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WEBSPY LIMITED
ABN 60 066 153 982
AND CONTROLLED ENTITIES

2008 FINANCIAL REPORT

WEBSPY LIMITED
ABN 60 066 153
AND CONTROLLED ENTITIES
CORPORATE DIRECTORY

DIRECTORS

Mr Jack Andrys – Chief Executive Officer/Managing Director
Mr Tom McGellin – Executive Director
Mr William Brooks – Non-Executive Director
Mr John Chua – Non-executive Director
Mr Francis Galbally – Non-executive Director

COMPANY SECRETARY

Mr Anthony Ho

REGISTERED OFFICE IN AUSTRALIA

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NORTH AMERICA

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Telephone: 1-206-575-7763
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AUDITORS

WHK Horwath Perth Audit Partnership
Level 6, 256 St George's Terrace
PERTH WA 6000

SHARE REGISTRAR

Security Transfers Registrars Pty Ltd
Alexandrea House, Suite 1, 770 Canning Highway
APPLECROSS WA 6153
Telephone: 61 8 9315-2333
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STOCK EXCHANGE

Australian Securities Exchange Limited
Exchange Plaza, 2 The Esplanade
PERTH WA 6000

ASX CODE

WSY – Ordinary Shares

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WEBSPY LIMITED
ABN 60 066 153 982
AND CONTROLLED ENTITIES
CHIEF EXECUTIVE OFFICER'S LETTER

Fellow Shareholders,

It is pleasing to report another year of profit for the Company of \$1,663,257 achieved largely as a result of the sale of the Netlink business during the year. I would like to once again, record my appreciation to our loyal staff and partners both present and past for their efforts during this past year. I also thank our long term shareholders in continuing to support the Company and its activities.

As a result of the sale of the Netlink business, the Company has expanded its working capital resource and the directors are presently reviewing a number of investment opportunities. The recently appointed directors to the board have substantial corporate and investment advisory experience and contacts and we are looking forward to receiving their input in this objective.

The Company made a number of achievements during the year with its products and these included:

- Winning the Western Australian iAward in the category of Application & Infrastructure as awarded by the Australian Information Industry Association (AIIA);
- Being named a finalist for a "Best of Tech-Ed 2008 IT Professional Awards" in the Business Intelligence Category at Microsoft's Tech-Ed event in Orlando Florida; and
- attaining Gold Certified Partner status in the Microsoft Partner Program, with a competency in ISV/Software.

The Company will remain focus on growing its software activities but will also dedicate appropriate resources to reviewing investment opportunities that are capable of contributing substantial growth in shareholder value.

We look forward to an exciting year ahead.

Yours sincerely,



Jack Andrys
Chief Executive Officer
Managing Director
WebSpy Ltd

26 September 2008

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WEBSPY LIMITED
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AND CONTROLLED ENTITIES
OPERATIONAL REVIEW

OPERATING REVIEW – WebSPY

An encouraging turnaround in the performance of our European and Americas regions helped the business unit make a positive financial contribution to the reporting entity. Even during challenging economic times in the United States and the United Kingdom, the WebSpy business unit managed to increase Net product sales for the year by 22% in Europe and 10% in the Americas. Profit margins were impacted though as a result of the strength of the Australian dollar against US and UK currencies throughout the year, bringing down net contribution from 11% to just 1% after conversions.

The top three performing countries are the US, UK and Australia contributing around 65% of our sales. These are the markets that offer the most potential. Analysis of our target enterprises within these major countries show that currently we have penetrated around 9% of the Australian market, 5% of the United Kingdom market and 2% of the United States market.

New customers globally contributed 51% of our sales with the remaining 49% coming from maintenance and additional business in existing customer accounts.

We are now seeing trends emerging that the risks and costs associated with internet misuse are pain areas that organizations need to address. As managers, particularly in the US and UK are asked to do more with less resource, they have to look at ways of ensuring that their web investments are used responsibly. Major security software vendors are also recognizing that their solutions may have gaps and as such more and more of them are working much closer with us and recommending our products to their customers.

The emergence of social networking sites such as Facebook and Myspace as well as further growth of the web in general should see demand for our products grow as organizations are more conscious in taking responsibility for the actions and uses of company resources. Ratings provided by Nielsen//NetRatings put the current (June 2008) global internet population at 1.463 Billion, up from 1.173 Billion or an increase of 23% in one year.

As we move forward into 2008 and 2009 we will continue to refine and augment the products we are bringing to the market. Our new Vantage platform is now proven as a reliable and cost effective solution for organizations addressing common issues. Our focus for the coming years remains the maximization of sales through better channel management and expansion of our sales and marketing teams.

Global Marketing & Sales

During the year, we have bolstered our marketing by adding to the team and also through investments in search engine marketing as well as attendance of key trade shows. Highlights for the year were:

- Attainment of Microsoft Gold Partner certification which puts WebSpy in the top tier of partnering with Microsoft.
- Version 2 of our flagship product Vantage was released in September 2007. The product went on to generate 34% of all new product sales for the year.
- Attendance of Tech*Ed 2008 in June 2008 in Florida, the premier global Microsoft technical trade show. The show generated good sales prospects as well as expanded our market awareness.
- Vantage 2 was a finalist in the "Best of Tech*Ed 2008 IT Professional awards held in Orlando, Florida.
- The WebSpy solution, ISA (Internet Security and Acceleration) Server Suite, which runs in conjunction with Microsoft's ISA Server, also won an ISAServer.org Readers Choice award as the first runner up for reporting against ISA.
- New releases of our Analyzer and LIVE products were made generally available in October and November of 2007
- In February 2008 we announced a Beta version of the Vantage web product. This enables organizations to deploy the solution in a controlled manner, allowing managers to access information from anywhere.

