



**2010**

**WEBFIRM GROUP LIMITED  
ANNUAL REPORT**

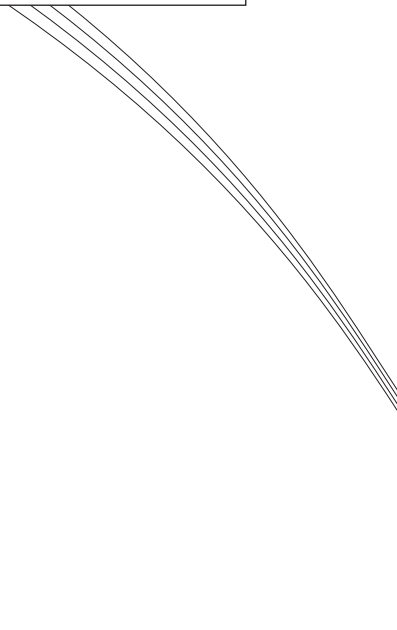
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# Chairman's Report



The past 12 months have been a time of considerable and positive change for Webfirm. The current Board of Directors have worked hard to reshape the business since taking control some two years ago with a great deal of corporate

improvements and divestment or realignment of under performing business units, all with the core aim of providing a solid foundation on which to build an exciting global business.

Once the board felt the corporate and business foundations of Webfirm were appropriate we made our first key acquisition - Adslot Pty Ltd. The Adslot business provided the key pillar of our future global strategy. We wanted to build a business that could be unique and globally relevant and operate in a space that could provide significant rewards for shareholders. The patented advertising sales automation technology that underpins Adslot is capable of changing the way that advertising is bought and sold, and not just Internet advertising, but any media from television to radio and outdoor. This allowed us to build a business that could play a part in the total worldwide advertising spend being a more than US\$420Billion opportunity.

Our initial focus was proving the technology was applicable online, and specifically to the display advertising that's run on major classified portals. Our first cornerstone deal with the REA Group, one of the world's largest and most successful classified portals, announced earlier this year, is an initial step towards positive validation of this technology.

We have also recently announced a number of other acquisitions including the Adimise business and QDC Technologies that together provide Webfirm with the necessary pieces of technology to create an entire advertising marketplace to extend the value and reach of the Adslot technology within our clients businesses.

Due to the early success of our Adslot technology we have also taken the decision to fast track its global expansion, and recently closed a capital raising to provide sufficient funds to take the business into Europe and the US.

I would like to thank the staff and board of Webfirm for their tireless efforts over the last 12 months as well as the many shareholders who continue to patiently support this company. The road ahead for this business will be challenging, and it is certainly a long one, but the rewards for patience and successful execution are very significant. I look forward to continuing to report on that success in the months and years ahead.



**Mr Adrian Giles**  
**Executive Chairman**

# Directors' Report

Your Directors present their report, together with the financial report of Webfirm Group Limited ACN 001 287 510 ('the Company') and its controlled entities ('the Group') for the financial year ended 30 June 2010 and the auditor's report thereon.

## Information on Directors

Mr Adrian Giles, Mr David Burden and Mr Adrian Vanzyl were directors for the whole financial year and up to the date of this report.

Mr Andrew Barlow resigned as Chairman on 8 October 2009 and was reappointed as a non-executive director on 16 February 2010 and became an executive director on 13 April 2010. Mr Adrian Giles was appointed non-executive Chairman on 8 October 2010 and became an executive Chairman on 13 April 2010. Mr Anthony Du Preez was appointed as an executive director on 22 February 2010.

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### Mr Adrian Giles (Age 36)

### Executive Chairman



Adrian Giles is an entrepreneur specialising in the Internet and information technology industry. In 1997, Adrian co-founded Australia's first Search Engine Optimisation company, Sinewave Interactive, with fellow entrepreneur Andrew Barlow. In 1998 Adrian and Andrew co-founded Hitwise. Hitwise grew over 10 years to become one of the most recognised global internet measurement brands with over 300 staff operating successfully in the USA, UK, Australia, NZ, Hong Kong, and Singapore. By monitoring more than 25 Million Internet users via more than 40 ISP relationships worldwide, Hitwise provided competitive ratings of the most popular businesses across more than 160 industries and in 6 key markets. Whilst positioning the company for a NASDAQ listing in early 2007 Hitwise was sold to Experian (LSE: EXPN) for US\$240m. Throughout its growth Hitwise was ranked by Deloitte's as one of the fastest growing IT companies in the Asia Pacific region for five consecutive years. Hitwise was also a winner of the Victorian Small Business Awards; was awarded the 'Most Innovative Digital Business' in the UK for 2004; and was awarded a finalist as 'Most Innovative Company' at the 2005 American Business Awards in New York. Adrian was also a finalist in the 2003 Australian 'Entrepreneur of the Year' awards. Adrian is also the Managing Director of Yarra Ventures an advisory and private investment fund he formed after the sale of Hitwise.

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### Mr David Burden (Age 48)

### Managing Director Chief Executive Officer



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.

**Andrew Barlow (Age 37)****Executive Director**

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 co-founder of Hitwise with Adrian Giles. Mr Barlow was Chairman and Managing Director of Hitwise from 1997 – 2000, and Director of R&D from 2000 – 2002. Hitwise was ranked one of the Top 10 fastest growing companies by Deloitte for 5 years running, before being sold to Experian Group (LSX, EXPN) in May 2007 for US\$240m. Mr Barlow is also a co-founder of Adslot, a revenue optimisation platform for online media publishers. Adslot was acquired by Webfirm Group in 22 February 2010. Mr Barlow is also a former Chairman of Webfirm Group Limited (October 2007 – October 2009).

Mr Barlow is the Founder of Venturian (2004), a privately-owned and run venture capital investment group. Venturian is an investor in a number of other technology ventures, including Nitro PDF (the second biggest distributor of PDF editing software in the world), QDC IP Technologies (which personalises video advertising on the fly and builds automated ad creation tools) and QMCodes (which 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.

**Dr Adrian Vanzyl (Age 42)****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.

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**Dr Anthony Du Preez (Age 41)**

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**Executive Director**

Anthony Du Preez is the co-founder of both Tradeslot and Adslot. He has spent the last 10 years designing and building auction based markets for a range of industries including logistics, supply chain, port capacity, forestry timber, energy, and carbon permits. Anthony has developed a unique combinatorial auction technology that can process premium 'conditional bids'. This proven technology enables the establishment of efficient auction based markets in complex sales environments that have traditionally been served by face-to-face sales and one-on-one negotiations.

This unique and patented technology has significant application for selling premium display/video ad space in the media sector.

Previously, Anthony worked as business development executive for Honeywell Aerospace division in the North American and European markets. Anthony has a Bachelor of Engineering (First Class Honours), and a MBA from the Melbourne School. Anthony also completed an advanced management post graduate certificate at Berkley University in San Francisco.

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**Gavan Flower**

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**Company Secretary**

Mr Damian Element resigned as Company Secretary on 25 May 2010. Mr Gavan Flower (age 37) was appointed Company Secretary on 25 May 2010. Mr Flower is a Chartered Accountant with over 16 years experience in senior financial roles in both public and private multinational companies, including ASX 200 Spotless Group Limited and biotechnology company Cytopia Limited.

**Directorships of other listed companies**

No Director holds a Directorship in any other listed companies in the three year period immediately before the end of the financial year.

## Principal Activities

During the year the principal activities of the Group evolved as the Group restructured into two operating divisions following the Acquisition of Adslot Pty Ltd on 16 February 2010.

The company operates two main divisions: The Adslot division provides patented advertising sales automation services that reduces selling costs and increases premium advertising revenue for its publisher clients. The company's Webfirm division offers the complete spectrum of online marketing services including web design, development and promotion, website optimisation, hosting, search and social marketing and e-commerce services; the division also delivers premium quality search monetisation solutions.

Activities within the Searchworld business, which now forms part of the Webfirm division have changed from the syndication of paid and organic contextual search and operating owned and operated search engines, to the provision of search engine marketing and optimisation to Webfirm's SME clients.

## Changes in state of affairs

A material addition to the nature of the activities during the year with the acquisition of Adslot Pty Ltd which added the provision of patented advertising sales automation services.

## Operating Results

The consolidated operating loss after income tax attributable to the members of Webfirm Group Limited is \$4,218,601 (2009: Loss \$4,150,364).

## 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 was formed in early 2010, following the acquisition of Adslot Pty Ltd, and the restructure of the Company into two operating divisions. Under the revised structure Searchworld and Webfirm Media were placed under the control of Webfirm. The principal activities in Searchworld have significantly changed driven by the uncertainty and instability in search advertising syndication. Activities in Webfirm

Media including location based advertising services are taking a much lower priority given the greater upside in other opportunities being pursued by the Division.

The Webfirm Division now offers the complete spectrum of online marketing services including web design and development, website optimisation, hosting, search and social marketing and e-commerce services. With more than 50 staff, it continues to develop products and services aimed at helping small and medium enterprise (SME) customers grow their business online.

As a result of the impact of the global financial crisis and external changes on the search syndication industry impacting the Searchworld business the Directors decided to over time, exit search syndication and rebuild Searchworld into a business with a focus on the growing markets of search engine optimisation, paid search advertising and social media. As such, revenue for Searchworld has fallen significantly from FY2009, however the comparable year on year result for the Webfirm business has seen positive growth. As such management has significantly reduced costs across the division consistent with these shortfalls.

During the financial year, Webfirm Group appointed Mr Mathew Chamley as Regional General Manager, tasked with driving greater operational efficiency from the Division. This culminated with the first month of profitability for the division in June 2010.

The focus for the Webfirm division during FY2011 will be to increase the focus on search and social marketing products, consolidation of the Searchworld business and divestment of non-core intellectual property. Furthermore, cost efficiencies will be pursued through the growth of the Manila offshore development team and enhancing processes in telemarketing, sales and account management teams.

### *Adslot Division*

The Adslot Division provides patented advertising sales automation services that reduce selling costs and increase premium advertising revenue for its publisher clients.

