Note 20 – Business Combinations. It has been allocated to the Web Development and Hosting CGU.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

The recoverable amount of goodwill on Webfirm Pty Ltd acquisition is estimated to be approximately \$2.5 million, thus the carrying value of goodwill has been impaired by \$500,000 (2008: \$2,132,469).

#### (b) Key assumptions used in value-in-use calculations

The following are the key assumptions in the director’s estimation of the recoverable amount of goodwill related to Webfirm Pty Ltd acquisition. The director’s believe the revenue growth expectations are achievable, and believe the forecast net profit after tax as a percentage of revenue are conservative estimates.

|  | 2010  | 2011 | 2012 | 2013 | 2014 |
|--|-------|------|------|------|------|
| Revenue (\$millions)                     | 5.2   | 6.3  | 7.7  | 9.1  | 10.0 |
| Revenue growth                           | 22%   | 21%  | 22%  | 18%  | 10%  |
| Net profit after tax (as a % of revenue) | -1.3% | 1.5% | 4.4% | 6.8% | 7.4% |

- Discount rate of 20% pre tax (2008: 20% pre tax)
- Perpetuity growth rate of 6.0% after 2014. The growth rate does not exceed the expected long-term average growth rate for the business in which the CGU operates

### *(c) Impairment charge*

The carrying amount of the goodwill within the Web Development and Hosting CGU has been reduced to its recoverable amount through an impairment loss of \$0.5 million. The impairment charge arose from the following key events:

- Consideration of the latest year-to-date results for the CGU being below initial expectations
- Overall deterioration of capital markets indices during 2009 financial year, and the impact these market conditions will have on the company's trading.

The full amount of the impairment loss of \$500,000 relates to the web development and hosting segment.

### **Intellectual property**

Intellectual property opening balance relates to the various business names and domain names held as a result of the Webfirm acquisition (Note 20). This intellectual property which pertained to Web Development & Hosting segment (refer Note 2) was transferred to Search Media business segment during the year pursuant to directors' decision to change branding of Webfirm Group business.

The directors have assessed that the intellectual property has an indefinite useful life on the basis that the directors do not believe that there is a foreseeable limit on the period over which this asset is expected to generate cash inflows for the entity.

The fair value of this intellectual property attached to the Web Development & Hosting CGU (and segment) was reviewed and with sufficient future benefits being received from the asset no further impairment was recognised in the 2009 year (impaired by \$160,000 in 2008).

### **Domain Name**

The Anzwers domain name was purchased in February 2006, this domain name pertains to the Search Media CGU (and segment).

The directors have assessed that the domain name has an indefinite useful life on the basis that the directors do not believe that there is a foreseeable limit on the period over which this asset is expected to generate cash inflows for the entity.

The directors have determined that the carrying value of the Anzwers domain name does not require further impairment (impaired by \$150,000 in 2008) on the basis of current revenue and cash flow forecasts.

### **Software**

During 2009 year costs associated with three internally developed software platforms amounting to \$223,062 have been capitalised in accordance with accounting standards.

While the "AdFeed Engine" software has proven to be a premier and state of the art search engine platform, "Hackless" and "Clear View" projects are expected to increase business efficiencies of Web Development & Hosting CGU (and segment). The three software platforms are still in development stage at end of 2009 year and as such no amortisation has been recognised.

### **Customer Contracts**

On 24 June 2009 Webfirm Pty Ltd acquired customer contracts from Human Traffic Pty Ltd for \$65,025.

The directors have assessed that the customer contracts have a useful life of five years. The company will commence amortising the value of the customer contracts in 2010. The directors have not applied any amortisation in 2009 since the customer contracts were acquired very late in the year.

|   | CONSOLIDATED     |                  | COMPANY        |                |
|---|------------------|------------------|----------------|----------------|
|   | 2009             | 2008             | 2009           | 2008           |
|   | \$               | \$               | \$             | \$             |
| <b>12. Current liabilities – Payables</b> |                  |                  |                |                |
| Trade creditors                           | 2,477,631        | 995,181          | 59,978         | 253,926        |
| Other creditors                           | 1,201,946        | 1,096,576        | 417,070        | 144,174        |
|   | <u>3,679,577</u> | <u>2,091,757</u> | <u>477,048</u> | <u>398,100</u> |

|  | CONSOLIDATED |         | COMPANY |      |
|--|--------------|---------|---------|------|
|  | 2009         | 2008    | 2009    | 2008 |
|  | \$           | \$      | \$      | \$   |
| <b>13. Current liabilities – Other</b> |              |         |         |      |
| Unearned revenue (i)                   | 864,893      | 692,894 | -       | -    |

(i) Unearned revenue pertains to website development and hosting invoices that are rendered based on full contract terms at the contracts inception, however performed over stages which straddle the balance sheet date.

|                               | CONSOLIDATED |         | COMPANY |      |
|-------------------------------|--------------|---------|---------|------|
|                               | 2009         | 2008    | 2009    | 2008 |
|                               | \$           | \$      | \$      | \$   |
| <b>14. Current Provisions</b> |              |         |         |      |
| Current:                      |              |         |         |      |
| Employee benefits             | 152,733      | 123,833 | -       | -    |
| Non current:                  |              |         |         |      |
| Employee benefits             | 20,767       | -       | -       | -    |

|                                  | CONSOLIDATED |             | COMPANY    |            |
|----------------------------------|--------------|-------------|------------|------------|
|                                  | 2009         | 2008        | 2009       | 2008       |
|                                  | Number       | Number      | \$         | \$         |
| <b>15. Contributed equity</b>    |              |             |            |            |
| Ordinary Shares – Fully Paid (i) | 138,558,520  | 558,314,045 | 37,358,173 | 35,714,937 |

(i) Following shareholder approval at Annual General Meeting held on Friday, 28 November 2008 a reorganisation of capital of Webfirm Group Limited, was effected by way of a share consolidation whereby every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share.

## Movements in Paid-Up Capital

| Date             | Details                                       | Number of shares   | Issue price | Capital raising costs | Value             |
|------------------|---|--------------------|-------------|-----------------------|-------------------|
|                  |   | Number             | \$          | \$                    | \$                |
| 30-Jun-07        | Balance                                       | 389,558,057        |             | 329,260               | 31,670,567        |
| 04-Jul-07        | Issue of shares to Webfirm vendors            | 13,722,854         | 0.097       |                       | 360,000           |
| 24-Aug-07        | 1 for 4 entitlements issue – Instalment 3 (i) | 127,782,229        | 0.020       |                       | 2,534,938         |
| 29-Aug-07        | Forfeiture of Entitlement shares              | (1,219,220)        | -           |                       | -                 |
| 11-Sep-07        | 1 for 4 entitlements issue – Instalment 3 (i) | 200,000            | 0.020       |                       | 4,000             |
| 13-Sep-07        | Issue of shares to key management personnel   | 1,000,000          | 0.070       |                       | 70,000            |
| 18-Sep-07        | 1 for 4 entitlements issue – Instalment 3 (i) | 433,750            | 0.020       |                       | 8,675             |
| 11-Oct-07        | Exercise of 2008 options                      | 5,000,000          | 0.040       |                       | 200,000           |
| 15-Oct-07        | Exercise of 2008 options                      | 10,000,000         | 0.040       |                       | 400,000           |
| 15-Oct-07        | 1 for 4 entitlements issue – Instalment 3 (i) | 260,000            | 0.020       |                       | 5,200             |
| 17-Oct-07        | Exercise of 2008 options                      | 5,000,000          | 0.040       |                       | 200,000           |
| 19-Oct-07        | Exercise of 2008 options                      | 5,000,000          | 0.040       |                       | 200,000           |
| 24-Oct-07        | Exercise of 2008 options                      | 1,500,000          | 0.040       |                       | 60,000            |
| 24-Oct-07        | 1 for 4 entitlements issue – Instalment 3 (i) | 76,000             | 0.020       |                       | 1,520             |
| 13-Nov-07        | Exercise of 2007 options                      | 375                | 0.100       |                       | 37                |
| <b>30-Jun-08</b> | <b>Balance</b>                                | 558,314,045        |             | 329,260               | 35,714,937        |
| 05-Aug-08        | Share Placement                               | 72,000,000         | 0.012       | 60,789                | 803,211           |
| 27-Aug-08        | Employee ESOP shares                          | 4,142,824          | 0.014       |                       | 58,000            |
| 23-Sep-08        | Issue of shares to CEO                        | 10,000,000         | 0.02        |                       | 200,000           |
| 25-Sep-08        | Share Placement                               | 34,333,333         | 0.012       |                       | 412,000           |
| 13-Nov-08        | Share Purchase Plan                           | 11,999,984         | 0.012       |                       | 144,000           |
| 05-Dec-08        | Share Consolidation (1:5) (ii)                | (552,632,050)      | -           |                       | -                 |
| 29-Jun-09        | Employee ESOP shares                          | 15,384             | 0.065       |                       | 1,000             |
| 29-Jun-09        | Issue of shares to Human Traffic vendor       | 385,000            | 0.065       |                       | 25,025            |
| <b>30-Jun-09</b> | <b>Balance</b>                                | <b>138,558,520</b> |             | <b>60,789</b>         | <b>37,358,173</b> |

(i) Entitlements issue 6 cent shares – third instalment of 2 cents to pay to 6 cents.