Some of our key marketing initiatives for the current year will include the re-development of our website, which is core to our business, expansion of our search engine marketing, attendance of a major trade show in Europe and introduction of partner programs designed to encourage and reward partners who make commitments to working with us in growing sales of WebSpy products.

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OPERATIONAL REVIEW (CONT'D)

Product Innovation

In October 2007 we held a products innovation workshop with attendance by key marketing, sales and development personnel and executives. The workshop mapped out the strategy for product development over the coming two to three year horizon. Using industry market trends, client input and sales input from the regions, the development team was then able to compile a more detailed product roadmap taking us to 2009.

The release of Vantage 2 was well received by the market and industry as testified by a number of awards received as well as the general take-up from existing and new customers. The extension of this product during the year to incorporate web based reporting will unlock further opportunities in larger, more distributed organizations, that wish to provide secure managed reporting down to line management and individuals.

The increasing focus by industry in the security information and event management space will no doubt see increasing competition for reporting and analysis. Our innovative solutions are recognized world-wide for their ease of use, scalability to analyze very large log files and easy integration to third-party solutions. The further development of our Vantage platform will see us stay ahead of competition in this area and our product marketing initiatives will help to drive awareness in the market.

Lagis Zavros
COO WebSpy Business Unit

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WEBSPY LIMITED
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DIRECTORS' REPORT

The Directors present their Report together with the financial report of WebSpy Limited (the "Parent Entity") and of the Economic Entity, being the Company and its controlled entities, for the year ended 30 June 2008 and the auditor's report thereon.

Directors

The Directors of the economic entity at any time during or since the end of the financial year are:

Managing Director – Mr Jack Andrys (appointed 16 August 1999)

Mr Andrys was appointed to the Board on 16 August 1999 as WebSpy's Chief Executive Officer and Managing Director, prior to which he was Netlink's Managing Director and founder. Mr Andrys has worked in the information technology industry since 1992 and founded Netlink in 1994. Prior to this he spent a decade working in the oil and gas industry, initially as a commercial diver and finally as the Operations Co-ordinator of Australia's largest underwater intervention services provider, Contract Diving Services.

Executive Director – Mr Tom McGellin (appointed 28 May 2004)

Mr McGellin was a founding partner and director of Netlink WA Pty Ltd from 1994 to 1999 when it was acquired by WebSpy Ltd. Subsequent to this he became active and familiar with the Company's products and management team in his role as a past director of one of WebSpy's wholly owned subsidiaries. Mr McGellin is currently a director of other non listed public companies.

Non-Executive Director – Mr William Brooks (appointed 23 May 2008)

Mr Brooks has been involved in the exploration and mining industry for over 20 years and has substantial interests in the hospitality industry, developing and owning a successful motel business.

Mr Brooks currently holds a non executive position on the board of Reward Minerals Ltd. Mr Brook's board and investor experience in both listed and private firms will be used to review shareholder value in the Company.

Non-Executive Director – Mr Francis Galbally (appointed 21 July 2008)

Mr Galbally is a director of Novus Capital Pty Ltd, a specialist corporate advisory business based in Melbourne. Mr Galbally has significant experience with listed companies in Australia particularly in the IT, finance and property industries. He was the chairman and CEO of Senetas Corporation Ltd, an ASX 300 company and a leading supplier of high speed network encryption technology servicing organisations such as the ATO, Australian Federal Police, US Department of Defence, NAB, Westpac etc. Mr Galbally has also over 20 years of experience as a barrister and solicitor prior to his current principal activity as a corporate advisor.

Non-Executive Director – Mr John Chua (appointed 21 July 2008)

Mr Chua is a director and CEO of Kim Hin Industry Berhad, one of Malaysia's leading ceramic products manufacturers listed on Bursa Malaysia (formerly the Kuala Lumpur Stock Exchange). Mr Chua is a graduate in Arts (Economics) with honours from the University of Warwick in the United Kingdom. He has extensive corporate and management experience in the ceramic industry having worked in Kim Hin Industry for over 25 years.

Non-Executive Director – Mr Joseph Chua (appointed 30 November 2001, resigned 21 July 2008)

Company Secretary – Mr Anthony Ho (appointed 10 April 1996)

Mr Ho graduated in 1980 with a Bachelor of Commerce from the University of Western Australia. He qualified as a Chartered Accountant in 1983. Mr Ho is presently the principal of a public practice providing corporate and financial services to companies listed on the ASX.

WEBSPY LIMITED
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 AND CONTROLLED ENTITIES
 DIRECTORS' REPORT (CONT'D)

Directors' Meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Parent Entity during the financial year are:

Director	Board Meetings	
	Held while Director	Attended
Mr Jack Andrys	6	6
Mr Tom McGellin	6	6
Mr Joseph Chua	6	3

The size of the Parent Entity is such that an audit committee is not considered warranted. All audit matters are considered by the Board of Directors.

Directorships of Other Listed Companies

Directorships of other listed entities held by directors of the Company during the 3 years immediately before the end of the year are as follows:

Director	Company	Period of directorship	
		From	To
Mr William Brooks	Reward Minerals Ltd	March 2003	Present
Mr Francis Galbally	Senetas Corporation Ltd	May 1999	23 May 2007

Principal Activity

The principal activity of the parent and economic entity during the course of the financial year was software development, sales and the provision of services. There have been no changes in this activity since the previous year.