The Adslot Division was acquired in February 2010, and in that time it has managed to achieve a number of significant milestones. It has signed as its cornerstone client, realestate.com.au, Australia's leading real estate website; it has completed the acquisition of Adimise Pty Ltd and Full Circle Online Pty Ltd, securing some of the key ad serving components Adslot requires to build its Direct Platform; and has further signed



an agreement to acquire QDC IP Technologies Pty Ltd (subject to shareholder approval), which is the final component required to complete the Adslot Direct Platform. It has also established an experienced development team and commercialisation team to commercialise Adslot's various technologies in FY2011.

The focus for the Adslot division in FY2011 is to commercialise the Adslot platform within Australia by securing two classifieds publisher clients; grow revenue; complete the R&D of the Adslot Direct Platform in the first half, and commercialise the Adslot Direct Platform in the second half.

### Corporate

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

The company completed the acquisition of Adslot Pty Ltd and subsequent restructuring of the Group into two divisions. It also raised capital through an entitlement offer to shareholders and a placement to sophisticated and professional investors.

Since the end of the financial year, the Company announced the acquisition of Adimise Pty Ltd and Full Circle Online Pty Ltd and the proposed acquisition of QDC Technologies Pty Ltd, whose technologies will enable the completion of the Adslot Direct Platform.

Webfirm Group Limited is subject to risks of the rapidly evolving digital media industry, however the existing and emerging opportunities make it an exciting space in which to operate. The potential rewards from the emerging opportunities could be substantial, but not without risk.

Group revenues were down 49.8% on the previous year, to \$5.6 million primarily due to the difficulties in the search syndication business of Searchworld. The net loss after tax was greater than FY09 by \$68k.

This result included the non-cash impact of \$165k impairment charge, \$932k of non-cash share based expenses, and \$652k in depreciation and amortisation expenses.

### Matters Subsequent to 30 June 2010

On 8 July 2010 it was announced that the company had completed the acquisition of Adimise Pty Ltd and Full Circle Online Pty Ltd for the consideration of 4,285,714 shares (escrowed for 12 months) and a performance-based earn out capped at a total of \$150,000 over the next three years.

On 11 August 2010 it was announced that the company intends to purchase 100% of the shares in QDC IP Technologies Pty Ltd, for the issue of 40,000,000 ordinary shares (escrowed for 18 months). QDC IP Technologies owns the intellectual property for a key component (an automated ad creation tool) of the Adslot Direct Platform, the next stage in the development of the Adslot business. Amongst other applications, it will enable advertisers to build a banner advertisement and increase demand, and subsequently yield, on the Adslot platform.

The approval of this acquisition remains subject to approval by shareholders at the Extraordinary General Meeting to be held in October or November 2010.

### 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 2010 and the number of meetings attended by each Director.

Director	No of Meetings Eligible to Attend	No of Meetings Attended
Mr Adrian Giles	15	15
Mr Andrew Barlow	9	9
Mr David Burden	15	15
Mr Anthony Du Preez	5	4
Mr Adrian Vanzyl	15	13

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 the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive Team. Directors' 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. Executives' 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. The inclusion of share options in directors' and executives' remuneration provides a direct link between their remuneration and shareholder wealth, otherwise there are no direct relationships.

## 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 Non-Executive Chairman Non-Executive Chairman Non-Executive Director Executive Director	Appointed 22 October 2007 From 7 December 2007 Resigned 8 October 2009 Appointed 16 February 2010 From 13 April 2010
Mr Adrian Giles	Non-Executive Director Non-Executive Chairman Executive Chairman	Appointed 19 December 2007 From 8 October 2009 From 13 April 2010
Mr David Burden	Chief Executive Officer Managing Director	Appointed 6 February 2008 From 8 April 2008
Mr Adrian Vanzyl	Non-Executive Director	Appointed 28 April 2008
Mr Anthony Du Preez	Executive Director	Appointed 22 February 2010
Executive Officers		
Mr Damian Element	Company Secretary / Chief Financial Officer	Resigned 28 May 2010
Mr Gavan Flower	Company Secretary / Chief Financial Officer	Appointed 24 May 2010
Mr Andrew Beecher	Executive Officer – Webfirm Pty Ltd	Resigned 28 July 2009
Mr Mathew Chamley	Regional General Manager – Webfirm Pty Ltd	Appointed 28 July 2009
Mr Josh Edis	Global Head of Search – Searchworld Pty Ltd	Resigned 31 October 2009
Mr Steve Jones	General Manager – Webfirm Media Pty Ltd	Resigned 8 April 2010

## B. Details of remuneration (continued)

Consolidated Entity 2010	Short-term benefits				Long-term benefits		Post-employment benefits	Share-based payment		Total	Performance based remuneration (1)
	Name	Salary & fees	Bonus	Non-monetary benefits	Other	Termination benefits	Long service leave employee benefits	Super-annuation	Shares		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<i>Executive director</i>											
Mr A Giles	68,750	-	-	-	-	-	-	-	199,635	268,385	-
Mr A Barlow	49,314	-	-	-	-	-	-	-	136,581	185,895	-
Mr D Burden	341,753	-	-	(14,231)	-	-	14,461	-	210,180	552,163	38.1%
Mr A Du Preez from 16/02/10	56,250	-	-	9,098	-	-	5,063	-	137,425	207,836	66.1%
<i>Non-executive directors</i>											
Mr A Vanzyl	50,000	-	-	-	-	-	-	-	122,030	172,030	-
<i>Other key management personnel</i>											
Mr D Element to 28/05/10	209,779	25,000	-	43,533	-	-	21,427	-	91,094	390,833	29.7%
Mr G Flower from 24/05/10	18,185	-	-	1,323	-	-	1,637	-	-	21,145	-
Mr A Beecher to 28/07/09	52,439	-	-	(10,235)	-	-	2,410	-	9,254	53,868	17.2%
Mr M Chamley from 1/07/09	134,999	-	-	34,573	-	-	14,841	1,000	22,045	207,458	10.6%
Mr J Edis to 31/08/09	75,340	-	-	(5,360)	50,314	(11,252)	4,820	-	9,254	123,116	7.5%
Mr S Jones to 8/04/10	94,812	-	-	9,710	30,963	-	9,532	1,000	12,560	158,577	7.9%
Totals	1,151,621	25,000	-	68,411	81,277	(11,252)	74,191	2,000	950,058	2,341,306	22.1%

(1) 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, Options and Rights 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, Options and Rights amount.

## B. Details of remuneration (continued)

### *Bonuses*

Mr. Damian Element was approved a cash bonus of \$25,000 related to achievement of performance KPI's for the year ended 30 June 2010.

### *Employee shares*

During the year, all permanent executives and employees of the consolidated group (excluding the CEO and CFO) were granted \$1,000 value of shares as a performance benefit related to the financial year ended 30 June 2009. The shares were issued on 15 April 2010 at the market price on day being \$0.0625 per share.

### *Shares and share options*

At an extraordinary general meeting (EGM) of members held 28 January 2010, shareholders approved the issue of 39,700,000 options to directors Mr Andrew Barlow (7,900,000 options), Mr Adrian Giles (11,800,000 options), David Burden (13,000,000 options) and Mr Adrian Vanzyl (7,000,000 options). The issue of director's options was made outside of the Company ESOP. The options were granted for nil consideration with half vesting on 16 February 2010 and the second half vesting on 1 February 2011. Service conditions are attached to the options in that the Director must hold office for the options to vest. No performance conditions are attached to options issued, however, no financial benefit will accrue unless the market price of the ordinary shares of the Company exceeds 5.3 cents. The options expire on 31 January 2013.

Anthony Du Preez received 8,500,000 options under the company ESOP prior to becoming a Director of the company. The options were granted for nil consideration with half vesting on 16 February 2010 and the second half vesting on 1 February 2011. Service conditions are attached to the options. No performance conditions are attached to options issued, however, no financial benefit will accrue unless the market price of the ordinary shares of the Company exceeds 5.3 cents. The options expire on 31 January 2013.

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 valued these options in accordance with accounting standards. The total value of the options issued to directors was assessed at \$1,127,880. 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 \$347,779.

The board has no formal policy in place for limiting the risk of directors in relation to the options issued.

### *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 2009 annual general meeting, executives and senior employees were granted options to purchase parcels of ordinary shares at an exercise price of 5.6 cents 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.

The vesting dates of the two option tranches of executives and senior employees are 16 February 2011 and 16 February 2012. Both tranches are based the individual remaining an employee of the Group who has not provided notice of termination of employment on the date of vesting. The board considered these conditions appropriate to ensure the objective of maintaining key staff within the Company.

The executive provided with options during the year under these conditions was Mr Matt Chamley (4,000,000 options) and expire on 31 January 2013 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 5.6 cents.

The Company has valued these options in accordance with accounting standards. The total value of these options was assessed at \$92,400. On the assumption that the executive remains employed with the Company beyond the vesting dates for the options, the amount remaining to be expensed in future years is \$66,459.

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.

3,500,000 options were issued to Mr. Damian Element with an expiry date of 31 January 2013 in recognition for service to the company. These options have an exercise price of 5.3 cents and vested on 16 February 2010.

Consolidated Entity 2009	Short-term benefits				Long-term benefits	Post-employment benefits	Share-based payment		Total	Performance based remuneration (i)	
	Name	Salary & fees	Bonus	Non-monetary benefits	Other	Termination benefits	Super-annuation	Other Long-term employee benefits			Shares
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<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%
Totals	1,347,281	185,850	26,095	43,987	-	11,252	54,877	4,000	355,528	2,028,870	14.6%

(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.

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

Name	Option Series	During the Financial year				% of Compensation for the year Consisting of Options
		Number Granted	Number Vested	% of Grant Vested	% of Grant Forfeited	
Mr A Giles	Issued on 16 Feb 10	11,800,000	5,900,000	50.00%	-	74.4%
Mr A Barlow	Issued on 16 Feb 10	7,900,000	3,950,000	50.00%	-	73.5%
Mr A Vanzyl	Issued on 16 Feb 10	7,000,000	3,500,000	50.00%	-	70.9%
Mr D Burden	Issued on 16 Feb 10	13,000,000	6,500,000	50.00%	-	38.1%
Mr A Du Preez	Issued on 16 Feb 10	8,500,000	4,250,000	50.00%	-	66.1%
Mr D Element	Issued on 16 Feb 10	3,500,000	3,500,000	100.00%	-	29.7%
Mr M Chamley	Issued on 16 Feb 10	4,000,000	-	-	-	10.6%
Mr S Jones	Issued on 16 Feb 10	600,000	-	-	-	7.9%

## C. Service agreements

The remuneration and other terms of agreement for the directors and other key management personnel are formalised in service agreements. 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 are set out below.