(ii) Following shareholder approval at the Annual General Meeting held on Friday, 28 November 2008 a reorganisation of capital of Webfirm Group Limited was effected by way of a share consolidation whereby every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share.

## 15. Contributed equity (continued)

Options issued, exercised and lapsed during the financial year and options outstanding at the end of the year are summarised below:

### Consolidated and Company 2009

| Issue Type       | Notes | Expiry Date | Exercise Price \$ | Balance at beginning of the year (Number) | Issued during the year (Number) | Expired during the year (Number) | Exercised during the year (Number) | ** Share reorganisation (Number) | Balance at end of the year (Number) |
|------------------|-------|-------------|-------------------|---|---------------------------------|----------------------------------|------------------------------------|----------------------------------|-------------------------------------|
| Ordinary options |       | 31/12/08    | 0.20              | 12,385,400                                | -                               | (12,385,400)                     | -                                  | -                                | -                                   |
| Ordinary options |       | 10/04/11    | 0.50              | 17,500,000                                | -                               | (7,500,000)                      | -                                  | (8,000,000)                      | 2,000,000                           |
| Ordinary options | (i)   | 30/06/09    | 0.50              | 6,066,665                                 | -                               | (6,066,665)                      | -                                  | -                                | -                                   |
| Ordinary options | (i)   | 30/06/09    | 0.75              | 7,500,000                                 | -                               | (7,500,000)                      | -                                  | -                                | -                                   |
| Ordinary options | (ii)  | 10/04/11    | 0.50              | 500,000                                   | -                               | -                                | -                                  | (400,000)                        | 100,000                             |
| Ordinary options | (i)   | 30/06/08    | 0.75              | 1,066,665                                 | -                               | (1,066,665)                      | -                                  | -                                | -                                   |
| Ordinary options | (i)   | 31/12/09    | 1.00              | 5,000,000                                 | -                               | (5,000,000)                      | -                                  | -                                | -                                   |
| Ordinary options | (i)   | 30/06/10    | 1.25              | 5,000,000                                 | -                               | (5,000,000)                      | -                                  | -                                | -                                   |
| Ordinary options | (i)   | 31/12/10    | 1.50              | 5,000,000                                 | -                               | (5,000,000)                      | -                                  | -                                | -                                   |
| Ordinary options | (iii) | 30/06/12    | 0.10              | -   | 30,000,000                      | -                                | -                                  | (23,999,997)                     | 6,000,003                           |
| Ordinary options | (iv)  | 30/06/12    | 0.10              | -   | 30,100,000                      | (1,800,000)                      | -                                  | (22,640,000)                     | 5,660,000                           |
|                  |       |             |                   | <b>60,018,730</b>                         | <b>60,100,000</b>               | <b>(51,318,730)</b>              | <b>-</b>                           | <b>(55,039,997)</b>              | <b>13,760,003</b>                   |

\*\* Following shareholder approval at Annual General Meeting held on Friday, 28 November 2008 a reorganisation of capital of Webfirm Group Limited was effected by way of a share consolidation whereby every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share. The options on issue were consolidated on the same ratio as the ordinary shares with exercise price amended in inverse proportion to that ratio.

(i) Options issued to employees for services rendered. Refer to Note 24 – Key Management Personnel Disclosures

(ii) Options issued to former CEO as part of termination package. Refer to Note 24 – Key Management Personnel Disclosures

(iii) Options issued to directors following shareholder approval at the November 2008 AGM. Refer to Note 24 – Key Management Personnel Disclosures

(iv) Options issued to employees for services rendered. Refer to Note 24 – Key Management Personnel Disclosures

|   | CONSOLIDATED     |                  | COMPANY          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2009             | 2008             | 2009             | 2008             |
|   | \$               | \$               | \$               | \$               |
| <b>16. Reserves and Retained Losses</b>     |                  |                  |                  |                  |
| <b>Reserves:</b>                            |                  |                  |                  |                  |
| Share-based payments reserve                | 4,005,029        | 3,630,720        | 4,005,029        | 3,630,720        |
| Foreign currency translation reserve        | (29,526)         | -                | -                | -                |
|   | <u>3,975,503</u> | <u>3,630,720</u> | <u>4,005,029</u> | <u>3,630,720</u> |
| <i>Share-based payments reserve</i>         |                  |                  |                  |                  |
| Opening balance                             | 3,630,720        | 3,405,553        | 3,630,720        | 3,405,553        |
| Option expense                              | 374,309          | 225,167          | 374,309          | 225,167          |
| Closing balance                             | <u>4,005,029</u> | <u>3,630,720</u> | <u>4,005,029</u> | <u>3,630,720</u> |
| <i>Foreign currency translation reserve</i> |                  |                  |                  |                  |
| Opening balance                             | -                | -                | -                | -                |
| Movement on currency translation            | 29,526           | -                | -                | -                |
| Closing balance                             | <u>29,526</u>    | <u>-</u>         | <u>-</u>         | <u>-</u>         |

The Share-based payments reserve is used to record the value of options accounted for in accordance with AASB2: *Share Based Payments*.

The foreign currency translation reserve is used to record the value of aggregate movements in the translation of foreign currency in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates*.

|  | CONSOLIDATED        |                     | COMPANY             |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | 2009                | 2008                | 2009                | 2008                |
|  | \$                  | \$                  | \$                  | \$                  |
| <b>Retained Losses</b>                                 |                     |                     |                     |                     |
| Retained losses at the beginning of the financial year | (35,579,266)        | (28,858,600)        | (37,041,835)        | (31,758,515)        |
| Net loss attributable to the members of the Company    | (4,150,364)         | (6,720,666)         | (2,322,399)         | (5,283,320)         |
| Retained losses at the end of the financial year       | <u>(39,729,630)</u> | <u>(35,579,266)</u> | <u>(39,364,234)</u> | <u>(37,041,835)</u> |

|  | 2009               | 2008               |
|--|--------------------|--------------------|
|  | Cents              | Cents              |
| <b>17. Earnings Per Share</b>  |                    |                    |
| <b>(a) Basic earnings per share</b>  |                    |                    |
| Loss attributable to the ordinary equity holders of the Company                  | (3.10)             | (6.11)             |
| <b>(b) Diluted earnings per share</b>  |                    |                    |
| Loss attributable to the ordinary equity holders of the Company                  | (3.10)             | (6.11)             |
| <b>(c) Reconciliation of earnings used on calculating earnings per share (i)</b> |                    |                    |
| Loss from continuing operations attributable to the members of the Company       |                    |                    |
| Used on calculating basic and diluted earnings per share                         | <u>(4,150,364)</u> | <u>(6,720,666)</u> |

## 17. Earnings Per Share (continued)

|  | 2009<br>Number | 2008<br>Number |
|--|----------------|----------------|
| <b>(d) Weighted average number of shares used as the denominator</b>                   |                |                |
| Weighted average number of shares on issue used in the calculation of basic EPS (ii)   | 133,684,230    | 110,061,305    |
| <b>(e) Weighted average number of shares used as the denominator</b>                   |                |                |
| Weighted average number of shares on issue used in the calculation of diluted EPS (ii) | 133,684,230    | 110,061,305    |

(i) During 2009 and 2008 there were no discontinued operations or values attributable to minority interests.