Results

The result of the economic entity for the year ended 30 June 2008 was a profit after income tax of \$1,663,257 (2007: \$387,131).

The result of the parent entity for the year ended 30 June 2008 was a profit after income tax of \$1,969,144 (2007: \$86,603).

Operating and Financial Review

Investments for Future Performance

The economic entity remains in the development phase of its business. During the year ended 30 June 2008, significant costs were incurred in ongoing sales and marketing efforts in both the Australian and key overseas markets including the United States and Europe. The continuing costs of marketing and development were incurred and expensed during the year.

Impact of legislation and other external requirements

The economic entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the economic entity has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the economic entity.

There were no changes in environmental or other legislative requirements during the year that have significantly affected the results or operations of the economic entity.

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DIRECTORS' REPORT (CONT'D)

Significant Changes in the State of Affairs

There was an increase in net working capital of \$1,661,181 (from \$509,891 to \$2,171,072) during the financial year.

In May 2008 the group sold its non-core business unit, Netlink Inspection Pty Ltd, to Wood Group for \$2,000,000 cash.

Dividends

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this Report.

Significant Changes in the State of Affairs

Other than the matters set out above, there were no significant changes in the state of affairs of the economic entity during the financial year.

Events Subsequent to Balance Date

There are no events subsequent to balance date that would have a material financial effect on the financial statements for the year ended 30 June 2008.

Likely Developments

The economic entity will continue with its software development and sales business in Australia, the United States and Europe. Future prospects and business strategies of the operations of the economic entity and the expected results of those operations have not been included in this report as the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the economic entity.

Environmental Regulation

The economic entity's operations are not subject to any significant environmental regulations under United States, Europe, Commonwealth or State legislation. However, the directors believe that the economic entity has adequate systems in place for the management of its environmental regulations and are not aware of any breach of those environmental requirements as they apply to the economic entity.

Directors' Interests

The relevant interest of each director in the shares and options in the Company at the date of this report, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, is as follows:

<i>Director</i>	<i>Shares</i>	<i>Options</i>
Mr Jack Andrys	8,753,878	-
Mr Tom McGellin	6,075,886	-
Mr John Chua	13,695,167	-
Mr William Brooks	6,829,235	-
Mr Francis Galbally	-	-

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WEBSPY LIMITED
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DIRECTORS' REPORT (CONT'D)

Share Options

Options granted

During or since the end of the financial year, no options were granted.

Unissued shares under option

At the date of this report, there are no unissued ordinary shares of the Parent Entity under option.

Shares issued on exercise of options

During or since the end of the financial year, there were no ordinary shares issued as a result of the exercise of options.

Options granted to directors and officers of the Company

No options have been granted to directors and officers of the Parent Entity during or since the end of the financial year.

Lapse of Options

During or since the end of the financial year, the following options lapsed:

Expiry Date	Exercise Price	Number of Options	Category
31 December 2007	\$0.07	8,000,000	Director

Indemnification and insurance of directors

Indemnification

The Parent Entity has agreed to indemnify the directors of the Parent Entity against all liability to another person (other than the Parent Entity or any related body corporate) that may arise from their position as directors of the Parent Entity and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

The Parent Entity has also agreed to cover liability for costs and expenses incurred in successfully defending civil or criminal proceedings, or in connection with a successful application for relief under the Corporations Act 2001. It also provides indemnity against costs and expenses in connection with an application where a court grants relief to a director under the Corporations Act 2001.

Insurance premiums

Since the end of the previous financial year the Parent Entity has not paid any insurance premiums in respect of directors' and officers liability and legal expenses' insurance contracts, for current and former directors and officers.

Non-audit Services

The entity's auditor, WHK Horwath, did not provide any non-audit services during the reporting period. The board has the following procedures in place before any non-audit services are obtained from the auditors:

- (a) all non-audit services were subject to the corporate governance procedures adopted by the Parent Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor.
- (b) the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Parent Entity, acting as an advocate for the Company or jointly sharing risks and rewards.

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DIRECTORS' REPORT (CONT'D)

Details of the amounts paid to the auditor of the Company, WHK Horwath for audit services and to other parties during the year are set out below.

	Economic Entity 2008 \$	Economic Entity 2007 \$
Statutory audit:		
Auditors of the Company:		
➤ audit and review of financial reports	34,500	28,500
➤ fees in relation to attendance at general meeting	213	180
Other auditors		
➤ tax return services (non-WHK Horwath)	-	-
	34,713	28,680

Auditor's Independence Declaration

The auditors' independence declaration, is included on page 13 of the financial report.

Remuneration Report

The remuneration report is set out on pages 10 to 12 and forms part of the Directors' Report.

Dated at Perth, Western Australia this 26th day of September 2008.

Signed in accordance with a resolution of the Directors:



J Andrys
Director

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WEBSPY LIMITED
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REMUNERATION REPORT

The remuneration report which has been audited is set out under the following main headings:

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

A: PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The directors have authority and responsibility for planning, directing and controlling the activities on the parent entity and the Economic Entities. The Board has not formally constituted a nomination committee or remuneration committee. The whole Board conducts the functions of a nomination committee and remuneration committee.

Compensation levels for key management personnel of the Parent Entity are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration structures are designed to attract suitably qualified candidates, reward the achievement of strategic objects and achieve the broader outcome of creation of value for shareholders. Compensation packages include a mix of fixed compensation and equity-based compensation as well as employer contributions for superannuation funds.