### Mr Adrian Giles, *Executive Chairman*

- Term of agreement – effective 1 March 2010.
- Base salary, inclusive of superannuation, of \$75,000 per annum and to include up to 32 hours per month work for the Company. Any additional hours are remunerated at \$130 per hour including superannuation. These rates are 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 Andrew Barlow, *Executive Director*

- Term of agreement – effective 1 March 2010.
- Base salary, inclusive of superannuation, of \$50,000 per annum and to include up to 32 hours per month work for the Company. Any additional hours are remunerated at \$130 per hour including superannuation. These rates are to be reviewed annually by the Board of Directors.
- Period of notice of termination: immediately upon notice by Mr Barlow.
- No termination benefits payable on termination by the Company.

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

- Term of agreement – on-going commencing 6 February 2008.
- Base salary, inclusive of superannuation, of \$304,000 per annum, to be reviewed annually by the Board of Directors.
- Performance based short term incentive being a cash bonus of up to \$111,200 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 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.

### Mr Anthony Du Preez, *Executive Director*

- Term of agreement – on-going commencing 8 April 2010
- Base salary, inclusive of superannuation, of \$163,500 per annum, to be reviewed annually by the Board of Directors
- Period of notice of termination: Three months
- No termination benefits payable on termination by the Company.

Mr Mathew Chamley, *Regional General Manager, Webfirm Pty Ltd*

- Term of agreement – on-going commencing 28 July 2008
- Base salary, inclusive of superannuation, of \$147,150 per annum, to be reviewed annually by the Board of Directors. Living away from home allowance of \$31,200 per annum (to 3 March 2011)
- Period of notice of termination: Two months
- No termination benefits payable on termination by the Company

Mr Gavan Flower, *Company Secretary and Chief Financial Officer*

- Term of agreement – on-going commencing 24 May 2010
- Base salary, inclusive of superannuation, of \$185,000 per annum, to be reviewed annually by the Board of Directors
- Period of notice of termination: Six weeks
- No termination benefits payable on termination by the Company

## D. Share-based compensation

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

### Options - 2010

Issue Date	Number of Options	Expiry Date	Exercise Price \$	Value of options at grant date \$	Fair Value Per Option \$	Date vested and exercisable
16-Feb-2010	27,600,000	31-Jan-2013	0.053	645,371	0.0234	16-Feb-2010
16-Feb-2010	24,100,000	31-Jan-2013	0.053	563,530	0.0234	01-Feb-2011
16-Feb-2010	2,300,000	31-Jan-2013	0.056	161,081	0.0231	16-Feb-2011
16-Feb-2010	2,300,000	31-Jan-2013	0.056	143,083	0.0231	16-Feb-2012
				<b>1,513,065</b>		

### Options - 2009

Issue Date	Number of Options	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>		

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.

## D. Share-based compensation (continued)

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			
	2010		2009		2010		2009	
	Number	\$	Number	\$	Number	\$	Number	\$
<b>Directors of Webfirm Group Limited</b>								
Mr Adrian Giles	11,800,000	\$275,919	2,000,000	\$86,666	6,566,667	\$164,626	1,333,333	\$56,666
Mr David Burden	13,000,000	\$303,979	-	-	6,500,000	\$151,989	-	-
Mr Andrew Barlow	7,900,000	\$184,726	2,000,000	\$86,666	4,616,667	\$119,029	1,333,333	\$56,666
Mr Adrian Vanzyl	7,000,000	\$163,681	2,000,000	\$86,666	4,166,667	\$108,571	1,333,333	\$56,666
Mr Anthony Du Preez	8,500,000	\$198,755	-	-	4,250,000	\$99,378	-	-
<b>Other Key Management Personnel</b>								
Mr D Element	3,500,000	\$81,840	1,200,000	\$52,000	3,500,000	\$81,840	-	-
Mr J Edis	-	-	1,200,000	\$52,000	-	-	-	-
Mr A Beecher	-	-	1,200,000	\$52,000	-	-	-	-
Mr M Chamley	4,000,000	\$92,400	-	-	-	-	-	-
Mr S Jones	600,000	\$13,860	1,200,000	\$52,000	-	-	-	-
Mr G Flower	-	-	-	-	-	-	-	-

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 binomial option pricing model that takes into account the exercise price, the term of the option, 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 2010 included:

Model Input	Class #1	Class #2	Class #3	Class #4
Grant Date	16/02/10	16/02/10	16/02/10	16/02/10
Exercise Date	16/02/10	01/02/11	16/02/11	16/02/12
Expiry Date	31/01/13	31/01/13	31/01/13	31/01/13
Exercise Price	\$0.053	\$0.053	\$0.056	\$0.056
Price at Grant Date	\$0.04	\$0.04	\$0.04	\$0.04
Expected Volatility	100.4%	100.4%	100.4%	100.4%
Expected Dividend Yield	0%	0%	0%	0%
Risk Free Interest Rate	4.76%	4.76%	4.76%	4.76%



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%

## E. Additional information

Further details relating to options are set out below:

Name	A Remuneration consisting of options	B Value at grant date	C Value at exercise date	D Value at lapse date
Mr A Giles	74.4%	\$275,919	-	-
Mr D Burden	38.1%	\$303,979	-	-
Mr A Barlow	73.5%	\$184,726	-	-
Mr A Vanzyl	70.9%	\$163,681	-	-
Mr A Du Preez	66.1%	\$198,755	-	-
Mr D Element	29.7%	\$81,840	-	-
Mr M Chamley	10.6%	\$78,519	-	-
Mr S Jones	7.9%	\$11,778	-	-

- 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 \$	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	9,840,003
Options over ordinary shares	22 Oct 2012	0.09	2,000,000
Options over ordinary shares	31 Jan 2013	0.053	51,700,000
Options over ordinary shares	31 Jan 2013	0.056	15,500,000
Total			81,140,003

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*.

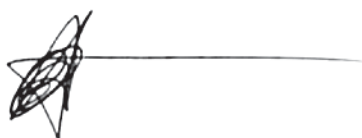
### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 19 of the financial report.

### Auditor and Non-Audit Services

BDO Audit (NSW-VIC) Pty Ltd is the Company's appointed auditor. The only services provided for the year by the auditor and its related practices were audit services.

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



**Adrian Giles**  
Chairman

26 August 2010



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**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 2010, 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.

A handwritten signature in black ink, appearing to read 'M. Climpson', written in a cursive style.

**Michael Climpson**  
Director

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

Melbourne, Victoria

Dated this 26<sup>th</sup> day of August 2010

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

		2010	2009
	Notes	\$	\$
Total revenue from continuing operations	3	5,461,139	10,871,007
Other income	3	110,664	228,416
Website publishers & related costs		(486,969)	(4,786,868)
Depreciation and amortisation expenses	4	(652,165)	(238,650)
Finance costs	4	(1,778)	(303)
Salaries and employment related costs (including contractors)		(5,365,034)	(6,366,016)
Telephone and internet		(183,297)	(225,971)
Share based payment expense		(932,809)	(433,309)
Marketing costs		(127,299)	(261,320)
Lease - rental premises	4	(308,706)	(494,959)
Impairment of intangibles	4	(165,025)	(500,000)
Impairment of receivables	4	(325,410)	(321,730)
Listing & registrar fees		(184,038)	(153,245)
Legal fees		(320,272)	(106,935)
Travel expenses		(207,803)	(249,962)
Audit and accountancy fees		(153,431)	(209,284)
Other expenses		(375,848)	(812,838)
<b>Loss before income tax expense</b>		<b>(4,218,081)</b>	<b>(4,061,967)</b>
Income tax expense	5	(520)	(88,397)
Loss after income tax expense	15	(4,218,601)	(4,150,364)
<b>Other comprehensive income</b>			
Foreign exchange translation		(6,882)	(29,520)
Total other comprehensive income		(6,882)	(29,520)
<b>Total comprehensive income attributable to the members of Webfirm Group Limited</b>		<b>(4,225,483)</b>	<b>(4,179,884)</b>

		2010 Cents	2009 Cents
<b>Earnings per share (EPS) from loss from continuing operations attributable to the ordinary equity holders of the company</b>			
Basic earnings per share	16	<b>(1.42)</b>	(3.10)
Diluted earnings per share	16	<b>(1.42)</b>	(3.10)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

## As at 30 June 2010

		2010	2009
	Notes	\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	3,807,779	695,376
Trade and other receivables	8	1,739,976	2,256,591
Total current assets		5,547,755	2,951,967
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	8	200,000	200,000
Property, plant & equipment	9	129,133	231,962
Intangible assets	10	8,409,435	2,938,087
Total non-current assets		8,738,568	3,370,049
Total assets		14,286,323	6,322,016
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	1,146,296	3,679,577
Other liabilities	12	1,175,912	864,893
Provisions	13	124,197	152,733
Total current liabilities		2,446,405	4,697,203
<b>NON-CURRENT LIABILITIES</b>			
Provisions	13	12,692	20,767
Total non-current liabilities		12,692	20,767
Total liabilities		2,459,097	4,717,970
<b>NET ASSETS</b>		<b>11,827,226</b>	<b>1,604,046</b>
<b>EQUITY</b>			
Issued capital	14	50,874,027	37,358,173
Reserves	15	4,901,430	3,975,503
Accumulated losses	15	(43,948,231)	(39,729,630)
<b>TOTAL EQUITY</b>		<b>11,827,226</b>	<b>1,604,046</b>