(ii) Following shareholder approval at Annual General Meeting held on Friday, 28 November 2008 a reorganisation of capital of Webfirm Group Limited, was effected by way of a share consolidation whereby every 5 fully paid ordinary shares were consolidated into 1 fully paid ordinary share. The 2008 comparative number has been restated accordingly.

|  | 2009<br>Number | 2008<br>Number |
|--|----------------|----------------|
| Weighted average number of options that could potentially dilute basic earnings per share in the future, but are not included in the calculation of diluted EPS because they are anti-dilutive for the period presented. | 15,337,231     | 43,327,902     |

## 18. Controlled Entities

| Name  | Country of Incorporation | Ordinary Share Consolidated Equity Interest |      |
|---|--------------------------|---|------|
|   |                          | 2009  | 2008 |
|   |                          | %   | %    |
| <b>Parent entity</b>                        |                          |   |      |
| Webfirm Group Limited <sup>1</sup>          | Australia                |   |      |
| <b>Controlled entities</b>                  |                          |   |      |
| Ads Alliance Pty Ltd                        | Australia                | 100   | 100  |
| Ansearch.com.au Pty Ltd                     | Australia                | 100   | 100  |
| Ansearch Group Services Pty Ltd             | Australia                | 100   | 100  |
| Ansearch Inc                                | United States            | 100   | 100  |
| Webfirm Media Pty Ltd <sup>2</sup>          | Australia                | 100   | 100  |
| Austpacific Property Group Pty Ltd          | Australia                | 100   | 100  |
| Austpacific Project Services Pty Ltd        | Australia                | 100   | 100  |
| Australian Golf Resort Developments Pty Ltd | Australia                | 50  | 50   |
| Enedia Pty Ltd                              | Australia                | 100   | 100  |
| Searchworld Pty Ltd                         | Australia                | 100   | 100  |
| Webfirm Pty Ltd                             | Australia                | 100   | 100  |
| Webfirm Search Pty Ltd                      | Australia                | 100   | 100  |

Equity interests in all controlled entities are by way of ordinary shares.

Austpacific Property Group Pty Ltd, Austpacific Project Services Pty Ltd, and Australian Golf Resort Developments Pty Ltd are non-trading companies.

<sup>1</sup> Formerly Ansearch Limited

<sup>2</sup> Formerly Ansearch Media Pty Ltd



## 19. Discontinued Operations

There were no discontinued operations during the year ended 30 June 2009.

## 20. Business Combinations

### 2009

#### Human Traffic Pty Ltd

On 5 May 2009 Webfirm Pty Ltd (a subsidiary of Webfirm Group Limited) acquired the business assets and customers of Human Traffic Pty Ltd, an entity also involved in website design and hosting operating in Perth. This business combination only involved the acquisition of intangible assets and goodwill associated with Human Traffic Pty Ltd and appointment by Webfirm Pty Ltd of the founder and one staff members of that entity. All assets and liabilities, revenue and expenses associated with Human Traffic Pty Ltd as at close of business 4 May 2009 remained with that entity, with any new business generated by Human Traffic Pty Ltd (and corresponding expenses, assets and liabilities) written in name of Webfirm Pty Ltd commencing 5 May 2009.

The purchase consideration was made up of cash and equity and payable in four tranches as follows:

|   |               |
|---|---------------|
| <b>Tranche 1 – Paid 29 June 2009</b>                              |               |
| Equity - 385,000 fully paid ordinary shares @ 6.5 cents per share | 25,025        |
| <b>Tranche 2 – Payable 23 July 2009</b>                           |               |
| Cash  | 20,000        |
| <b>Tranche 3 – Payable 31 August 2009</b>                         |               |
| Cash  | 10,000        |
| <b>Tranche 4 – Payable 30 September 2009</b>                      |               |
| Cash  | 10,000        |
| <b>Total consideration</b>  | <b>65,025</b> |

Total consideration was deemed to pertain to customer contracts (refer to Note 11)

### 2008

#### Webfirm Pty Ltd and Webfirm Search Pty Ltd (formerly Searchworld Pty Ltd)

On 31 May 2007 Webfirm Group Limited acquired all of the assets and liabilities of Webfirm Pty Ltd and 100% ownership in Webfirm's subsidiary Webfirm Search Pty Ltd, a premier website design and online media company operating in Perth.

The acquired business contributed revenues of \$580,170 and a net profit of \$308,660 to the Group for the period from 1 June 2007 to 30 June 2007, and contributed revenues of \$3,590,164 and a loss of \$491,357 to the Group for the period 1 July 2007 to 30 June 2008. These amounts have been calculated using the Group's accounting policies.

The amount of revenue and profits for the combined entity as if the acquisition had occurred on 1 July 2006 has not been disclosed because it's not practicable to obtain this information.

The purchase consideration was made up of cash and equity and payable in three tranches as follows:

|  |                  |
|--|------------------|
| <b>Tranche 1 - Paid 31 May 2007</b>                                  |                  |
| Cash   | 1,500,000        |
| Equity - 15,000,000 fully paid ordinary shares @ 7.6 cents per share | 1,140,000        |
| <b>Tranche 2 - Payable 4 July 2007</b>                               |                  |
| Cash   | 1,000,000        |
| Equity - 3,722,854 fully paid ordinary shares @ 9.67 cents per share | 360,000          |
| <b>Tranche 3 - Payable 31 October 2007</b>                           |                  |
| Cash   | 1,000,000        |
| <b>Monthly cash earn out payments</b>                                |                  |
| Actual based upon July 2007 to October 2007 EBIT performance         | 113,462          |
| <b>Transaction Costs</b>   | <b>435,028</b>   |
| <b>Total consideration - Goodwill</b>                                | <b>5,548,490</b> |

## 20. Business Combinations (continued)

Details of net assets acquired and goodwill are as follows:

|   | Acquiree's      | Fair Value |           |
|---|-----------------|------------|-----------|
|   | Carrying Amount |            |           |
|   | \$              | \$         | \$        |
| Purchase consideration                                |                 |            | 5,548,490 |
| <b>Fair value of net identifiable assets acquired</b> |                 |            |           |
| Cash and cash equivalents                             | 142,364         | 142,364    |           |
| Trade debtors less unearned income                    | 61,716          | 61,716     |           |
| Property, plant and equipment                         | 89,412          | 89,412     |           |
| Intellectual property                                 | -               | 200,000    |           |
| Payables  | (77,471)        | (77,471)   |           |
| <b>Net identifiable assets/(deficiency) acquired</b>  | 216,021         | 416,021    | (416,021) |
| <b>Goodwill</b>                                       |                 |            | 5,132,469 |

Intellectual property consisted of domain names and customer contracts.

The directors have assessed the recoverable amount of goodwill in accordance with AASB 136 *Impairment of Assets* as outlined in Note 11.

## 21. Contingencies

### *Default on sale by Wavtech Pty Ltd*

Webfirm Group Limited successfully pleaded a claim for summary judgement against Wavtech Pty Ltd for its default on settling the sale of 650 shares in Optum ES Pty Ltd for \$800,000, however the judgement required the Company to seek specific performance which it is proceeding with. A full provision has therefore been made against this amount. Whilst it is unlikely that there are sufficient funds in Wavtech to meet the judgement amount, action against the individual directors may follow a successful action to wind up the defaulting company. Costs of this matter, should it proceed to trial are estimated at \$40,000 - \$90,000. Webfirm Group Limited continued to prosecute this claim during the year in the Supreme Court of Western Australia.

Should there be a successful outcome to the legal action, the Company may recognise additional income of \$800,000.

|   | CONSOLIDATED |         | COMPANY |      |
|---|--------------|---------|---------|------|
|   | 2009         | 2008    | 2009    | 2008 |
|   | \$           | \$      | \$      | \$   |
| <b>22. Commitments</b>  |              |         |         |      |
| <i>Operating lease commitments</i>  |              |         |         |      |
| Total operating lease expenditure contracted for at balance date but not capitalised in the financial statements payable: |              |         |         |      |
| Within 1 year   | 290,936      | 320,447 | -       | -    |
| Between 1 and 5 years   | 648,939      | 452,074 | -       | -    |
|   | 939,875      | 772,521 | -       | -    |

The lease commitments detailed above relate to rental premises occupied by the Webfirm Group and lease rental of computer servers.

### *Capital commitments*

The Group and the Company have not entered any capital expenditure contracts at reporting date that are not recognised as liabilities on the Balance Sheets.

|   | CONSOLIDATED |         | COMPANY |         |
|---|--------------|---------|---------|---------|
|   | 2009         | 2008    | 2009    | 2008    |
|   | \$           | \$      | \$      | \$      |
| <b>23. Remuneration of auditors</b>   |              |         |         |         |
| During the year the following fees were paid/payable to the auditor of the company: |              |         |         |         |
| <b>Audit services</b>   |              |         |         |         |
| Audit and review of financial reports   | 93,000       | 107,000 | 93,000  | 107,000 |
| <b>Non-audit services (i)</b>   |              |         |         |         |
| Related practice of auditor Taxation compliance services                            | 19,500       | 8,000   | 19,500  | 8,000   |

(i) BDO Kendalls Corporate Tax (WA) Pty Ltd provided the group with taxation compliance services, however are a related practice of the former auditor of the Company (pre-December 2006). They are thus not included in the above disclosures.