Shares and options may only be issued to directors subject to approval by shareholders in general meeting.

The economic entity does not have any scheme relating to retirement benefits for non-executive Directors, other than payment of statutory superannuation of 9%.

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually through a process that considers individual and overall performance of the economic entity. In addition, external consultants provide advice to ensure the directors' and senior executives' compensation is competitive in the market place. Compensation is also reviewed in the event of promotion.

Equity-based Compensation (long-term incentives)

The Parent Entity has established the WebSpy Limited Staff Option Incentive Scheme (Scheme) to provide a means by which employees of the Parent Entity, including Directors, upon whom the responsibilities for the successful growth of the Parent Entity rest, can share in such growth, thereby strengthening their commitment to the Parent Entity. Pursuant to the Scheme, and subject to any approvals required by the corporations Act and the ASX Listing Rules, the Directors may, from time to time, resolve to grant such numbers of Options, at such exercise price to such employees of the Parent Entity as determined by the Directors.

No grants of options were made under the Scheme during the financial year.

Consequence of performance on shareholders wealth

In considering disclosure required by s.300A of the Corporations Act, with respect to this matter, the Directors note that historic consideration of various measures is considered inappropriate as the Parent Entity has yet to record a sustainable profit or paid a dividend.

Non-executive Directors

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2006 Annual General Meeting, is not to exceed \$75,000 per annum. Fees are set with reference to fees paid to other non-executive directors of comparable companies.

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WEBSPY LIMITED
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 REMUNERATION REPORT (cont'd)

B: SERVICE AGREEMENTS

Mr Jack Andrys, Managing Director, has a contract of employment effective from 28 November 2007 with the Company. The contract specifies the duties and obligations to be fulfilled by the Managing Director. The contract is for a term of 2 years, unless terminated earlier in accordance with the contract of employment. Currently, the Company must pay to Mr Andrys \$225,000 per annum (inclusive of statutory superannuation) for Mr Andrys' services. The Managing Director has no entitlement to termination payment in the event of removal for misconduct.

Refer to Note 26 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

C: DETAILS OF REMUNERATION

Details of the nature and amount of each major element of remuneration of each director of the Parent Entity for the period are:

2008	PRIMARY		POST EMPLOYMENT	Total \$	Proportion of remuneration performance related \$
	Salary/fees \$	Other Benefits \$	Superannuation benefits \$		
Executive					
Mr J Andrys	272,981	-	14,495	287,476	-
Mr T McGellin	111,757	-	27,272	139,029	-
Non-Executive					
Mr J Chua	20,000	-	-	20,000	-
Mr I Gibson	1,667	-	1,050	2,717	-
Total all directors	406,405	-	42,817	449,222	-

2007	PRIMARY		POST EMPLOYMENT	Total \$	Proportion of remuneration performance related \$
	Salary/fees \$	Other Benefits \$	Superannuation benefits \$		
Executive					
Mr J Andrys	213,087	-	7,500	220,587	-
Mr T McGellin	51,000	-	3,510	54,510	-
Non-Executive					
Mr J Chua	35,000	-	-	35,000	-
Mr I Gibson	20,000	-	1,950	21,950	-
Total all directors	319,087	-	12,960	332,047	-

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WEBSPY LIMITED
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REMUNERATION REPORT (cont'd)

D: SHARE-BASED COMPENSATION

No shares or options have been issued to key management personnel during or since the end of the financial year.

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the period.

There was no movement in the year by value of options over ordinary shares in the Parent Entity held by each key management person. However, the following options granted in December 2004 lapsed during the year:

Key Management Person	Number of options	Exercise price	Expiry date
Director			
Mr J Andrys	4,000,000	\$0.07	31 December 2007
Mr T McGellin	4,000,000	\$0.07	31 December 2007

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AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of WebSpy Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL
Principal

Perth, WA

Dated this 26th day of September 2008

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WEBSPY LIMITED
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 AND CONTROLLED ENTITIES
 CONSOLIDATED INCOME STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Revenue from continuing operations	2	1,586,876	1,855,224	-	-
Cost of sales		(94,333)	(103,596)	-	-
Gross profit		1,492,543	1,751,628	-	-
Other Income	3	121,537	43,653	620	-
Corporate and administrative expenses		(635,987)	(386,463)	(748,565)	(403,848)
Technical expenses		(125,513)	(73,176)	-	-
Marketing and selling expenses		(1,316,207)	(1,290,110)	-	-
Research & development expenses		(389,795)	(307,363)	(92,351)	(60,028)
Provision for non-recovery of loans to controlled entities	4	-	-	(147,868)	192,997
Results from operating activities		(853,422)	(261,831)	(988,164)	(270,879)
Finance Income	6	3,677	6,055	3,051	6,248
Finance expense	6	-	(4,032)	-	(1,475)
Net financing costs		3,677	2,023	3,051	4,773
Profit/(loss) before income tax		(849,745)	(259,808)	(985,113)	(266,106)
Income tax credit	9(b)	309,229	352,709	309,229	352,709
Profit/(loss) from continuing operations		(540,516)	92,901	(675,884)	86,603
Profit from discontinued operations	7	2,203,773	294,230	2,645,028	-
Profit/(loss) for the year	23	1,663,257	387,131	1,969,144	86,603
Earnings per share					
Basic earnings per share	28	1.40 cents	0.32 cents		
Diluted earnings per share	28	1.40 cents	0.30 cents		
Continuing operations					
Basic loss per share	28	(0.45 cents)	0.08 cents		
Diluted loss per share	28	(0.45 cents)	0.07 cents		
Discontinued operation					
Basic earnings per share	28	1.85 cents	0.24 cents		
Diluted loss per share	28	1.85 cents	0.22 cents		

The Consolidated Income Statement is to be read in conjunction with the notes to the financial statements.