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

# Consolidated Statement of Changes in Equity

## For the year ended 30 June 2010

2010	Notes	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
<b>Balance at 1 July 2009</b>		37,358,173	3,975,503	(39,729,630)	1,604,046
Movement in foreign exchange translation reserve	15	-	(6,882)	-	(6,882)
Other comprehensive income		-	(6,882)	-	(6,882)
Loss attributable to members of the company	15	-	-	(4,218,601)	(4,218,601)
<b>Total comprehensive income</b>			(6,882)	(4,218,601)	(4,225,483)
<b>Transactions with equity holders in their capacity as equity holders</b>					
Contributions of equity, net of transaction costs		13,515,854	-	-	13,515,854
Increase in employees share based payments reserve	15	-	932,809	-	932,809
		13,515,854	932,809	-	14,448,663
<b>Balance 30 June 2010</b>		<b>50,874,027</b>	<b>4,901,430</b>	<b>(43,948,231)</b>	<b>11,827,226</b>

2009	Notes	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
<b>Balance at 1 July 2008</b>		35,714,937	3,630,720	(35,579,266)	3,766,391
Movement in foreign exchange translation reserve	15	-	(29,526)	-	(29,526)
Other comprehensive income		-	(29,526)	-	(29,526)
Loss attributable to members of the company	15	-	-	(4,150,364)	(4,150,364)
<b>Total comprehensive income</b>			(29,526)	(4,150,364)	(4,179,890)
<b>Transactions with equity holders in their capacity as equity holders</b>					
Contributions of equity, net of transaction costs		1,643,236	-	-	1,643,236
Increase in employees share based payments reserve	15	-	374,309	-	374,309
		1,643,236	374,309	-	2,017,545
<b>Balance 30 June 2009</b>		<b>37,358,173</b>	<b>3,975,503</b>	<b>(39,729,630)</b>	<b>1,604,046</b>

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

# Consolidated Statement of Cash Flows

## For the year ended 30 June 2010

		2010	2009
	Notes	\$	\$
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>			
Receipts from trade and other debtors (inclusive of GST)		6,351,083	10,257,072
Interest received		119,996	69,585
Government grants and other receipts		110,664	228,416
Payments to trade creditors, other creditors and employees (inclusive of GST)		(10,918,694)	(12,483,998)
Interest paid		(1,778)	(303)
Net cash outflows from operating activities	25	(4,338,729)	(1,929,228)
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>			
Payments for property, plant and equipment		(54,313)	(85,707)
Net cash acquired via acquisition of subsidiary	19	146,150	-
Payments for intangible assets		(224,959)	(263,063)
Net cash outflows from investing activities		(133,122)	(348,770)
<i>CASH FLOWS FROM FINANCING ACTIVITIES</i>			
Proceeds from issue of shares		7,515,854	1,559,211
Net cash inflows from financing activities		7,515,854	1,559,211
Net increase/(decrease) in cash held		3,044,003	(718,787)
Cash at the beginning of the financial year		695,376	1,443,689
Effects of exchange rate changes on cash		68,400	(29,526)
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	7	<b>3,807,779</b>	<b>695,376</b>

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

# Notes to the Financial Statements

## For the year ended 30 June 2010

### 1. Summary of Significant Accounting Policies

The financial report covers Webfirm Group Limited ("Company") and controlled entities ("Group"). Separate financial statements for Webfirm Group Limited as an individual entity are no longer presented as a consequence of a change to the *Corporations Act 2001*. However limited financial information for Webfirm Group Limited as an individual entity is included in Note 27. Webfirm Group Limited is a listed public company, incorporated and domiciled in Australia. The financial report is for the financial year ended 30 June 2010 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 International Financial Reporting Standards as adopted in Australia. Compliance with Australian Accounting Standards ensures that the financial statements and notes of Webfirm Group Limited comply with International Financial Reporting Standards (IFRS).

##### *Adoption of new and revised standards*

The following new and revised standards have been applied that have impacted on the financial statements:

AASB 101 *Presentation of Financial Statements* (as revised in September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Amendments to AASB 107 *Statement of Cash Flows* specify that only expenditure that results in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

AASB 3 *Business Combinations* (as revised in 2008) has been adopted in the current year. Its adoption has affected the accounting for business combinations in the current period. In accordance with relevant transitional provisions, AASB 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 July 2009.

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention. Cost is on the fair values of consideration given in exchange for assets.

##### *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**

Management continue to invest resources into achieving a significant expansion of the business which includes growing the existing Webfirm division, and also successfully launching the new Adslot division. The group has however incurred net cash outflows from operations of \$4.3m for the year, and management anticipate incurring further net cash outflows from operations until such time as sufficient revenue growth is achieved.

Accordingly the ability of the company to continue as a going concern is dependent upon revenue growth. Developments in the Adslot technology are promising, and it appears highly probable that the Adslot division will be earning revenues in the near future. However should there be an unforeseen delay in the Adslot division's anticipated revenues, the directors believe the company can continue to pay its debts as and when the fall due for the following reasons:

- The group has a cash position as at 30 June 2010 of \$3.8m, combined with current receivables exceeding current payables by \$0.5m;
- Revenue from the Webfirm division is anticipated to grow, however the division is now achieving neutral monthly cash flows from its operations on existing revenue levels; and,
- Management could reduce the level of resources dedicated to expanding the business if so required.

Accordingly the directors believe there exists a reasonable expectation that the company can continue to pay its debts as and when they fall due, and the financial report has been prepared on a going concern basis.

**(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.

*Business combinations*

Acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired business. Acquisition related costs are recognised in profit or loss as incurred.

*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 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 Consolidated Statement of Cash Flows, 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 are 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 profit or loss. 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 Consolidated Statements of Comprehensive Income over the period of the borrowing using the effective interest 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 and annual 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.

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

### *Share-based compensation benefits*

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.

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 arising in a business combination is recognised as an asset at the date that control is acquired (acquisition date). Goodwill is measured 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, platform technology, branding and domains acquired as a result of the acquisition of Webfirm, Webfirm Search and Adslot businesses. Where the useful life is assessed as indefinite, assets are not amortised and 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. For those assets assessed as having a finite life, they are amortised on a straight-line basis over the estimated useful life of the asset. The expected accounting useful life of intellectual property relating to the Adslot business is 5 years.

*Domain name*

Acquired domain names are brought to account at cost, 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. They are 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/ 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 profit or loss on a straight-line basis over the period of lease term.

**(n) 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.

**(o) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. 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.

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

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 Consolidated Statement of Financial Position.

### *Interest revenue*

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably, 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. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income and are amortised on a straight line basis over the expected lives of the assets.

### *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.

### **(p) 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. Acquisition-related costs are expensed as incurred. 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.

### **(q) 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.

### **(r) 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.

**(s) 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.

**(t) 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.

**(u) 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.

**(v) 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 \$8,409,435 (2009: \$2,938,087) after an impairment loss of \$165,025 (2009: \$500,000) was recognised during the current financial year. Refer to Note 10 for further details.

*Share based payments*

The calculation of the fair value of options issued requires significant estimates to be made in regards to several variables such as volatility, dividend policy and the probability of options reaching their vesting period. The estimations made are subject to variability that may alter the overall fair value determined. The share based payment expenses for the year was \$932,809 (2009: \$433,309).

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

### (w) New standards and interpretations issued but not effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 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.

- AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project* makes amendments to some Standards resulting in accounting changed for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. AASB 2009-5 become mandatory for the Group's 30 June 2011 financial statements, but does not represent a change of accounting policy for the Group.
- AASB 2009-8 *Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions* clarifies the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving goods or services when the entity has no obligation to settle the share-based payment transaction. This amendment becomes mandatory for Webfirm's 30 June 2011 financial statements but it is not expected to have any impact on the Group's financial statements.
- AASB 2009-10 *Amendments to Australian Accounting Standard – Classification of Rights Issues* clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rate to all existing owners of the same class of its own non derivative equity instruments. AASB 2009-10 become mandatory for the Group's 30 June 2011 financial statements but is not expected to have any impact on the Group's financial statements.
- AASB 124 (revised December 2009) *Related Party Disclosures*, AASB 2009-12 *Amendments to Australian Accounting Standards* simplifies the definition of related parties, clarifying its intended meaning and eliminating inconsistencies from the definition. AASB 124 (revised December 2009) become mandatory for the Group's 30 June 2012 financial statements but is not expected to have any impact on the Group's financial statements.
- AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards* arising from the AASB 9 sets out requirements for the classification and measurement of financial assets. AASB 2008-6 will become mandatory for the Group's 30 June 2014 financial statements. The Group will apply this revised AASB 2009-11 from 30 June 2014 but it is not expected to have any impact on the Group's financial statements.
- AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* makes amendments to Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. AASB 2009-14 will become mandatory for the Group's 30 June 2012 financial statements. The Group will apply this revised AASB 101 from 30 June 2012 but it is not expected to have any impact on the Group's financial statements.
- Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* will become mandatory for the Group's 30 June 2011 financial statements. The Group will apply this Interpretation 19 from 30 June 2011 but it is not expected to have any impact on the Group's financial statements.



## 2. Segment Information

2010 Business segments	Adslot	Webfirm	Total
<b>Revenue</b>			
External sales	-	5,341,143	5,341,143
Segment result from continuing operations	(943,814)	(1,604,308)	(2,548,122)
Depreciation (note 9)	181	77,703	77,884
Amortisation (note 9)	426,900	107,754	534,654
Additions to non-current assets (PP&E)	-	46,284	46,284
Impairment of intangibles	-	165,025	165,025
<b>Statement of Financial Position</b>			
Segment assets	5,663,447	3,065,511	8,728,958
Segment liabilities	(6,009,633)	(1,996,803)	(8,006,436)

2009 Business segments	Adslot	Webfirm	Total
<b>Revenue</b>			
External sales	-	10,801,422	10,801,422
Segment result from continuing operations	-	(1,767,873)	(1,767,873)
Depreciation (note 9)	-	93,797	93,797
Amortisation (note 9)	-	17,876	17,876
Additions to non-current assets (PP&E)	-	84,102	84,102
<b>Statement of Financial Position</b>			
Segment assets	-	3,879,828	3,879,828
Segment liabilities	-	(3,975,214)	(3,975,214)

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

Revenue	2010	2009
	\$	\$
Total segment revenue	5,341,143	10,801,422
Interest revenue	119,996	69,585
<b>Total revenue from continuing operations</b>	<b>5,461,139</b>	<b>10,871,007</b>

## 2. Segment Information (continued)

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

Segment Result	2010	2009
	\$	\$
Total segment result	(2,548,122)	(1,767,873)
Interest revenue	119,996	69,585
Other income	110,664	228,416
Depreciation of corporate assets	(39,626)	(84,969)
Amortisation of corporate assets	-	(42,008)
Interest expenses	(1,778)	(303)
Impairment of intangibles	-	(500,000)
Share option expenses	(932,809)	(433,309)
Other head office expenses	(926,406)	(1,531,506)
<b>Profit before income tax from continuing operations</b>	<b>(4,218,081)</b>	<b>(4,061,967)</b>

Reportable segment assets are reconciled to total assets as follows:

Segment assets	2010	2009
	\$	\$
Total segment assets	8,728,958	3,879,828
Head office assets	11,656,003	2,517,173
Intersegment eliminations	(6,098,638)	(74,985)
Total assets as per the statement of financial position	14,286,323	6,322,016

Reportable segment liabilities are reconciled to total liabilities as follows:

Segment liabilities	2010	2009
	\$	\$
Total segment liabilities	(8,006,436)	(3,975,214)
Head office liabilities	(452,661)	(738,618)
Intersegment eliminations	6,000,000	(4,138)
Total liabilities as per the statement of financial position	(2,459,097)	(4,717,970)

## Notes to and forming part of the segment information

### Business segments

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

#### *Adslot*

The Adslot business builds and operates large scale 'private electronic marketplaces' for media publishers to sell premium advertising inventory to advertisers and advertising agencies. It uses proprietary mathematical algorithms to maximise yield and relies on a unique patented set of technologies.