## 24. Key Management Personnel Disclosures

The following persons were directors of the Company during the financial year:

| Director         | Position  |
|------------------|---|
| Mr Andrew Barlow | Appointed 22 October 2007 (Chairman from 7 December 2007) |
| Mr David Burden  | Appointed 8 April 2008 (CEO from 6 February 2008)         |
| Mr Adrian Giles  | Appointed 19 December 2007                                |
| Mr Adrian Vanzyl | Appointed 28 April 2008                                   |

### *Other key management personnel*

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| Name              | Position  |
|-------------------|---|
| Mr Andrew Beecher | Executive Officer – Webfirm Pty Ltd (resigned 28/07/2009) |
| Mr Josh Edis      | Global Head of “Search” – Searchworld Pty Ltd             |
| Mr Steve Jones    | General Manager – Webfirm Media Pty Ltd                   |
| Mr Damian Element | Company Secretary / Chief Financial Officer - Group       |

## 24. Key Management Personnel Disclosures (continued)

### Key management personnel compensation

|                                   | CONSOLIDATED |           | COMPANY |           |
|-----------------------------------|--------------|-----------|---------|-----------|
|                                   | 2009         | 2008      | 2009    | 2008      |
|                                   | \$           | \$        | \$      | \$        |
| Short-term employee benefits      | 1,603,213    | 1,378,054 | 150,000 | 942,548   |
| Post-employment benefits          | 54,877       | 33,124    | -       | 17,647    |
| Other long-term employee benefits | 11,252       | -         | -       | -         |
| Termination benefits              | -            | 100,000   | -       | 100,000   |
| Share based payments              | 472,000      | 248,117   | 472,000 | 248,117   |
| Total compensation                | 2,141,342    | 1,759,295 | 622,000 | 1,308,312 |

### Other transactions with key management personnel

#### Loans to key management personnel

Aggregate loans to key management personnel and their related parties:

| Loans to key management personnel | Balance at beginning \$ | Loans granted \$ | Interest charged \$ | Amounts repaid \$ | Balance at end \$ | Number in group (Number) |
|-----------------------------------|-------------------------|------------------|---------------------|-------------------|-------------------|--------------------------|
| 2009                              | -                       | 212,000          | 643                 | (7,100)           | 205,543           | 2                        |
| 2008                              | -                       | -                | -                   | -                 | -                 | -                        |

Key management personnel with loans above \$100,000 in the reporting period:

| 2009      | Balance at beginning \$ | Loans granted \$ | Interest charged \$ | Amounts repaid \$ | Balance at end \$ | Number in group (Number) |
|-----------|-------------------------|------------------|---------------------|-------------------|-------------------|--------------------------|
| D. Burden | -                       | 200,000          | -                   | -                 | 200,000           | 1                        |
| 2008      | -                       | -                | -                   | -                 | -                 | -                        |

The \$200,000 loan is the loan arising from financial assistance provided to the CEO for the purpose of acquiring 10,000,000 shares (pre-consolidation, equivalent to 2,000,000 post consolidation) in the Company. The loan was provided on an interest free basis. The interest not charged, calculated at the statutory interest rate of 9.45% from the commencement of the loan to 30 June 2009, was \$14,499. The loan was approved by shareholders at an Extraordinary General Meeting held 16 September 2008.

#### Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Webfirm Group Limited and other key management personnel of the group, including their personally related parties are set out below:

| 2009                                  | Balance at the start of the year (Number) | Granted during the year as compensation (Number) | Exercised during the year (Number) | Other changes during the year (Number) | Balance at the end of the year (Number) | Vested and exercisable at the year end (Number) |
|---------------------------------------|---|--|------------------------------------|--|---|---|
| Name                                  |   |  |                                    |  |   |   |
| <i>Directors</i>                      |   |  |                                    |  |   |   |
| Mr A Barlow (i)                       | 10,000,000                                | 10,000,000                                       | -                                  | (15,999,999)                           | 4,000,001                               | 3,333,334                                       |
| Mr D Burden (ii)                      | 25,000,000                                | -  | -                                  | (25,000,000)                           | -                                       | -   |
| Mr A Giles (i)                        | -   | 10,000,000                                       | -                                  | (7,999,999)                            | 2,000,001                               | 1,333,334                                       |
| Mr A Vanzyl (i)                       | -   | 10,000,000                                       | -                                  | (7,999,999)                            | 2,000,001                               | 1,333,334                                       |
| <i>Other key management personnel</i> |   |  |                                    |  |   |   |
| Mr D Element (i)                      | -   | 6,000,000  | -                                  | (4,800,000)                            | 1,200,000                               | 400,000   |
| Mr J Edis (i), (iii)                  | 3,000,000                                 | 6,000,000  | -                                  | (7,800,000)                            | 1,200,000                               | 400,000   |
| Mr A Beecher (i)                      | -   | 6,000,000  | -                                  | (4,800,000)                            | 1,200,000                               | 400,000   |
| Mr S Jones (i)                        | -   | 6,000,000  | -                                  | (4,800,000)                            | 1,200,000                               | 400,000   |
| <b>Totals</b>                         | <b>38,000,000</b>                         | <b>54,000,000</b>                                | <b>-</b>                           | <b>(79,199,997)</b>                    | <b>12,800,003</b>                       | <b>7,600,002</b>                                |

(i) Change resulting from share consolidation (1:5) undertaken on 5 December 2008, is included in other changes during the year.

(ii) Options cancelled.

(iii) 3,000,000 options expired

| 2008                                  | Balance at the start of the year (Number) | Granted during the year as compensation (Number) | Exercised during the year (Number) | Other changes during the year (Number) | Balance at the end of the year (Number) | Vested and exercisable at the year end (Number) |
|---------------------------------------|---|--|------------------------------------|--|---|---|
| Name                                  |   |  |                                    |  |   |   |
| <i>Directors</i>                      |   |  |                                    |  |   |   |
| Mr A Barlow                           | -   | 10,000,000                                       | -                                  | -                                      | 10,000,000                              | 10,000,000                                      |
| Mr D Burden                           | -   | 25,000,000                                       | -                                  | -                                      | 25,000,000                              | 10,000,000                                      |
| Mr A Giles                            | -   | -  | -                                  | -                                      | -                                       | -   |
| Mr A Vanzyl                           | -   | -  | -                                  | -                                      | -                                       | -   |
| Mr C Ellison (i)                      | 7,500,000                                 | -  | -                                  | (7,500,000)                            | -                                       | -   |
| Mr D Jones                            | 16,900,001                                | 10,000,000                                       | -                                  | (26,900,001)                           | -                                       | -   |
| Mr P Jermyn                           | 12,603,112                                | -  | -                                  | (12,603,112)                           | -                                       | -   |
| Mr G Ridge                            | 7,545,625                                 | -  | -                                  | (7,545,625)                            | -                                       | -   |
| Mr T Grigg                            | 7,540,000                                 | -  | -                                  | (7,540,000)                            | -                                       | -   |
| <i>Other key management personnel</i> |   |  |                                    |  |   |   |
| Mr R Edge (i)                         | -   | 500,000  | -                                  | (500,000)                              | -                                       | -   |
| Ms J Macpherson                       | 875,833                                   | 833,333  | -                                  | (1,709,166)                            | -                                       | -   |
| Mr D Element                          | -   | -  | -                                  | -                                      | -                                       | -   |
| Mr J Edis                             | 5,500,000                                 | -  | -                                  | (2,500,000)                            | 3,000,000                               | 3,000,000                                       |
| Mr A Beecher                          | -   | -  | -                                  | -                                      | -                                       | -   |
| Mr S Jones                            | -   | -  | -                                  | -                                      | -                                       | -   |
| <b>Totals</b>                         | <b>58,464,571</b>                         | <b>46,333,333</b>                                | <b>-</b>                           | <b>(66,797,904)</b>                    | <b>38,000,000</b>                       | <b>23,000,000</b>                               |

## 24. Key Management Personnel Disclosures (continued)

(i) The option movement in the Other Changes column of table above for Mr C Ellison and Mr R Edge represent options that ceased to be key management personnel options during the year following their resignation. The options were still held by the individuals at 30 June 2008.

No other options were granted to any other directors or key management personnel of Webfirm Group Limited.

No options provided as remuneration were exercised during the year.