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WEBSPY LIMITED
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 AND CONTROLLED ENTITIES
 CONSOLIDATED BALANCE SHEET
 AS AT 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	10	1,823,149	173,803	1,717,516	3,814
Trade and other receivables	11	699,732	884,047	332,218	359,849
Inventories	12	10,599	27,928	-	-
Prepayments	13	27,697	16,710	-	-
Total Current Assets		2,561,177	1,102,488	2,049,734	363,663
NON CURRENT ASSETS					
Trade and other receivables	11	-	16,860	100,437	114,280
Financial assets	14	-	-	-	-
Property, plant & equipment	15	46,824	80,908	10,643	6,661
Intangible assets	16	-	-	-	-
Total Non Current Assets		46,824	97,768	111,080	120,941
TOTAL ASSETS		2,608,001	1,200,256	2,160,814	484,604
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	17	279,806	413,875	68,189	87,512
Financial liabilities	18	-	-	-	267,046
Short-term provisions	19	110,299	178,722	4,639	11,204
Total Current Liabilities		390,105	592,597	72,828	365,762
NON CURRENT LIABILITIES					
Trade and other payables	17	-	5,546	-	-
Total Non Current Liabilities		-	5,546	-	-
TOTAL LIABILITIES		390,105	598,143	72,828	365,762
NET ASSETS		2,217,896	602,113	2,087,986	118,842
EQUITY					
Issued Capital	21	17,500,386	17,500,386	17,500,386	17,500,386
Reserves	22	(109,857)	(62,383)	-	-
Retained losses	23	(15,172,633)	(16,835,890)	(15,412,400)	(17,381,544)
TOTAL EQUITY		2,217,896	602,113	2,087,986	118,842

The Consolidated Balance Sheet is to be read in conjunction with the notes to the financial statements.

WEBSPY LIMITED
ABN 60 066 153 982
AND CONTROLLED ENTITIES
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2008

Consolidated Group	Issued Capital \$	Foreign Currency Translation Reserve \$	Accumulated Losses \$	Total \$
Balance as at 1 July 2006	17,500,386	(42,160)	(17,223,021)	235,205
Adjustments from translation of foreign controlled entities	-	(20,223)	-	(20,223)
Profit attributable to members of the parent entity	-	-	387,131	387,131
Balance at 30 June 2007	17,500,386	(62,383)	(16,835,890)	602,113
Adjustments from translation of foreign controlled entities	-	(47,474)	-	(47,474)
Profit attributable to members of the parent entity	-	-	1,663,257	1,663,257
Balance at 30 June 2008	17,500,386	(109,857)	(15,172,633)	2,217,896
Parent Entity	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance as at 1 July 2006	17,500,386	-	(17,468,147)	32,239
Profit attributable to members of the parent entity	-	-	86,603	86,603
Balance at 30 June 2007	17,500,386	-	(17,381,544)	118,842
Profit attributable to members of the parent entity	-	-	1,969,144	1,969,144
Balance at 30 June 2008	17,500,386	-	(15,412,400)	2,087,986

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

WEBSPY LIMITED
 ABN 60 066 153 982
 AND CONTROLLED ENTITIES
 CONSOLIDATED CASHFLOW STATEMENT
 FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Group		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
Cash flows from operating activities					
Receipts from customers		3,482,013	3,808,796	-	-
Payments to suppliers and employees		(4,118,314)	(3,762,270)	(867,071)	(513,071)
Interest received		9,894	31	9,268	31
Income tax refunds		352,709	-	352,709	-
Finance costs		-	(4,032)	-	(1,475)
Net cash provided by/(used in) operating activities	29(b)	(273,698)	42,525	(505,094)	(514,515)
Cash flows from investing activities					
Purchases of property, plant and equipment		(62,669)	(52,856)	(9,526)	(7,194)
Repayments from other entities		-	50,000	-	50,000
Proceeds from sale of subsidiary (net of cash disposed of)	7	1,988,432	-	2,000,000	-
Loans from/(to) controlled entities		-	-	228,322	496,837
Net cash provided by/(used in) investing activities		1,925,763	(2,856)	2,218,796	539,643
Cash flows from financing activities					
Repayment of interest bearing liabilities		-	(22,960)	-	(22,960)
Net cash used in financing activities		-	(22,960)	-	(22,960)
NET INCREASE IN CASH HELD		1,652,065	16,709	1,713,702	2,168
Cash at the beginning of the financial year		173,803	162,733	3,814	1,646
Effects of exchange rate fluctuations on the balance of cash held in foreign currencies		(2,719)	(5,639)	-	-
Cash at the end of the financial year	29(a)	1,823,149	173,803	1,717,516	3,814

The Consolidated Cashflow Statement is to be read in conjunction with the notes to the financial statements.

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WEBSPY LIMITED
ABN 60 066 153 982
AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report includes the consolidated financial statements and notes of WebSpy Limited and controlled entities ("Consolidated Group" or "Group"), and the separate financial statements and notes of WebSpy Limited as an individual parent entity ("Parent Entity").

Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards ("AASBs"), including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial statements were approved by the Board of Directors on 26 September 2008.

The financial report is prepared on the accruals basis and the historical cost basis modified, where applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Parent Entity's functional currency.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Certain comparative amounts have been reclassified to conform with the current year's presentation. In addition the comparative income statement has been represented as if an operation discontinued during the current period had been discontinued from the start of the comparative period.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the Consolidated Group.