#### *Webfirm*

Designing and developing websites, maintenance of the sites, and promoting the websites. Driving on-line users to websites through provision of contextually mapped search advertising and by having its customers found on search engines.

### Accounting policies

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. The only exception is the Adslot segment which has brought to account an asset for the fair value of intellectual property (as determined for consolidation purposes) and a corresponding liability. This asset would ordinarily only be recognised on consolidation. 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 profit represents the profit earned by each segment without allocation of central administration costs and directors' fees, investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. 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 do 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

There are no transfers of revenues, expenses and results between segments.

### 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	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Continuing Operations</b>				
Australia	4,400,073	6,897,981	8,538,568	3,166,772
North America	941,070	3,592,649	-	3,277
South America	-	400,804	-	-
Asia	-	207,989	-	-
<b>Total revenue from continuing operations</b>	<b>5,341,143</b>	<b>11,099,423</b>	<b>8,538,568</b>	<b>3,170,049</b>

	2010	2009
	\$	\$
<b>3. Revenue and Other Income</b>		
<b>Revenue</b>		
Revenue for services rendered	5,341,143	10,801,422
Interest income	119,996	69,585
Total revenue	5,461,139	10,871,007
<b>Other income</b>		
R&D tax offset grant	-	225,878
Export marketing development grant	106,032	-
Sundry income	4,632	2,538
	110,664	228,416
<b>Total revenue and other income</b>	<b>5,571,803</b>	<b>11,099,423</b>

	2010	2009
	\$	\$
<b>4. Expenses</b>		
<b>Loss before income tax includes the following specific expenses:</b>		
Depreciation and amortisation		
Amortisation – Leasehold improvements	14,063	59,884
Amortisation – Software development costs	520,592	-
Depreciation – Plant & Equipment	117,510	178,766
Total depreciation and amortisation	652,165	238,650
<b>Finance costs</b>		
Interest paid/payable to unrelated entities	1,778	303
<b>Other charges against assets</b>		
Impairment of intangibles	165,025	500,000
Impairment of trade receivables	325,410	321,730

	2010	2009
	\$	\$
Rental expense – operating leases	308,706	494,959
Defined contribution superannuation expense	360,591	347,136
Loss on write down of PP&E & leasehold improvements	26,355	262,406
Foreign currency gain	75,283	-

	2010	2009
	\$	\$
<b>5. Income Tax Expense</b>		
<b>(a) Numerical reconciliation of income tax expense to prima facie tax benefit</b>		
Loss before income tax	(4,218,081)	(4,061,967)
Prima facie tax benefit on loss before income tax at 30% (2009: 30%)	(1,265,424)	(1,218,590)
Tax effect of:		
Investment tax credit	-	5,499
Other non-allowable items	212,120	82,985
Share options expensed during year	279,843	112,293
Sundry items	-	(8,321)
Income tax benefit attributable to entity	(773,461)	(1,026,134)
Deferred tax assets relating to tax losses not recognised	773,981	1,114,531
Income tax expense attributable to entity	520	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	(983,028)	244
Tax Losses:		
Operating losses	10,380,494	6,817,284
Capital losses	131,879	131,879
	9,529,345	6,949,407
Potential tax benefit (30%)	2,858,803	2,084,822

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity. The head entity within the tax-consolidated group is Webfirm Group Limited. The members of the tax-consolidated group are identified in note 17.

## 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.

	2010	2009
	\$	\$
<b>7. Cash and cash equivalents</b>		
Cash at bank and on hand	3,807,779	695,376

	2010	2009
	\$	\$
<b>8. Trade and other receivables</b>		
<b>Current:</b>		
Trade debtors	2,452,338	2,574,997
Less provision for impairment	(842,970)	(507,356)
	1,609,368	2,067,641
Other receivables	61,027	129,616
Prepayments	67,498	51,951
Employee loans	2,083	7,383
	1,739,976	2,256,591

### Impairment of trade receivables

The Webfirm 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 \$1,206,818 (2009: \$1,643,712) 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 56 days (2009: 45 days).

### Ageing of trade receivables is as follows:

(a) Ageing of past due but not impaired

	2010	2009
	\$	\$
0 - 30 days	231,639	771,482
30 - 60 days	157,029	655,723
61 - 90 days	75,809	54,986
Over 91 days	742,341	161,521
	1,206,818	1,643,712

## (b) Movement in the provision for impairment

	2010	2009
	\$	\$
Balance at beginning of the year	507,356	249,647
Impairment recognised during the year	423,709	482,388
Amounts written off as uncollectible	(81,986)	(64,021)
Amounts recovered during the year	(6,109)	(160,658)
Balance at the end of the year	842,970	507,356

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.

	2010	2009
	\$	\$
<b>Non-current:</b>		
Employee loans (i)	200,000	200,000
Less provision for impairment	-	-
	200,000	200,000
Receivables – Optum ES Pty Ltd (ii)	1,363,343	2,163,343
Less provision for impairment	(1,363,343)	(2,163,343)
	200,000	200,000

## Movement in the provision for impairment: non-current receivables

	2010	2009
	\$	\$
Balance at beginning of the year	2,163,343	2,163,343
Impairment recognised during the year	-	-
Amounts written off as uncollectible	(800,000)	-
Balance at the end of the year	1,363,343	2,163,343

(i) In the 2009 financial statements this amount was classified as a current receivable. This amount has been reclassified to reflect the correct period in which the balance will be received.

(ii) This represents an amount 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.

	2010	2009
	\$	\$
<b>9. Non-Current Assets – Property, plant and equipment</b>		
Leasehold improvements – at cost	44,460	71,293
Less: Accumulated amortisation	(10,346)	(8,139)
	34,114	63,154
Plant and equipment – at cost	164,685	176,667
Less: Accumulated depreciation	(113,675)	(91,724)
	51,010	84,943
Computer equipment – at cost	269,996	234,697
Less: Accumulated depreciation	(225,987)	(150,832)
	44,009	83,865
Total carrying amount of property, plant and equipment	129,133	231,962

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:

2010	Leasehold Improvements	Plant and Equipment	Computer Equipment	Total
	\$	\$	\$	\$
Carrying amount at 1 July 2009	63,154	84,943	83,865	231,962
Additions	9,822	4,385	40,892	55,099
Disposals/write offs	(24,799)	(478)	(1,078)	(26,355)
Depreciation/amortisation expense	(14,063)	(37,840)	(79,670)	(131,573)
Carrying amount at 30 June 2010	34,114	51,010	44,009	129,133

2009	Leasehold Improvements	Plant and Equipment	Computer Equipment	Total
	\$	\$	\$	\$
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



- (i) During the prior year, the Group carried out a review of the recoverable amount of its non-current assets, having regard to re-location of Webfirm office to head office in Melbourne. This review led to the write off of leasehold costs associated with this office premise and write off of furniture and equipment brought across to head office premises. In addition, fixed assets with zero written down values were removed from fixed assets register.

## 10. Non-Current Assets – Intangible Assets

	Intellectual Property	Domain Name	Goodwill	Internally Developed Software	Customer Contracts	Total
	\$	\$	\$	\$	\$	\$
<b>Year ended 30 June 2010</b>						
Opening net book amount	50,000	100,000	2,500,000	223,062	65,025	2,938,087
Acquisitions	5,932,006	30,805	-	194,154	-	6,156,965
Amortisation	(444,900)	-	-	(75,692)	-	(520,592)
Impairment of assets	-	(100,000)	-	-	(65,025)	(165,025)
Carrying amount at 30 June 2010	5,537,106	30,805	2,500,000	341,524	-	8,409,435
<b>At 30 June 2010</b>						
Cost	9,829,334	280,805	5,132,469	417,216	65,025	15,724,849
Accumulated amortisation/ impairment	(4,292,228)	(250,000)	(2,632,469)	(75,692)	(65,025)	(7,315,414)
Carrying amount at 30 June 2010	5,537,106	30,805	2,500,000	341,524	-	8,409,435
<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

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

### Goodwill

Goodwill relates to the acquisition of Webfirm.

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 it has been allocated to the Webfirm CGU.

The directors have made a considered appraisal of the fair value less costs to sell of the Webfirm CGU for the purpose of its annual goodwill impairment testing. This has included a review of recent actual and forecast future performance of the Webfirm CGU relative to former expectations, and consideration of other external and internal indicators of possible impairment. The directors are satisfied the goodwill as at 30 June 2010 of \$2,500,000 is not impaired.

### Intellectual property

#### *Business names and domain names*

Intellectual property opening balance of \$50,000 relates to the various business names and domain names held as a result of the Webfirm acquisition. The Directors have assessed that this 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 Webfirm CGU (and segment) was reviewed and with sufficient future benefits being expected from the asset, no impairment was required.