### Equity holdings and transactions

The numbers of shares in the company held during the financial year by each director of Webfirm Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

| 2009<br>Name                                  | Held at<br>1 July 2008 | Received<br>during the year<br>on exercise of<br>options | Received<br>during the<br>year as<br>compensation | Shares acquired<br>during the<br>year (pre<br>consolidation) | Share<br>Consolidation | Shares<br>acquired<br>during the<br>year (post<br>consolidation) | Held at<br>30 June<br>2009 |
|---|------------------------|--|---|--|------------------------|--|----------------------------|
| <b>Ordinary shares</b>                        |                        |  |   |  |                        |  |                            |
| <i>Directors</i>                              |                        |  |   |  |                        |  |                            |
| Mr A Barlow                                   | 15,153,981             | -  | -   | 7,323,841  | (17,982,258)           | 922,500  | 5,418,064                  |
| Mr D Burden                                   | 1,959,491              | -  | -   | 18,683,333   | (16,514,259)           | 355,500  | 4,484,065                  |
| Mr A Giles                                    | 4,468,981              | -  | -   | 13,333,332   | (14,241,851)           | 322,500  | 3,882,962                  |
| Mr A Vanzyl                                   | -                      | -  | -   | 4,166,667  | (3,333,334)            | 322,500  | 1,155,833                  |
| <i>Other key<br/>management<br/>personnel</i> |                        |  |   |  |                        |  |                            |
| Mr J Edis                                     | 1,000,000              | -  | 71,428  | 1,000,000  | (1,657,142)            | -  | 414,286                    |
| Mr A Beecher                                  | 150,000                | -  | 71,428  | 1,250,000  | (1,177,142)            | -  | 294,286                    |
| Mr S Jones                                    | -                      | -  | 71,428  | -  | (57,142)               | -  | 14,286                     |
| Mr D Element                                  | 1,459,491              | -  | 71,428  | 2,292,824  | (3,350,892)            | 322,240  | 795,091                    |
| <b>Totals</b>                                 | <b>24,191,944</b>      | <b>-</b>   | <b>285,712</b>                                    | <b>48,049,997</b>  | <b>(58,314,020)</b>    | <b>2,245,240</b>   | <b>16,458,873</b>          |

| 2008<br>Name                              | Held at<br>1 July 2007 | Received during the<br>year on exercise of<br>options | Received during<br>the year as<br>compensation | Other<br>changes    | Held at<br>30 June<br>2008 |
|---|------------------------|---|--|---------------------|----------------------------|
| <b>Ordinary shares</b>                    |                        |   |  |                     |                            |
| <i>Directors</i>                          |                        |   |  |                     |                            |
| Mr A Barlow                               | 12,235,000             | -   | -  | 2,918,981           | 15,153,981                 |
| Mr D Burden                               | 420,000                | -   | -  | 1,539,491           | 1,959,491                  |
| Mr A Giles                                | 725,000                | -   | -  | 3,743,981           | 4,468,981                  |
| Mr A Vanzyl                               | -                      | -   | -  | -                   | -                          |
| Mr P Jermyn (i)                           | 1,031,128              | -   | -  | (1,031,128)         | -                          |
| Mr C Ellison                              | -                      | -   | -  | -                   | -                          |
| Mr G Ridge (i)                            | 416,250                | -   | -  | (416,250)           | -                          |
| Mr T Grigg (i)                            | 760,000                | -   | -  | (760,000)           | -                          |
| Mr D Jones                                | 35,200,000             | -   | -  | (35,200,000)        | -                          |
| <i>Other key management<br/>personnel</i> |                        |   |  |                     |                            |
| Mr J Edis                                 | -                      | -   | 1,000,000                                      | -                   | 1,000,000                  |
| Mr A Beecher                              | -                      | -   | -  | 150,000             | 150,000                    |
| Mr S Jones                                | -                      | -   | -  | -                   | -                          |
| Mr D Element                              | -                      | -   | -  | 1,459,491           | 1,459,491                  |
| Ms J Macpherson                           | 385,000                | -   | -  | (385,000)           | -                          |
| Mr R Edge                                 | -                      | -   | -  | -                   | -                          |
| <b>Totals</b>                             | <b>51,172,378</b>      | <b>-</b>  | <b>1,000,000</b>                               | <b>(27,980,434)</b> | <b>24,191,944</b>          |

(i) The share movement in the Other Changes column of table above for Mr P Jermyn, Mr G Ridge and Mr T Grigg represent shares that ceased to be key management personnel shares during the year following their resignation. The shares were still held by the individuals at 30 June 2008.

## 25. Share Based Payments

### Employee share option plan

Following approval by shareholders at the Extraordinary General Meeting held on 16 September 2008, options over ordinary shares were granted on 23 September 2008 to three directors. The options vest in three equal tranches with tranche one vesting immediately upon grant, tranche two vesting on 1 April 2009, and tranche 3 vesting on 1 April 2010. The options may be exercised at any time prior to 30 June 2012 on the condition that those directors are still working for Webfirm Group Limited at that date. When exercisable, each option is convertible into one ordinary share of Webfirm Group Limited.

Options were granted to executive and senior management employees on 27 August 2008 for services performed (pursuant to an employee share option plan which was approved by shareholders at an extraordinary general meeting of the members held on 16 June 2006). Options granted on 27 August 2008 were issued with vesting to occur in three equal tranches and with vesting conditions. Tranche one vests in the employee on 1 July 2009 without performance conditions, tranche two vests on 1 July 2010 on the condition that the Company meets 85% of its FY2009 EBITDA target, and tranche three vests on 1 July 2011 on the condition that the Company meets 85% of its FY2010 EBITDA target. The executive and senior management employees must be employed by the company at the date of vesting. In accordance with the employee share option plan, the options lapse three months after the employee ceases employment with the company.

The Company did not meet the vesting condition for tranche two options, however noting special conditions present during the year, after due deliberation the board resolved on 21 July 2009 to waive the vesting condition for the vesting of the second tranche of options for management employees, allowing them to vest in the employee. The vesting condition for the third tranche of the options remains in force.

## 25. Share Based Payments (continued)

When exercisable, each option is convertible into one ordinary share of Webfirm Group Limited.

Options granted carry no dividend or voting rights.

All options were issued at the discretion of the Board of Directors to provide an opportunity for key management personnel and other employees to share in the success of the company.

No other options were granted to any other directors or key management personnel of Webfirm Group Limited.

No options provided as remuneration were exercised during the year.

Set out below are summaries of options granted to employees of the Webfirm Group during the year in return for of services rendered.

### Consolidated and Company 2009

| Grant Date   | Expiry Date | Exercise Price \$ | Balance at start of the year (Number) | Granted during the year (Number) | Exercised during the year (Number) | Lapsed during the year (Number) | Forfeited during the year (Number) | Options Consolidation (Number) | Balance at end of the year (Number) | Vested and exercisable at the end of the year (Number) |
|--|-------------|-------------------|---------------------------------------|----------------------------------|------------------------------------|---------------------------------|------------------------------------|--------------------------------|-------------------------------------|--|
| 30/06/06   | 10/04/11    | 0.50              | 17,500,000                            | -                                | -                                  | -                               | (7,500,000)                        | (8,000,000)                    | 2,000,000                           | 2,000,000  |
| 30/06/07   | 30/6/09     | 0.75              | 7,500,000                             | -                                | -                                  | (7,500,000)                     | -                                  | -                              | -                                   | -  |
| 30/06/07   | 30/6/09     | 0.50              | 5,000,000                             | -                                | -                                  | (5,000,000)                     | -                                  | -                              | -                                   | -  |
| 30/06/07   | 30/6/09     | 0.50              | 1,066,665                             | -                                | -                                  | (1,066,665)                     | -                                  | -                              | -                                   | -  |
| 01/04/08   | 10/04/11    | 0.50              | 500,000                               | -                                | -                                  | -                               | -                                  | (400,000)                      | 100,000                             | 100,000  |
| 17/10/07   | 30/06/09    | 0.75              | 1,066,665                             | -                                | -                                  | (1,066,665)                     | -                                  | -                              | -                                   | -  |
| 04/04/08   | 31/12/09    | 1.00              | 5,000,000                             | -                                | -                                  | -                               | (5,000,000)                        | -                              | -                                   | -  |
| 04/04/08   | 30/06/10    | 1.25              | 5,000,000                             | -                                | -                                  | -                               | (5,000,000)                        | -                              | -                                   | -  |
| 04/04/08   | 31/12/10    | 1.50              | 5,000,000                             | -                                | -                                  | -                               | (5,000,000)                        | -                              | -                                   | -  |
| 27/08/08   | 30/06/12    | 0.10              | -                                     | 30,100,000                       | -                                  | -                               | (1,800,000)                        | (22,640,000)                   | 5,660,000                           | -  |
| 23/09/08   | 30/06/12    | 0.10              | -                                     | 30,000,000                       | -                                  | -                               | -                                  | (23,999,997)                   | 6,000,003                           | 4,000,002  |
| <b>Total</b>   |             |                   | <b>47,633,330</b>                     | <b>60,100,000</b>                | <b>-</b>                           | <b>(14,633,330)</b>             | <b>(24,300,000)</b>                | <b>(55,039,997)</b>            | <b>13,760,003</b>                   | <b>6,100,002</b>                                       |
| <b>Weighted average exercise price</b>                             |             |                   | <b>\$0.156</b>                        | <b>\$0.020</b>                   | <b>-</b>                           | <b>\$0.129</b>                  | <b>\$0.187</b>                     | <b>\$0.032</b>                 | <b>\$0.161</b>                      | <b>\$0.238</b>   |
| Weighted average remaining contractual life at 30 June 2009 (days) |             |                   |                                       |                                  |                                    |                                 |                                    |                                | 1,027                               |  |