(a) Principles of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Parent Entity. Control exists when the Parent Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. A list of controlled entities is contained in note 31 to the financial statements.

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WEBSPY LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(a) Principles of Consolidation (cont'd)

In the Company's financial statements, investments in subsidiaries are carried at cost.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between subsidiaries are eliminated in full on consolidation.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(b) Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(c) Group companies

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at the exchange rates prevailing at the date of transaction; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(d) Plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discontinued to their present values in determining recoverable amounts.

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WEBSPY LIMITED
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AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Plant and equipment (cont'd)

Depreciation

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The expected useful lives are as follows:

Plant and equipment	3 - 5 years
Leasehold improvements	3 - 5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the costs model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Intangible assets (cont'd)

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Consolidated Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the income statement when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(f) Leased assets

Leases in terms of which the Consolidated Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Consolidated Group's balance sheet.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and brings them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses.

(h) Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Impairment (cont'd)

Non-financial assets

The carrying amounts of the Consolidated Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for sale, recoverable amount is estimated at each reporting date.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(i) Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transactions cost related to instruments as at fair value through the profit and loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations between the carrying value of the financial liability are extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and subsequent measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Available for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation has been discontinued from the start of the comparative period.

(k) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and long service leave expected to be settled within 12 months are measured at their nominal values based on expected rates of pay.

Share-based payments

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using Black-Scholes or Binomial option pricing models.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(l) Revenue

Goods sold

Revenue is measured at the fair value of the consideration received net of the amount of discounts and goods and services tax (GST) payable to the taxation authority.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the contract.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Finance income and expenses

Finance income comprises of interest income on funds invested and gains on the disposal of available-for-sale financial assets. Interest revenue is recognised as it accrues using the effective interest rate method which, for floating rate financial assets, is the rate inherent in the instrument.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in income statement.

(n) Income tax

Income tax revenue comprises current and deferred tax. Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Current income tax expense charged to profit or loss is the tax payable on the taxable income for the year, calculated using applicable income tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable (receivable) in respect of previous years.

Deferred income tax expense reflects movements in deferred tax assets and deferred tax liability balances during the year as well as unused tax losses.

Deferred income tax assets and liabilities are recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences in the: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the tax rates that have been enacted or substantively enacted by the reporting date.

A deferred tax asset and unused tax losses are recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax Consolidation

The Parent Entity and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is WebSpy Limited.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Income tax (cont'd)

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Parent Entity as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Parent Entity as an equity contribution or distribution.

The Parent Entity recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(o) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(p) Earnings per share

The Consolidated Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Entity by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributed to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(q) Segment Reporting

A segment is a distinguishable component of the Consolidated Group's that is engaged either in providing related products or services (business segment) or within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Consolidated Group's primary format for segment reporting is based on geographical segment.

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills, call deposits and other short-term highly liquid investments with original maturities of 3 months or less. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(s) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. Trade accounts payable are normally settled within 60 days.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the parent entity's assessment of the impact of new standards and interpretations that may affect the Group is set out below.

- (a) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8. AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.
- (b) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]. The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group does not have any borrowings.
- (c) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101. A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

(u) Determination of fair values

A number of the Consolidated Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Determination of fair values (cont'd)

Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Share based payment transactions

The fair value of options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

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 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
2. REVENUE				
From continuing operations				
Sale of goods revenue	1,435,521	1,518,761	-	-
Rendering of service revenue	151,355	336,463	-	-
	<u>1,586,876</u>	<u>1,855,224</u>	<u>-</u>	<u>-</u>
From discontinued operations				
Sale of goods revenue	137,959	280,370	-	-
Rendering of service revenue	1,520,128	1,224,358	-	-
	<u>1,658,087</u>	<u>1,504,728</u>	<u>-</u>	<u>-</u>
3. OTHER INCOME				
From continuing operations				
Rental Income	107,736	42,350	-	-
Other income	13,801	1,303	620	-
	<u>121,537</u>	<u>43,653</u>	<u>620</u>	<u>-</u>
From discontinued operations				
Other income	25,250	42,141	-	-
4. OTHER EXPENSES				
Depreciation and amortisation	(36,820)	(51,060)	(5,544)	(2,141)
Provision for impairment of loan to controlled entity	-	-	(147,868)	192,997
Inventories written off	(14,284)	-	-	-
Rental expense on operating leases – minimum lease payments	(288,932)	(267,167)	-	-
Net loss on disposal of plant and equipment	(879)	-	-	-
Foreign currency translation gains/(losses)	40,394	6,095	-	-
5. PERSONNEL EXPENSES				
Salaries and wages	(916,126)	(1,472,406)	(13,408)	(4,176)
Other associated personnel expenses	(15,036)	(12,590)	-	-
Superannuation costs	(95,179)	(131,608)	(2,855)	(337)
Increase/(decrease) in liability for annual leave	(11,053)	(32,228)	(6,415)	(7,124)
	<u>(1,037,394)</u>	<u>(1,648,832)</u>	<u>(22,678)</u>	<u>(11,637)</u>
6. FINANCE INCOME AND EXPENSE				
Interest income	3,677	6,055	3,051	6,248
Interest expense	-	(4,032)	-	(1,475)
	<u>3,677</u>	<u>2,023</u>	<u>3,051</u>	<u>4,773</u>
7. DISCONTINUED OPERATION				
(a) Description				

On 8 January 2008, WebSpy announced that it had agreed to accept an offer from Wood Group Holdings (International) Limited for the proposed acquisition of its Netlink Inspection business unit. The offer was subject to a number of major conditions, including completion of satisfactory due diligence investigations. On 29 May 2008 the disposal was completed, on which date control of the Netlink Inspection business passed to the acquirer. The proceeds on the sale exceeded the book value of the related net assets and accordingly no impairment losses were recorded on the reclassification of these assets to held for sale. The disposal of the non-core Netlink Inspection business was consistent with the Group's long term policy to focus on its core business of developing and distributing internet monitoring and reporting software.