#### *Copyright and patent licences*

Adslot Pty Ltd (“Adslot”) holds valuable copyright and patent licences (“Licences”) in respect of Combinatorial Auction Platform Technology (“CAP” or “Core IP”) owned by Enterprise Point Pty Ltd and its controlled entities (“Enterprise”).

Adslot was acquired during the year for \$6,000,000, and at acquisition date, held net tangible assets and liabilities of fair value \$67,994 (see Note 19 Business Combinations). Notwithstanding the Independent Expert’s Report (for the Adslot transaction) included an assessment that the fair value of the Core IP could be as high as \$7,300,000, having regard to the subjective nature of the valuation for this type of asset, the directors have determined the fair value of intellectual property should not exceed the residual value of \$5,932,006. Accordingly the fair value of the Licences to the Core IP has been determined to be \$5,932,006.

The directors have assessed the accounting useful life of the Licences for accounting purposes to be five years. This assessment have given regard to the expected financial benefits of the technology to be potentially well beyond a five year period, together with the risk that competitors could replicate this technology over time, and therefore the potential for the company’s ongoing commitment to research and development of the Core IP.

Accumulated amortisation of this asset as at 30 June 2010 was \$444,900 (2009: nil). The amortisation period of the intangible asset is five years on a straight line basis. The full amount of the amortisation of \$444,900 relates to Adslot segment.

### Domain Name

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

The Directors have assessed that the domain name has now achieved its useful life requiring write down of balance value of this intangible.

### Software

During the year ended 30 June 2010, costs associated with three internally developed software platforms amounting to \$194,154 (2009: \$223,062) have been capitalised in accordance with accounting standards.

The Directors are of the opinion that these software developments have a limited five year useful life and hence have been amortised accordingly by \$93,692 (2009: nil).

### 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 achieved its usefulness after successful integration to Webfirm CGU, resulting in a full amortisation charge for the year of \$65,025 (2009: nil).

	2010	2009
	\$	\$
<b>11. Current liabilities – Payables</b>		
Trade creditors	453,219	2,477,631
Other creditors	693,077	1,201,946
	1,146,296	3,679,577

	2010	2009
	\$	\$
<b>12. Current liabilities – Other</b>		
Unearned revenue (i)	1,175,912	864,893

(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.

	2010	2009
	\$	\$
<b>13. Current Provisions</b>		
Current:		
Employee benefits	124,197	152,733
Non current:		
Employee benefits	12,692	20,767

	2010	2009	2010	2009
	Number	Number	\$	\$
<b>14. Contributed equity</b>				
Ordinary Shares – Fully Paid	491,821,809	138,558,520	50,874,027	37,358,173

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the numbers of shares.

At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholders has one vote on a show of hands.

## 14. Contributed equity (continued)

### Movements in Paid-Up Capital

Date	Details	Number of shares	Issue price	Capital raising costs	Value
		Number	\$	\$	\$
30-Jun-08	Balance	558,314,045		-	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 share - 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)	(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
30-Jun-09	<b>Balance</b>	138,558,520		60,789	37,358,173
28-Jul-09	Share Placement	20,338,720	0.06	57,426	1,162,897
09-Sep-09	Share Placement	39,661,280	0.06	95,187	2,284,490
16-Feb-10	Share Placement	119,135,289	0.035	210,268	3,959,467
16-Feb-10	Issue of shares to sub-underwriters	2,171,429	0.035	-	76,000
16-Feb-10	Issue of shares to Adslot Pty Ltd vendor	171,428,571	0.035	-	6,000,000
14-Apr-10	Employee ESOP shares	528,000	0.0625	-	33,000
30-Jun-10	<b>Balance</b>	491,821,809		423,670	50,874,027

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

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)	Balance at end of the year (Number)
Ordinary options		10/04/11	0.50	2,000,000	-	-	-	2,000,000
Ordinary options		10/04/11	0.50	100,000	-	-	-	100,000
Ordinary options		30/06/12	0.10	6,000,003				6,000,003
Ordinary options		30/06/12	0.10	5,660,000	-	(1,820,000)	-	3,840,000
Ordinary options	(i)	22/10/12	0.09	-	2,000,000	-	-	2,000,000
Ordinary options	(ii)	31/01/13	0.053	-	51,700,000	-	-	51,700,000
Ordinary options	(iii)	31/01/13	0.056	-	15,500,000	-	-	15,500,000
				13,760,003	69,200,000	(1,820,000)	-	81,140,003

- (i) Options issued to a supplier in lieu of cash settlement of account.  
(ii) Options issued to directors at 28 January 2010 EGM. Refer to Note 23 – Key Management Personnel Disclosures  
(iii) Options issued to employees for services rendered. Refer to Note 23 – Key Management Personnel Disclosures

	2010	2009
	\$	\$
<b>15. Reserves and Retained Losses</b>		
<b>Reserves</b>		
Share-based payments reserve	4,937,838	4,005,029
Foreign currency translation reserve	(36,408)	(29,526)
	4,901,430	3,975,503
<i>Share-based payments reserve</i>		
Opening balance	4,005,029	3,630,720
Option expense	932,809	374,309
Closing balance	4,937,838	4,005,029
<i>Foreign currency translation reserve</i>		
Opening balance	29,526	-
Movement on currency translation	6,882	29,526
Closing balance	36,408	29,526

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*.

	2010	2009
	\$	\$
<b>Accumulated losses</b>		
Accumulated losses at the beginning of the financial year	(39,729,630)	(35,579,266)
Net loss attributable to the members of the Company	(4,218,601)	(4,150,364)
Accumulated losses at the end of the financial year	(43,948,231)	(39,729,630)

## 16. Earnings Per Share

	2010	2009
	Cents	Cents
<b>(a) Basic earnings per share</b>		
Loss attributable to the ordinary equity holders of the Company	(1.42)	(3.10)
<b>(b) Diluted earnings per share</b>		
Loss attributable to the ordinary equity holders of the Company	(1.42)	(3.10)

	2010	2009
	\$	\$
<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	(4,218,601)	(4,150,364)

	2010	2009
	Number	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	297,831,081	133,684,230
<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	297,831,081	133,684,230

(i) During 2010 and 2009 there were no discontinued operations or values attributable to minority interests.

	2010	2009
	Number	Number
<b>(f) Weighted average number of shares used as the denominator</b>		
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.	39,985,839	15,337,231

## 17. Consolidated Entities

Name	Country of Incorporation	Ordinary Share Consolidated Equity Interest	
		2010	2009
		%	%
<b>Parent entity</b>			
Webfirm Group Limited	Australia		
<b>Controlled entities</b>			
Ads Alliance Pty Ltd	Australia	100	100
Adslot Pty Ltd	Australia	100	-
Ansearch.com.au Pty Ltd	Australia	100	100
Ansearch Group Services Pty Ltd	Australia	100	100
Webfirm Media Pty Ltd	Australia	100	100
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
Ansearch Inc	United States	0	100

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

Ads Alliance Pty Ltd and Enedia Pty Ltd are non-trading companies.

## 18. Discontinued Operations

There were no discontinued operations during the year ended 30 June 2010.

## 19. Business Combinations

### 2010

#### Adslot Pty Ltd

On 16 February 2010 Webfirm Group Limited acquired 100% of the equity of Adslot Pty Ltd. Adslot designs and operates large scale 'private electronic marketplaces' for media publishers to sell premium advertising inventory to advertisers and advertising agencies. It uses combinatorial auction technology to maximise yield in publisher's premium advertising inventory. The acquisition costs relating to this acquisition were \$151,219 which has been included in the legal fees, salaries and employment related costs and other expense lines in the Statement of Comprehensive Income.

The acquired business contributed no revenue and a net loss of \$1,370,512 to the Group for the period from 16 February 2010 to 30 June 2010. These amounts have been calculated using the Group's accounting policies.

The amount of revenue and losses for the combined entity calculated had the acquisition occurred on 1 July 2009 would have been no revenue and a net loss of \$1,957,484.

## 19. Business Combinations (continued)

The purchase consideration was made up entirely of equity and was settled as follows:

<b>Paid 16 February 2010</b>	
Equity - 171,428,571 fully paid ordinary shares @ 3.5 cents per share	6,000,000
<b>Total consideration</b>	<b>6,000,000</b>

Details of net assets acquired and technology platform intellectual property are as follows:

	Acquiree's Carrying Amount	Fair Value	
	\$	\$	\$
Purchase consideration			6,000,000
Fair value of net identifiable assets acquired			
Cash and cash equivalents	146,150	146,150	
Sundry debtors	182,305	182,305	
Property, plant and equipment	786	786	
Development costs	240,000	-	
Intellectual property - technology platform	-	5,932,006	
Employee benefits	(9,240)	(9,240)	
Payables	(252,007)	(252,007)	
<b>Net identifiable assets acquired</b>	<b>307,994</b>	<b>6,000,000</b>	<b>6,000,000</b>
Excess of purchase consideration over the fair value of identifiable net assets acquired			-

The directors determined the fair value attributable to technology platform intellectual property was \$5,932,006 (Note 10).

The directors have assessed the recoverable amount of intellectual property in accordance with AASB 136 *Impairment of Assets* as outlined in Note 10.

### Statement of Cash Flows

For the purposes of the statement of cash flows, the acquisition resulted in net cash acquired of \$146,150.

### 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 (note 10)



## 20. Contingencies

No contingent assets or liabilities are noted.

	2010	2009
	\$	\$
<b>21. 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	341,095	290,936
Between 1 and 5 years	446,579	648,939
	787,674	939,875

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 Statement of Financial Position.