## Consolidated and Company 2008

| Grant Date   | Expiry Date | Exercise Price \$ | Balance at start of the year (Number) | Granted during the year (Number) | Exercised during the year (Number) | Lapsed during the year (Number) | Forfeited during the year (Number) | Balance at end of the year (Number) | Vested and exercisable at the end of the year (Number) |
|--|-------------|-------------------|---------------------------------------|----------------------------------|------------------------------------|---------------------------------|------------------------------------|-------------------------------------|--|
| 30/06/06   | 10/04/11    | 0.10              | 26,666,666                            | -                                | -                                  | -                               | (19,166,666)                       | 7,500,000                           | 7,500,000  |
| 31/03/08   | 10/04/11    | 0.10              | -                                     | 20,000,000                       | -                                  | -                               | (10,000,000)                       | 10,000,000                          | 10,000,000   |
| 30/06/06   | 10/04/11    | 0.15              | 4,166,666                             | -                                | -                                  | -                               | (4,166,666)                        | -                                   | -  |
| 30/06/06   | 10/04/11    | 0.20              | 4,166,666                             | -                                | -                                  | -                               | (4,166,666)                        | -                                   | -  |
| 13/10/06   | 30/06/08    | 0.10              | 6,666,666                             | -                                | -                                  | (6,666,666)                     | -                                  | -                                   | -  |
| 13/10/06   | 30/06/08    | 0.15              | 4,166,667                             | -                                | -                                  | (4,166,667)                     | -                                  | -                                   | -  |
| 13/10/06   | 30/06/08    | 0.20              | 4,166,667                             | -                                | -                                  | (4,166,667)                     | -                                  | -                                   | -  |
| 30/06/07   | 30/6/09     | 0.15              | 2,500,000                             | -                                | -                                  | -                               | -                                  | 2,500,000                           | 2,500,000  |
| 04/04/08   | 30/6/09     | 0.15              | -                                     | 5,000,000                        | -                                  | -                               | -                                  | 5,000,000                           | 5,000,000  |
| 30/06/07   | 30/6/09     | 0.10              | 1,833,332                             | -                                | -                                  | -                               | (1,833,332)                        | -                                   | -  |
| 04/04/08   | 30/6/09     | 0.10              | -                                     | 5,000,000                        | -                                  | -                               | -                                  | 5,000,000                           | 5,000,000  |
| 30/06/07   | 30/6/09     | 0.10              | 1,366,664                             | -                                | -                                  | -                               | (299,999)                          | 1,066,665                           | 1,066,665  |
| 01/04/08   | 10/04/11    | 0.10              | -                                     | 500,000                          | -                                  | -                               | -                                  | 500,000                             | 500,000  |
| 17/10/07   | 30/06/09    | 0.15              | -                                     | 2,199,997                        | -                                  | -                               | (1,133,332)                        | 1,066,665                           | 1,066,665  |
| 04/04/08   | 31/12/09    | 0.20              | -                                     | 5,000,000                        | -                                  | -                               | -                                  | 5,000,000                           | -  |
| 04/04/08   | 30/06/10    | 0.25              | -                                     | 5,000,000                        | -                                  | -                               | -                                  | 5,000,000                           | -  |
| 04/04/08   | 31/12/10    | 0.30              | -                                     | 5,000,000                        | -                                  | -                               | -                                  | 5,000,000                           | -  |
| <b>Total</b>   |             |                   | <b>55,699,994</b>                     | <b>47,699,997</b>                | <b>-</b>                           | <b>(15,000,000)</b>             | <b>(40,766,661)</b>                | <b>47,633,330</b>                   | <b>32,633,330</b>                                      |
| <b>Weighted average exercise price</b>                             |             |                   | <b>\$0.125</b>                        | <b>\$0.155</b>                   | <b>-</b>                           | <b>\$0.142</b>                  | <b>\$0.117</b>                     | <b>\$0.156</b>                      | <b>\$0.113</b>   |
| Weighted average remaining contractual life at 30 June 2008 (days) |             |                   |                                       |                                  |                                    |                                 |                                    | 549                                 |  |

No options expired during the periods covered by the above tables.

The model inputs for options granted during the year ended 30 June 2009 included:

| Model Input             | Class #1 | Class #2 | Class #3 | Class #4 | Class #5 | Class #6 |
|-------------------------|----------|----------|----------|----------|----------|----------|
| Grant Date              | 27/08/08 | 27/08/08 | 27/08/08 | 23/09/08 | 23/09/08 | 23/09/08 |
| Exercise Date           | 01/07/09 | 01/07/10 | 01/07/11 | 31/10/08 | 01/04/09 | 01/04/10 |
| Expiry Date             | 30/06/12 | 30/06/12 | 30/06/12 | 30/06/12 | 30/06/12 | 30/06/12 |
| Exercise Price          | \$0.10   | \$0.10   | \$0.10   | \$0.10   | \$0.10   | \$0.10   |
| Exercise Factor         | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      |
| Price at Grant Date     | \$0.07   | \$0.07   | \$0.07   | \$0.065  | \$0.065  | \$0.065  |
| Expected Volatility     | 105.0%   | 105.0%   | 105.0%   | 105.0%   | 105.0%   | 105.0%   |
| Expected Dividend Yield | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       |
| Risk Free Interest Rate | 5.63%    | 5.63%    | 5.63%    | 5.58%    | 5.58%    | 5.58%    |

The volatility calculation is based upon historical share price information of the Company from the commencement of listing (17 December 1987) up to the grant date of the options.

## 25. Share Based Payments (continued)

The model inputs for options granted during the year ended 30 June 2008 included:

| Model Input             | Class #1 | Class #2 | Class #3 | Class #4 | Class #5 | Class #6 | Class #7 | Class #8 |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Grant Date              | 17/10/07 | 17/10/07 | 31/03/08 | 02/04/08 | 02/04/08 | 02/04/08 | 02/04/08 | 02/04/08 |
| Exercise Date           | 30/06/08 | 30/06/08 | 03/03/08 | 02/04/08 | 30/06/08 | 31/12/08 | 30/06/09 | 31/12/09 |
| Expiry Date             | 30/06/10 | 30/06/10 | 10/04/11 | 30/06/09 | 30/06/09 | 31/12/09 | 30/06/10 | 31/12/10 |
| Exercise Price          | \$0.15   | \$0.15   | \$0.10   | \$0.10   | \$0.15   | \$0.20   | \$0.25   | \$0.30   |
| Exercise Factor         | 2.5      | 1.5      | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      | 2.5      |
| Price at Grant Date     | \$0.064  | \$0.064  | \$0.019  | \$0.015  | \$0.015  | \$0.015  | \$0.015  | \$0.015  |
| Expected Volatility     | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   |
| Expected Dividend Yield | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       | 0%       |
| Risk Free Interest Rate | 6.56%    | 6.56%    | 6.26%    | 6.26%    | 6.26%    | 6.26%    | 6.26%    | 6.26%    |

The volatility calculation is based upon historical share price information of the Company from the commencement of listing (17 December 1987) up to the grant date of the options.

|   | CONSOLIDATED |             | COMPANY     |             |
|---|--------------|-------------|-------------|-------------|
|   | 2009         | 2008        | 2009        | 2008        |
|   | \$           | \$          | \$          | \$          |
| <b>26. Cash Flow reconciliation</b>   |              |             |             |             |
| <b>Reconciliation of Net Cash Flows from Operating Activities to Loss for the year</b>      |              |             |             |             |
| Loss for the year   | (4,150,364)  | (6,720,666) | (2,322,399) | (5,283,320) |
| Depreciation and amortisation   | 238,650      | 180,520     | 120,321     | 96,177      |
| Impairment of Intangibles   | 500,000      | 2,442,469   | -           | -           |
| Share based payment   | 433,309      | 295,167     | 433,309     | 295,167     |
| Impairment of receivables   | 321,730      | 220,016     | 684,792     | 1,585,491   |
| Loss on asset write off   | 262,406      | -           | 227,720     | -           |
| Changes in assets and liabilities (net of effects of acquisition and disposal of entities): |              |             |             |             |
| (Increase)/decrease in receivables  | (1,344,445)  | 2,075,367   | (821,359)   | 447,626     |
| Increase/(decrease) in payables and other provisions  | 1,809,486    | (1,045,587) | 78,948      | (492,733)   |
| Net cash outflow from operating activities  | (1,929,228)  | (2,552,714) | (1,598,668) | (3,351,592) |

## 27. Financial Risk Management

The Group's operations expose it to various financial risks including market, credit, liquidity and cash flow risks. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

Financial risk management is carried out by the Chief Financial Officer with oversight provided by the Board.