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7. DISCONTINUED OPERATION (continued)

(b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the eleven months ended 29 May 2008 (2008 column) and the year ended 30 June 2007. The combined results of the discontinued operations which have been included in the income statement are as set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

	Consolidated Group	
	2008	2007
	\$	\$
Revenue (note 2)	1,658,087	1,504,728
Other income (note 3)	25,250	42,141
	1,683,337	1,546,869
Cost of sales	(521,503)	(421,398)
Technical expenses	(177,696)	(216,203)
Marketing and selling expenses	(580,365)	(615,038)
Profit before income tax	403,773	294,230
Income tax expense	-	-
Profit attributable to member of the parent entity	403,773	294,230
Profit on sale of the division before income tax	1,800,000	-
Income tax expense	-	-
Profit on sale of the division after income tax	1,800,000	-
Total profit after tax attributable to the discontinued operation	2,203,773	294,230
The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:		
Net cash inflow from operating activities	302,230	334,118
Net cash inflow/(outflow) from investing activities (2008 includes an inflow of \$2,000,000 from the sale of the business unit, less cash disposed of in the sale of \$11,568)	1,954,796	(22,454)
Net increase in cash generated by the discontinuing division	2,257,026	311,664
	29 May 2008	30 June 2007
	\$	\$
(c) Carrying amounts of assets and liabilities		
The carrying amounts of assets and liabilities as at the date of sale (29 May 2008) and 30 June 2007 are:		
Cash	11,568	82,975
Trade receivables	332,222	231,586
Property, plant and equipment	45,399	24,465
Total assets	389,189	339,026
Trade payables	102,244	90,480
Short-term provisions	73,445	98,819
Total liabilities	175,689	189,299
Net assets	213,500	149,727

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7. DISCONTINUED OPERATION (continued)

	Consolidated Group		Parent Entity	
	29 May 2008 \$	30 June 2007 \$	29 May 2008 \$	30 June 2007 \$
(d) Details of the sale of the business unit				
Cash consideration received/to be received	2,013,500	-	2,013,500	-
Carrying amount of investment	-	-	-	-
Debt forgiven	-	-	631,528	-
Total disposal consideration	2,013,500	-	-	-
Carrying amount of net assets sold	(213,500)	-	-	-
Gain on sale before income tax	1,800,000	-	2,645,028	-
Income tax expense	-	-	-	-
Gain on sale after income tax	1,800,000	-	2,645,028	-

	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
8. AUDITOR'S REMUNERATION				
Remuneration of the auditor of the parent entity for:				
Audit services				
- Audit and review of financial reports	34,500	28,500	34,500	28,500
Other services				
- Fees in relation to AGM	213	180	213	180
	<u>34,713</u>	<u>28,680</u>	<u>34,713</u>	<u>28,680</u>

9. INCOME TAX

(a) Income tax benefit	309,229	352,709	309,229	352,709
(b) Numerical reconciliation of income tax credit to prima facie tax payable				
Loss from continuing operations before income tax expense	(821,209)	(259,808)	(985,113)	(266,106)
Profit from discontinued operation before income tax expense	2,203,773	294,230	2,645,028	-
	<u>1,382,564</u>	<u>34,422</u>	<u>1,659,915</u>	<u>(266,106)</u>
Tax at the Australian tax rate of 30% (2007 – 30%)	(414,769)	(10,327)	(497,975)	79,832
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
• Loss on disposal of plant and equipment	(264)	-	-	-
• Entertainment	(258)	(174)	(119)	(174)
• Legal fees	(865)	(1,158)	(866)	(1,115)
Previously unrecognised tax losses now recouped	416,156	11,659	498,960	-
Unrecognised tax losses	-	-	-	(78,543)
Research and development tax rebate	309,229	352,709	309,229	352,709
Income tax credit	<u>309,229</u>	<u>352,709</u>	<u>309,229</u>	<u>352,709</u>

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	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
9. INCOME TAX (continued)				
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)				
Potential at 30% (2007: 30%)	1,669,720	2,112,368	1,520,916	1,473,750
(d) Unrecognised temporary differences				
Temporary differences for which deferred tax assets have not been recognised:				
Employee benefits provision	33,090	53,616	1,392	3,362
Provision for impairment	-	67,431	2,501,877	2,457,510
Unrecognised deferred tax assets relating to the above temporary differences	33,090	121,047	2,503,269	2,460,872
(e) Tax Rates				

The potential tax benefit at 30 June 2008 in respect of tax losses not brought to account has been calculated at 30% for Australian entities. This same rate applied for the year ended 30 June 2007.