	2010	2009
	\$	\$
<b>22. 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	85,000	93,000
<b>Non-audit services</b>		
Related practice of auditor: taxation compliance services	-	19,500

## 23. Key Management Personnel Disclosures

### *Directors*

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

Name	Position
Mr Adrian Giles (Executive Chairman)	(Chairman from 8 October 2009)
Mr Andrew Barlow (Executive Director)	(resigned as Chairman and Director on 8 October 2009 and then appointed Director on 16 February 2010)
Mr David Burden (Managing Director)	
Mr Adrian Vanzyl (Non-executive Director)	
Mr Anthony Du Preez (Executive Director)	(appointed 22 February 2010)

## 23. Key Management Personnel Disclosures (continued)

### 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 31 August 2009)
Mr Josh Edis	Global Head of “Search” – Searchworld Pty Ltd (resigned 31 October 2009)
Mr Steve Jones	General Manager – Webfirm Media Pty Ltd (resigned 8 April 2010)
Mr Damian Element	Co Sec / Chief Financial Officer – Group (resigned 28 May 2010)
Mr Gavan Flower	Co Sec / Chief Financial Officer – Group (appointed 24 May 2010)
Mr Mathew Chamley	Regional General Manager Webfirm P/L (appointed 28 July 2009)

### Key management personnel compensation

	2010	2009
	\$	\$
Short-term employee benefits	1,245,032	1,603,213
Post-employment benefits	74,191	54,877
Other long-term employee benefits	(11,252)	11,252
Termination benefits	81,277	-
Share based payments	952,058	359,528
<b>Total compensation</b>	<b>2,341,306</b>	<b>2,028,870</b>

### 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)
2010	205,543	-	145	(5,688)	200,000	1
2009	-	212,000	643	(7,100)	205,543	2

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

2010	Balance at beginning \$	Loans granted \$	Interest charged \$	Amounts repaid \$	Balance at end \$	Highest in period \$
D. Burden	200,000	-	-	-	200,000	200,000
<b>2009</b>	-	-	-	-	-	-
D. Burden	-	200,000	-	-	200,000	200,000

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 5.85% for the year ended 30 June 2010, was \$11,700. 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:

2010 Name	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)
<i>Directors</i>						
Mr A Giles	2,000,001	11,800,000	-	-	13,800,001	7,900,001
Mr A Barlow	4,000,001	7,900,000	-	-	11,900,001	7,950,001
Mr D Burden	-	13,000,000	-	-	13,000,000	6,500,000
Mr A Vanzyl	2,000,001	7,000,000	-	-	9,000,001	5,500,001
Mr A Du Preez	-	8,500,000	-	-	8,500,000	4,250,000
<i>Other key management personnel</i>						
Mr D Element	1,200,000	3,500,000	-	-	4,700,000	4,300,000
Mr J Edis	1,200,000	-	-	-	1,200,000	800,000
Mr A Beecher	1,200,000	-	-	-	1,200,000	800,000
Mr S Jones	1,200,000	600,000	-	-	1,800,000	800,000
Mr M Chamley	-	4,000,000	-	-	4,000,000	-
Mr G Flower	-	-	-	-	-	-
<b>Totals</b>	<b>12,800,003</b>	<b>56,300,000</b>	<b>-</b>	<b>-</b>	<b>69,100,003</b>	<b>38,800,003</b>

2009 Name	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)
<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

## 23. Key Management Personnel Disclosures (continued)

### 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.

2010 Name	Held at 1 July 2009	Received during the year on exercise of options	Received during the year as compensation	Net other changes during the year	Held at 30 June 2010
<b>Ordinary shares</b>					
<i>Directors</i>					
Mr A Giles	3,882,962	-	-	11,179,910	15,062,872
Mr A Barlow	5,418,064	-	-	51,722,069	57,140,133
Mr D Burden	4,484,065	-	-	1,416,666	5,900,731
Mr A Vanzyl	1,155,833	-	-	1,008,444	2,164,277
Mr A Du Preez	-	-	-	12,968,051	12,968,051
<i>Other key management personnel</i>					
Mr J Edis	414,286	-	-	(414,286)	-
Mr A Beecher	294,286	-	-	(294,286)	-
Mr S Jones	14,286	-	16,000	-	30,286
Mr D Element	795,091	-	-	-	795,091
Mr M Chamley	-	-	16,000	213,089	229,089
Mr G Flower	-	-	-	-	-
Totals	16,458,873	-	32,000	77,799,657	94,290,530

2009 Name	Held at 1 July 2008	Received during the year on exercise of options	Received during the year as compensation	Shares acquired during the year (pre consolidation)	Share Consolidation	Shares acquired during the year (post consolidation)	Held at 30 June 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 management 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
Totals	24,191,944	-	285,712	48,049,997	(58,314,020)	2,245,240	16,458,873

## 24. Share Based Payments

### 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 2009 annual general meeting, executives and senior employees were granted options to purchase parcels of ordinary shares at an exercise price of 5.6 cents 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.

The vesting dates of the two option tranches of executives and senior employees are 16 February 2011 and 16 February 2012. Both tranches are based the individual remaining an employee of the Group who has not provided notice of termination of employment on the date of vesting. The board considered these conditions appropriate to ensure the objective to maintain key staff within the Company.

The Executive provided with options during the year under these conditions was Mr Mathew Chamley (4,000,000 options) and expire on 31 January 2013 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 5.6 cents.

The Company has valued these options in accordance with accounting standards. The total value of these options was assessed at \$92,400. On the assumption that the executives remains employed with the Company beyond the vesting dates for the options, the amount remaining to be expensed in future years is \$66,459.

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.

3,500,000 options were issued to Mr. Damian Element with an expiry date of 31 January 2013 in recognition for service to the company. These options have an exercise price of 5.3 cents and vested on 16 February 2010.

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 services rendered.

### Other Options Issued

During the year the company issued 2,000,000 options as consideration for services provided to a third party supplier. The value of these options has been determined to be \$20,000 which was the agreed price for the services provided.

### 2010

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	0.50	2,000,000	-	-	-	-	2,000,000	2,000,000
01/04/08	10/04/11	0.50	100,000	-	-	-	-	100,000	100,000
27/08/08	30/06/12	0.10	5,660,000	-	-	-	(1,820,000)	3,840,000	3,673,333
23/09/08	30/06/12	0.10	6,000,003	-	-	-	-	6,000,003	6,000,003
21/10/09	22/10/12	0.09	-	2,000,000	-	-	-	2,000,000	2,000,000
16/02/10	31/01/13	.053	-	51,700,000	-	-	-	51,700,000	27,600,000
16/02/10	31/01/13	.056	-	15,500,000	-	-	-	15,500,000	-
<b>Total</b>			13,760,003	69,200,000	-	-	(1,820,000)	81,140,003	41,373,336
<b>Weighted average exercise price</b>			\$0.161	\$0.055	-	-	\$0.10	\$0.072	\$0.088
Weighted average remaining contractual life at 30 June 2010 (days)								897	

## 24. Share Based Payments (continued)

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	30/06/09	0.75	7,500,000	-	-	(7,500,000)	-	-	-	-
30/06/07	30/06/09	0.50	5,000,000	-	-	(5,000,000)	-	-	-	-
30/06/07	30/06/09	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>
Weighted average exercise price			\$0.156	\$0.020	-	\$0.129	\$0.187	\$0.032	\$0.161	\$0.238
Weighted average remaining contractual life at 30 June 2009 (days)									1,027	

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

Options are valued using the Binomial option pricing model. The model inputs for options granted during the year ended 30 June 2010 included:

Model Input	Class #1	Class #2	Class #3	Class #4
Grant Date	16/02/10	16/02/10	16/02/10	16/02/10
Exercise Date	16/02/10	01/02/11	16/02/11	16/02/12
Expiry Date	31/01/13	31/01/13	31/01/13	31/01/13
Exercise Price	\$0.053	\$0.053	\$0.056	\$0.056
Price at Grant Date	\$0.04	\$0.04	\$0.04	\$0.04
Expected Volatility	100.4%	100.4%	100.4%	100.4%
Expected Dividend Yield	0%	0%	0%	0%
Risk Free Interest Rate	4.76%	4.76%	4.76%	4.76%

The volatility calculation is based upon historical share price information of the Company from the commencement of the Adslot acquisition within the Group (16 February 2010) up to the end of the 2010 financial year.

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
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.

	2010	2009
	\$	\$
<b>25. Cash Flow reconciliation</b>		
<b>Reconciliation of Net Cash Flows from Operating Activities to Loss for the year</b>		
Loss for the year after income tax	(4,218,601)	(4,150,364)
Depreciation and amortisation	652,165	238,650
Impairment of intangibles	165,025	500,000
Share based payment	932,809	433,309
Impairment of receivables	325,410	321,730
Loss on asset write off	26,355	262,406
Unrealised foreign currency gain	(75,283)	-
Changes in assets and liabilities (net of effects of acquisition and disposal of entities)		
Decrease/(Increase) in receivables	373,510	(1,344,445)
(Decrease)/Increase in payables and other provisions	(2,520,119)	1,809,486
Net cash outflow from operating activities	(4,338,729)	(1,929,228)

## 26. 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 below (Note 26(d)).

## 26. Financial Risk Management (continued)

### (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 Consolidated Statement of Financial Position 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:

	2010	2009
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	3,807,779	695,376
Trade and other receivables	1,939,976	2,456,591
Total	5,747,755	3,151,967

### (c) Liquidity risk

	2010	2009
	\$	\$
<b>Financial liabilities</b>		
Trade and other payables	1,146,296	3,679,577

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).

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's net profit would increase by \$9,450 and decrease by \$2,058 (2009: increase by \$10,118 and decrease by \$13,042). This is mainly attributable to the Group's exposure to interest rate on its bank balances bearing variable interest rates.



**(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.

**27. Parent Entity Information**

The following details of information are related to the parent entity, Webfirm Group Limited, at 30 June 2010. This information has been prepared using consistent accounting policies as presented in Note 1.

	2010	2009
	\$	\$
Current assets	3,672,805	456,271
Non-current assets	11,771,358	2,019,745
<b>Total assets</b>	<b>15,444,163</b>	<b>2,476,016</b>
Current liabilities	241,668	477,048
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>241,668</b>	<b>477,048</b>
Contributed equity	50,874,027	37,358,173
Share-based payments reserve	4,937,838	4,005,029
Retained losses	(40,609,370)	(39,364,234)
<b>Total equity</b>	<b>15,202,495</b>	<b>1,998,968</b>
Loss for the year	(1,245,136)	(2,322,399)
<b>Total comprehensive loss for the year</b>	<b>(1,245,136)</b>	<b>(2,322,399)</b>

The capital commitments Note 21 includes commitments incurred by the parent entity related to lease of the head office premises at 23 Union Street, South Melbourne for an amount of \$189,267 (2009: \$271,913).