### (a) Market risks

Market risks include foreign exchange risk, interest rate risk and other price risk. The Group's activities expose it primarily to the financial risks of changes in foreign currency. In the current reporting period the foreign currency related exposure is not considered to be material to the entity's overall business operation. Foreign currency exposure is monitored by the Board on a quarterly basis. The Board has considered that any specific risk mitigation action is not required at this time. Interest rate risk is covered in (d) below.

### (b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets, other than investments, of the group which have been recognised in the Balance Sheet is the carrying amount net of any provision for doubtful debts.

The Group has no significant concentrations of credit risk. As disclosed in Note 8 (a) 'Impairment of receivables', The Group has policies in place to ensure that sales of services are made to customers with appropriate credit history. Before accepting any new customers, the Group internally reviews the potential customer's credit quality. A substantial deposit on contract in website development and hosting segment of the Group mitigates initial credit risk.

The Group and the Company hold the following financial assets and liabilities with potential credit risk exposure:

|                             | CONSOLIDATED |           | COMPANY |         |
|-----------------------------|--------------|-----------|---------|---------|
|                             | 2009         | 2008      | 2009    | 2008    |
|                             | \$           | \$        | \$      | \$      |
| <b>Financial assets</b>     |              |           |         |         |
| Cash and cash equivalents   | 695,376      | 1,443,689 | 239,968 | 327,167 |
| Trade and other receivables | 2,456,591    | 1,433,876 | 216,303 | 54,711  |
|                             | 3,151,967    | 2,877,565 | 456,271 | 381,878 |

### (c) Liquidity risk

|                              | CONSOLIDATED |           | COMPANY |         |
|------------------------------|--------------|-----------|---------|---------|
|                              | 2009         | 2008      | 2009    | 2008    |
|                              | \$           | \$        | \$      | \$      |
| <b>Financial liabilities</b> |              |           |         |         |
| Trade and other payables     | 4,544,470    | 2,784,651 | 477,048 | 398,100 |

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying business, the Board aims at maintaining flexibility in funding by keeping committed credit lines and sufficient cash available.

All financial liabilities are expected to be settled within 12 months of the reporting date, per the contractual terms of the obligations.

### (d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets or liabilities (except cash), the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

#### *Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on exposure to interest rates on interest bearing bank balances throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates (also comparable to movement in interest rates during the reporting year).

## 27. Financial Risk Management (continued)

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. The fair value of these assets approximates their carrying value.

### (e) Net fair value of financial assets and liabilities

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

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. The fair value of these assets approximates their carrying value.

## 28. Events Subsequent to Reporting Date

On 7 September 2009 Webfirm Group Limited announced its intention to form a separate 50:50 joint venture entity with AdSlot Pty Ltd, and to acquire a 15% shareholding in Adslot Pty Ltd. The consideration is to be \$1.0 million in cash and 12,500,000 shares provided to shareholders of AdSlot. Adslot builds and operates large scale 'private electronic marketplaces' for media publishers to sell their premium advertising inventory to agencies and also to self-serve advertisers at an increase in average yield.

On 9 September 2009 the Company completed a capital raising program consisting of the issue of fully paid ordinary shares in the Company at an issue price of \$0.06 per share in two tranches as follows:

- i. the issue of 20,338,720 fully paid ordinary shares to sophisticated investors and specialist institutions in July 2009 to raise \$1.2m (which was received on 28 July 2009) ; and
- ii. the issue of up to 39,661,280 fully paid ordinary shares to sophisticated investors and specialist institutions in September 2009 to raise \$2.4m (which was received on 9 September 2009) following shareholder approval received at Extraordinary General Meeting held on 3 September 2009.

On 3 September 2009 the Company held an extraordinary general meeting of members in order that shareholders be given an opportunity to approve the issue of shares and options to directors, and to ratify the various elements of the capital raising program (referred to in the paragraph above). All of the resolutions put to the meeting were passed.

# Director's Declaration

The directors declare that the financial statements and notes set out on pages 26 to 66:

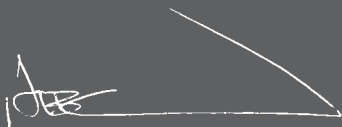
- a) comply with Australian Accounting Standards the Corporations Regulations 2001 and other mandatory professional reporting requirements in Australia; and
- (b) give a true and fair view of the Company's and group's financial position as at 30 June 2009 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (b) the audited remuneration disclosures set out on pages 13 to 22 of the Directors' Report comply with section 300A of the Corporations Act 2001.

The directors have been given the declaration by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



**Andrew Barlow**  
**Chairman**

Webfirm Group Limited

18 September 2009

## INDEPENDENT AUDITOR'S REPORT

To the members of Webfirm Group Limited

### Report on the Financial Report

We have audited the accompanying financial report of Webfirm Group Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

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

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

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Webfirm Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

*Material Uncertainty*

Without qualification to the opinion expressed above, we draw attention to Note 1 (b) going concern. The group has experienced trading losses and negative cash flows for the year, resulting in a working capital deficiency at year end. An equity raise subsequent to year end has alleviated immediate cash flow concerns; however the ability of the company to continue as a going concern may be dependent on the achievement of revenue growth. This therefore represents a material uncertainty over the company's ability to continue as a going concern.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 23 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion, the Remuneration Report of Webfirm Group Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



**BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd**  
Chartered Accountants



**Michael Climpson**  
Director

Melbourne, 18<sup>th</sup> September 2009

# Corporate Governance Statement

The directors of Webfirm Group Limited (formerly Ansearch Limited) have a commitment to maintain long term shareholder value, and recognise the benefits of good corporate governance in achieving this aim.

Having regard to the size and resources available to the company, the company endeavours at all times to comply with the Australian Stock Exchange Corporate Governance Principles and Recommendations ('ASX Principles'). Unless otherwise stated, the company complies with the ASX recommendations.

## ***Principle 1: Lay solid foundations for management and oversight***

The company has separate functions for board and senior management. The board and senior management functions are disclosed publicly in the Company Board Charter which is published on the Company's website. The board meet regularly to perform their prescribed functions, including formal meetings held monthly as well as additional ad hoc meetings where required. Each of the board members is in regular contact with the CEO and CFO/Company Secretary. The company has a process for evaluating the performance of senior executives, including the evaluation of performance against key performance indicators by both the CEO and Board. The company has yet to publish this process publicly. A performance review of the chief executive officer and senior executives of the company has taken place prior to the date of this report, in accordance with the established process.

## ***Principle 2: Structure the board to add value***

The majority of the four board members are independent directors, including Mr Andrew Barlow, Mr Adrian Giles and Mr Adrian Vanzyl. The only non-independent director is Mr David Burden who holds the office of chief executive officer. The chair of the board, Mr Andrew Barlow, is an independent director, and the role of chair and chief executive officer are held by different individuals. With the exception of Mr Burden who holds the office of CEO, none of the directors are substantial shareholders of the Company, none are or have been employed by the Company in an executive capacity, nor have they been a material consultant, supplier or customer of the Company, and none have a material contractual relationship with the Company. A description of the skills and experience of each of the directors and their period in office is contained in the Director's Report section of the Annual Report.

Because the Company has a board consisting of only four directors, the directors collectively perform the functions of a nomination committee as the directors do not consider that any increase in efficiency or effectiveness would be achieved through the formation of a nomination committee. The directors have access to a broad range of professional advisors who provide advice and assistance as requested by the directors, and at the expense of the Company. The company is yet to implement a formal process for evaluating the performance of the board, its committees or individual directors.

## ***Principle 3: Promote ethical and responsible decision making***

The company has a code of conduct for directors which provides policy and guidance on matters of conduct as directors. The aim of the code is to guide directors in the execution of their responsibilities, to ensure all legal obligations and stakeholder requirements are considered, and to provide all stakeholders with confidence in the integrity of the Company and the directors. The company actively complies with this policy. The code of conduct is published on the Company's website.

The company has a policy concerning trading in company securities by directors and employees. The aim of this policy to provide guidance to directors and senior employees when acquiring or disposing of shares in the Company, and to ensure any acquisition or disposal of shares in the Company by a director or senior employee is conducted in accordance with legal and regulatory requirements and good corporate governance practice. The company actively complies with this policy. This policy is published on the Company's website.

To enable a director to carry out his or her duties, the board allows individual directors to seek independent professional advice after discussion with the chairman in the first instance. The aim of this practice is to ensure that all directors are in a position to have or to obtain all necessary information required for them to make an informed decision about any matter concerning the Company. Any necessary advice is obtained at the company's expense and advice obtained is made available to all directors.