**28. Events Subsequent to Reporting Date**

On 8 July 2010 it was announced that the company had completed the acquisition of Adimise Pty Ltd and Full Circle Online Pty Ltd for the consideration of 4,285,714 shares (escrowed for 12 months) and a performance-based earn out capped to a total of \$150,000 over the next three years.

On 12 August 2010 it was announced that the company intends to purchase 100% of the shares in QDC IP Technologies Pty Ltd, for the issue of 40,000,000 ordinary shares with a minimum value of \$4,000,000. QDC IP Technologies owns the intellectual property for a key component of the Adslot Direct Platform, the next stage in the development of the Adslot business. Amongst other applications, it will enable advertisers to build a banner advertisement, increasing demand, and subsequently yield, on the Adslot platform.

The approval of this acquisition remains subject to approval by shareholders at the Extraordinary General Meeting to be held in October 2010 therefore the disclosure requirements of AASB 3 have not been included in the financial statements.

# Director's Declaration

The directors declare that the financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, as set out on pages 20 to 66 are in accordance with the Corporations Act 2001 and:

- (a) comply with Australian Accounting Standards the Corporations Regulations 2001 and other mandatory professional reporting requirements in Australia;
- (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
- (c) the company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

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 7 to 16 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.



**Adrian Giles**

Chairman  
Webfirm Group Limited

26 August 2010



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## INDEPENDENT AUDITOR'S REPORT

To the members of Webfirm Group Limited

We have audited the accompanying financial report of Webfirm Group Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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 opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. The independence declaration required by the *Corporations Act 2001* was given to the directors at the time that this auditor's report was made.



### Auditor's Opinion

In our opinion the financial report of Webfirm Group Limited is in accordance with the *Corporations Act 2001*, including:

- (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 consolidated entity's financial position as at 30 June 2010 and of its 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
- (a) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Report on the Remuneration Report

We have audited the Remuneration Report included on page 7 to 16 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

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

**Michael Climpson**  
Director

Melbourne, Victoria

Dated this 26<sup>th</sup> day of August 2010

# Corporate Governance Statement

The directors of Webfirm Group 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 Board seeks to ensure that its membership represents an appropriate balance between directors with experience and knowledge of the company, and directors with an external or fresh perspective, and that the size of the board is conducive to effective discussion and efficient decision making.

The board currently comprises of five board members, four of which are not considered independent directors, namely Mr Andrew Barlow, Mr Adrian Giles, Mr David Burden and Mr Anthony Du Preez. The only independent director is Mr Adrian Vanzyl.

As such, this composition is not in accord with ASX corporate governance principles 2.1 and 2.2. However, the board considers that the individuals on the board can and do make quality and independent judgements in the best interest of the company on all relevant issues.

The role of chair and chief executive officer are held by different individuals.

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 five 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 perform 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 as both were independent non-executive directors at that time. However, with the changing of roles for Mr. Giles to Executive Chairman, the audit and risk committee's role is again being performed by the board collectively, until such time as further non-executive directors can be added to the board.

The board continues to have the power to make call upon the attendance of the CEO, CFO, the external auditor or any other person to the meeting from time to time. The directors also have access to professional advisors who provide advice and assistance as requested by the directors.

Compliance with accounting and financial reporting standards and procedures are subject to board review and review by the external auditors. The non-executive director has direct access to the external auditor and is permitted to make such enquiries of the auditor as he feels 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.

# 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 24th August 2010.

Distribution of equity securities	Ordinary Shares		Options	
	Number of Holders	Number of Shares	Number of Holders	Number of Options
The number of shareholders by size of shareholding in each class of shares are:				
1 – 1,000	96	13,388	-	-
1,001 – 5,000	243	732,550	-	-
5,001 – 10,000	385	3,102,343	-	-
10,001 – 100,000	1,066	38,165,327	-	-
100,001 +	431	454,093,915	21	82,300,003
TOTAL	2,221	496,107,523		
The number of shareholders holding less than a marketable parcel of shares (3,125 shares):				
	224	270,769	-	-

Twenty largest shareholders	Listed Ordinary Shares	
	Number of Shares	% of Shares
The names of the twenty largest holders of quoted shares are:		
1 VENTURIAN PTY LTD <MAVERICK INNOVATION A/C>	51,722,069	10.43
2 UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	48,875,015	9.85
3 FINICO PTY LIMITED	41,571,874	8.38
4 MR ANTHONY DU PREEZ + MRS GEORGINA DU PREEZ <DU PREEZ FAMILY A/C>	12,968,051	2.61
5 YARRA VENTURES PTY LTD <GILES SHARE A/C>	8,706,577	1.75
6 SOMNUS PTY LTD <SOMNUS SUPERANNUATION A/C>	8,500,000	1.71
7 ANDAMA HOLDINGS PTY LTD <J & M BARLOW PENSION FUND AC>	7,920,853	1.60
8 PHILIP MURPHY INVESTMENTS PTY LTD <P & J MURPHY S/F A/C>	7,364,838	1.48
9 ALCATT PTY LTD <TRUSTCAT INVESTMENT A/C>	7,147,902	1.44
10 MR DONALD WILLIAM HOWELL + MRS SUZANNE MARGARET HOWELL <HOWELL FAMILY SUPER FUND A/C>	6,900,000	1.39
11 CAPITAL ACCRETION PTY LTD <THE FORTIFIED VALUE A/C>	6,000,000	1.21
12 GILES SHARE INVESTMENTS PTY LTD <GILES SHARE A/C>	5,569,629	1.12
13 ANDAMA HOLDINGS PTY LTD <J & M BARLOW PENSION A/C>	5,509,444	1.11
14 VENTURIAN PTY LTD <MAVERICK INNOVATION A/C>	4,769,962	0.96
15 SISUG PTY LTD <SISU SUPERANNUATION FUND A/C>	4,713,468	0.95
16 K PAGNIN SUPERANNUATION PTY LTD	4,500,000	0.91
17 MR RYAN KEITH HANSON	4,066,000	0.82
18 QATO INVESTMENT MANAGERS PTY LTD <GRAND CRU A/C>	4,033,575	0.81
19 COTU INVESTMENTS PTY LTD <COTU SUPER FUND A/C>	4,000,000	0.81
20 MR NORMAN ABBY ASCH + MS GAEL ASCH <ASCH SUPER FUND A/C>	3,221,071	0.65
<b>Total Top 20 holders of Ordinary Shares</b>	<b>248,060,328</b>	<b>50.00</b>
<b>Remaining holders balance</b>	<b>248,047,195</b>	<b>50.00</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	41,571,874	8.38%
Andrew Barlow	57,140,133	11.52%

## Voting Rights

All ordinary shares carry one vote per share without restrictions.

# Corporate Directory

## Directors

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

## Chief Executive Officer

Mr David Burden

## Company Secretary

Mr Gavan Flower

## 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 Audit (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



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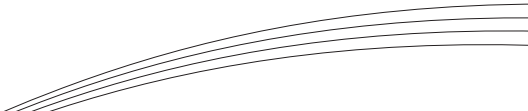
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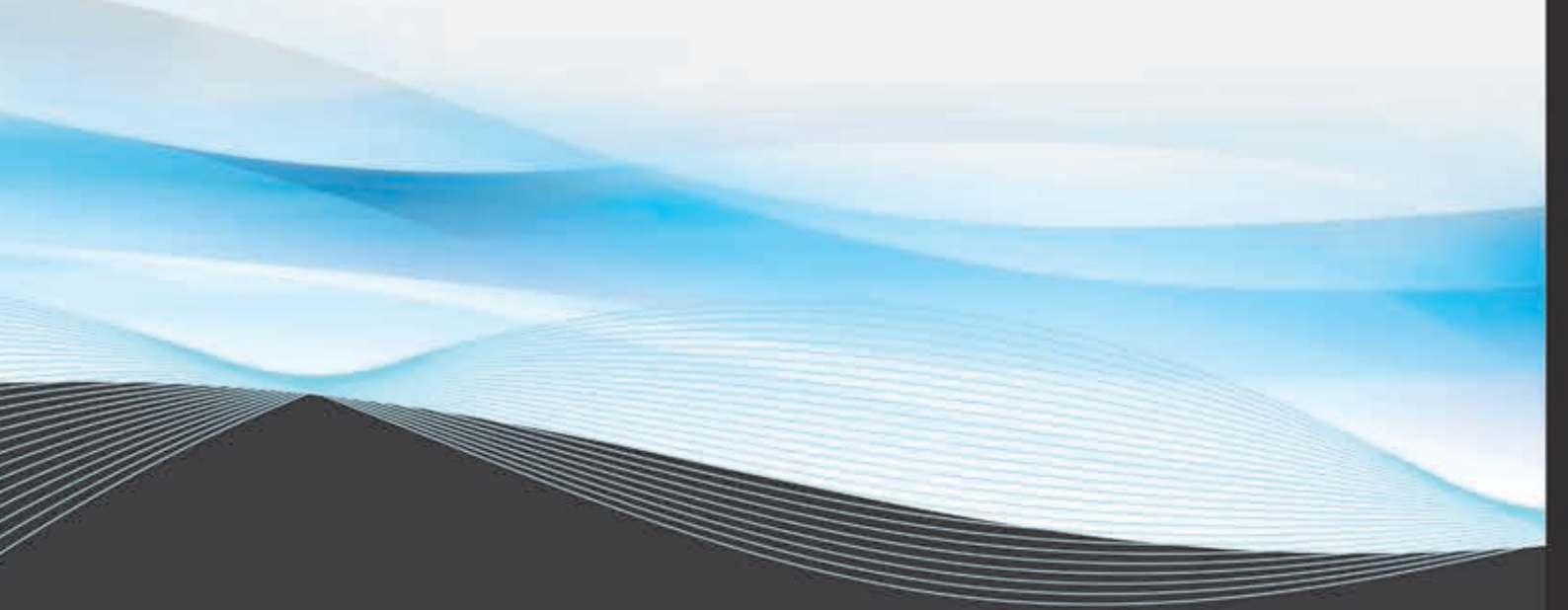
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**WEBFIRM GROUP LIMITED**

23 UNION SOUTH MELBOURNE  
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