## ***Principle 4: Safeguard integrity in financial reporting***

The directors have formed an audit and risk committee effective from August 2009. In previous years the board have collectively performed the functions of an audit and risk committee as the directors did not consider that any increase in efficiency or effectiveness would be achieved through the formation of a formal audit and risk committee. Mr Adrian Giles and Mr Adrian Vanzyl are the directors appointed to the audit and risk committee effective 27 August 2009, and both are independent non-executive directors. The audit and risk committee may call upon the attendance of the CEO, CFO, the external auditor or any other person to the meeting from time to time. The directors on the audit and risk committee have access to professional advisors who provide advice and assistance as requested by the directors. The audit and risk committee meets quarterly and at other times as required.

Compliance with accounting and financial reporting standards and procedures are subject to audit and risk committee as well as board review and review by the external auditors. The non-executive directors have direct access to the external auditor and are permitted to make such enquiries of the auditor as they feel are necessary. The external auditor is invited to attend the annual general meeting and make himself or herself available to answer any questions pertaining to the conduct of the audit, the content of the audit report or the financial affairs of the Company.

## ***Principle 5: Make timely and balanced disclosure***

The company has a policy of complying with ASX disclosure requirements. The directors and senior management have received education and training on the subject of ASX disclosure requirements. The company actively complies with this policy. The policy is published on the Company website.

## ***Principle 6: Respect the rights of shareholders***

The company has a policy for promoting effective communication with shareholders. The company actively complies with this policy, by way of regular ASX announcements, letters posted to shareholders, and shareholder presentations. The policy is published on the Company website.



### **Principle 7: Recognise and manage risk**

The directors of the Group take the management of business risk seriously, and is actively building policies and procedures aimed at identifying, evaluating and mitigating risk.

The Company is in the early stages of the development of its risk management procedures. The directors have formed a view on the risk appetite for the business, having regard to the size and nature of the business, the new and evolving industry in which it operates, the desired level of reward and returns, and the resources available to manage and mitigate risk.

Material business risks are identified by directors or senior management are brought to the attention of the board via the newly established audit and risk committee, and prior to the establishment of the audit and risk committee, to the board directly. The Company has a formal business risk management policy and plan. The policy is published on the Company website.

The area of risk considered under the risk policy include: strategic and market risk; financial; asset and resources; personnel and productivity; intellectual property and information; product and operations;

technological and systems; and legal and compliance risk. Financial risk management, including market risks, credit risk, liquidity risk, cash flow and fair value interest rate risk are each addressed in the annual report of the Company.

In accordance with section 295A of the Corporation Act, the board has received assurance from both the CEO and CFO that a system of risk management and internal control appropriate to the size and nature of the organisation is in place and is operating effectively in all material respects.

### **Principle 8: Remunerate fairly and responsibly**

The directors collectively perform the functions of a remuneration committee as given the small number of directors of the Company, the directors do not consider that any increase in efficiency or effectiveness would be achieved through the formation of a remuneration committee. The directors have access to professional advisors who provide advice and assistance as requested by the directors. The non-executive directors and the executive directors and senior management of the company have clearly distinguishable remuneration structures which are set out in documented service agreements. Full remuneration details for directors and key executives are provided in the director's report and the notes to the annual financial statements in this annual report.

## Corporate Directory

### **Directors**

Mr Andrew Barlow – Chairman/Non-Executive Director  
Mr David Burden – CEO/Managing Director  
Mr Adrian Giles – Non-Executive Director  
Mr Adrian Vanzyl – Non-Executive Director

### **Chief Executive Officer**

Mr David Burden

### **Company Secretary**

Mr Damian Element

### **Head Office**

Webfirm Group Limited  
23 Union Street  
South Melbourne Vic 3205 Australia  
Phone: + 61 3 8695 9199  
Fax: + 61 3 9696 0700  
Toll free 1300 852 722

### **Registered Office**

Webfirm Group Limited  
23 Union Street  
South Melbourne Vic 3205 Australia  
Phone: + 61 3 8695 9199  
Fax: + 61 3 9696 0700  
Toll free 1300 852 722

### **Auditors**

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd  
The Rialto  
Level 30, 525 Collins Street  
MELBOURNE VIC 3000

### **Solicitors**

Minter Ellison  
Level 23, 525 Collins Street  
Melbourne VIC 3000

### **Bankers**

National Australia Bank Limited  
424 St Kilda Road  
St Kilda VIC 3004

### **Share Register**

Computershare Registry Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford, VIC 3001

### **Home Stock Exchange**

Australian Stock Exchange Limited  
Level 45, South Tower  
Rialto, 525 Collins St  
Melbourne, VIC 3000  
ASX Code: WFM

# Shareholder Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 10th September 2009.

| Ordinary Shares  |                   |                    |
|--|-------------------|--------------------|
|  | Number of Holders | Number of Shares   |
| <b>Distribution of equity securities</b>   |                   |                    |
| The number of shareholders by size of shareholding in each class of shares are:  |                   |                    |
| 1 – 1,000  | 97                | 16,653             |
| 1,001 – 5,000  | 265               | 790,162            |
| 5,001 – 10,000   | 414               | 3,285,500          |
| 10,001 – 100,000   | 1,011             | 34,861,976         |
| 100,001 +  | 269               | 119,942,949        |
| <b>TOTAL</b>   | <b>2,056</b>      | <b>198,558,520</b> |
| The number of shareholders holding less than a marketable parcel of shares based on a share price of \$0.081 at the date of 10th September 2009: | 475               | 1,471,572          |

| Listed Ordinary Shares  |                    |                      |
|---|--------------------|----------------------|
|   | Number of Shares   | % of Ordinary Shares |
| <b>Twenty largest shareholders</b>  |                    |                      |
| The names of the twenty largest holders of quoted shares are:                   |                    |                      |
| 1 FINICO PTY LTD  | 16,666,666         | 8.39                 |
| 2 GILES SHARE INVESTMENTS PTY LTD   | 5,569,629          | 2.81                 |
| 3 CHINDI CAPITAL PTY LTD <CHINDI CAPITAL A/C>                                   | 4,824,100          | 2.43                 |
| 4 MR NORMAN ABBY ASCH + MS GAEL ASCH <ASCH SUPER FUND A/C>                      | 3,221,071          | 1.62                 |
| 5 ANDAMA HOLDINGS PTY LTD <J & M BARLOW PENSION A/C>                            | 3,000,000          | 1.51                 |
| 6 CAPITAL ACCRETION PTY LTD <THE FORTIFIED VALUE A/C>                           | 3,000,000          | 1.51                 |
| 7 SCINTILLA STRATEGIC INVESTMENTS   | 2,847,000          | 1.43                 |
| 8 CS FOURTH NOMINEES PTY LTD <UNPAID A/C>                                       | 2,658,902          | 1.34                 |
| 9 MANFREE NOMINEES PTY LTD <FREEMAN SUPER FUND NO 2 A/C>                        | 2,411,806          | 1.21                 |
| 10 MANFREE NOMINEES PTY LTD <FREEMAN SUPER FUND A/C>                            | 2,295,774          | 1.16                 |
| 11 VENTURIAN PTY LTD <MAVERICK INNOVATION A/C>                                  | 2,258,333          | 1.14                 |
| 12 VENTURIAN PTY LTD <MAVERICK INNOVATION A/C>                                  | 2,156,296          | 1.09                 |
| 13 MR DAVID BURDEN + MRS LESLEY PEMBERTON-BURDEN                                | 2,000,000          | 1.01                 |
| 14 MR JOHN MANDOSIO + MRS ELIZABETH MANDOSIO                                    | 1,902,000          | 0.96                 |
| 15 MR ANDREW JOHN WILLIS  | 1,800,000          | 0.91                 |
| 16 MARLION SUPERANNUATION FUND PTY LTD <MARLION S/F A/C>                        | 1,795,000          | 0.90                 |
| 17 MR BARRY FRANCIS CRONIN + MRS KERRY ANNE CRONIN <HILLVIEW 52 SUPER FUND A/C> | 1,666,666          | 0.84                 |
| 18 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2                            | 1,546,018          | 0.78                 |
| 19 PAKETTE PTY LIMITED <VANDAMEER SUPER FUND A/C>                               | 1,500,000          | 0.76                 |
| 20 MR MALCOLM JAMES MILNE + MRS SHERREN LEE MILNE <MILNE FAMILY SUPER FUND A/C> | 1,388,434          | 0.74                 |
| <b>Total Top 20 holders of Ordinary Shares</b>                                  | <b>64,507,695</b>  | <b>32.49</b>         |
| <b>Remaining holders balance</b>  | <b>134,050,825</b> | <b>67.51</b>         |

## Classes of Shares

Webfirm Group Limited has only class of share on issue, being fully paid ordinary shares.

## Substantial Shareholders

|                | Shares     | % Shares |
|----------------|------------|----------|
| FINICO PTY LTD | 16,666,666 | 8.39     |

## Voting Rights

All ordinary shares carry one vote per share without restrictions.



[www.webfirmgroup.com](http://www.webfirmgroup.com)

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