	Note	Consolidated Group		Parent Entity	
		2008 \$	2007 \$	2008 \$	2007 \$
10. CASH AND CASH EQUIVALENTS					
Cash at bank and on hand		1,823,149	173,803	1,717,516	3,814
11. TRADE AND OTHER RECEIVABLES					
Current					
Trade receivables		249,818	469,490	-	-
Other receivables		516,245	493,681	332,218	359,849
Provision for impairment		(112,506)	(112,506)	-	-
Deposits	(a)	46,175	33,382	-	-
		699,732	884,047	332,218	359,849
Non-current					
Deposits	(a)	-	16,860	-	-
Loans to controlled entities		-	-	7,448,238	7,314,213
Provision for impairment of loans		-	-	(7,347,801)	(7,199,933)
		-	16,860	100,437	114,280
(a) Deposits					

The deposit represents \$6,323 [2007: \$7,171] lodged as security pursuant to a property rental agreement in the United States, \$22,992 [2007: \$26,211] as security pursuant to a property rental agreement in the United Kingdom and \$16,860 [2007: \$16,860] as security pursuant to a property rental agreement in Western Australia.

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	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
12. INVENTORIES				
Current – at cost	10,599	27,928	-	-
13. PREPAYMENTS				
Prepaid expenses	27,697	16,710	-	-
14. FINANCIAL ASSETS				
Available-for-Sale Financial Assets				
Unlisted investments, at recoverable amount				
Controlled entities				
Unlisted units, at cost	-	-	898,553	898,553
Unlisted shares, at cost	-	-	93,237	93,237
Less: provision for impairment	-	-	(991,790)	(991,790)
Total available for sale financial assets	-	-	-	-

Available-for-sale financial assets comprise investments in the ordinary issued capital and issued units of controlled entities. There are no fixed returns or fixed maturity date attached to these assets.

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15. PROPERTY, PLANT & EQUIPMENT

	Consolidated Group			Parent Entity		
	Plant & Equipment	Leasehold Improvements	Total	Plant & Equipment	Leasehold Improvements	Total
At 1 July 2007						
Additions	80,830	78	80,908	6,661	-	6,661
Depreciation charged for the year	61,424	-	61,424	9,526	-	9,529
Assets disposed of pursuant to disposal of business unit	(49,624)	(78)	(49,702)	(5,544)	-	(5,544)
Exchange adjustment at 30 June 2008	(45,399)	-	(45,399)	-	-	-
	(407)	-	(407)	-	-	-
At 30 June 2008, net of accumulated depreciation	46,824	-	46,824	10,643	-	10,643
At 30 June 2008						
Cost	742,485	175,078	917,563	90,393	163,704	254,097
Accumulated depreciation	(695,661)	(175,078)	(870,739)	(79,750)	(163,704)	(243,454)
Net carrying amount	46,824	-	46,824	10,643	-	10,643
At 1 July 2006						
Additions	79,573	206	79,779	1,609	-	1,609
Depreciation charged for the year	52,821	-	52,821	7,193	-	7,193
Exchange adjustment at 30 June 2007	(50,932)	(128)	(51,060)	(2,141)	-	(2,141)
	(632)	-	(632)	-	-	-
At 30 June 2007, net of accumulated depreciation	80,830	78	80,908	6,661	-	6,661
At 30 June 2007						
Cost	788,543	175,078	963,621	80,867	163,704	244,571
Accumulated depreciation	(707,713)	(175,000)	(882,713)	(74,206)	(163,704)	(237,910)
Net carrying amount	80,830	78	80,908	6,661	-	6,661

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	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
16. INTANGIBLE ASSETS				
Capitalised development expenditure cost	1,574,718	1,574,718	-	-
Less: Accumulated amortisation	(1,574,718)	(1,574,718)	-	-
	-	-	-	-
Intangible assets have finite useful lives and have been amortised in full.				
17. TRADE AND OTHER PAYABLES				
Current				
Trade creditors	61,110	136,027	12,055	21,228
Other creditors and accruals	180,389	249,210	44,192	54,286
Unclaimed monies	11,942	11,998	11,942	11,998
Security deposit	18,000	-	-	-
Unexpired rental	8,365	16,640	-	-
	279,806	413,875	68,189	87,512
Non-current				
Unexpired rental	-	5,546	-	-
18. FINANCIAL LIABILITIES				
Loans and borrowings	-	-	-	267,046
19. SHORT-TERM PROVISIONS				
Employee entitlements	110,299	178,722	4,639	11,204
Movements in provision				
Carrying amount at start of year	178,722			
Charged/(credited) to the income statement				
- additional provisions recognised	117,088			
Amounts used during the period	(112,066)			
Amount divested through disposal of NIS	(73,445)			
Carrying amount at end of year	110,299			

Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Consolidated Group does not have an unconditional right to defer settlement. However, based on past experience, the Consolidated Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The amount provided for leave that is not to be expected to be taken or paid within the next 12 months is \$28,536.

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	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
20. AMOUNTS PAYABLE/RECEIVABLE IN FOREIGN CURRENCIES				
The Australian dollar equivalents of unhedged amounts payable/receivable in foreign currencies, calculated at year-end exchange rates, are as follows:				
United States dollars				
Amounts payable:				
Current	(38,697)	(31,024)	-	-
Amounts receivable:				
Current	54,246	45,290	-	-
British pounds				
Amounts payable:				
Current	(79,582)	(148,466)	-	-
Amounts receivable:				
Current	142,596	141,802	-	-
21. ISSUED CAPITAL				
Share capital				
119,141,275 (2007: 119,141,275) fully paid ordinary shares	17,500,386	17,500,386	17,500,386	17,500,386

There were no movements in share capital during the year.

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

At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

Options

The following options lapsed during the year:

- 8,000,000 options exercisable at \$0.07 on or before 31 December 2007.

No options were exercised during the year.

	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
22. RESERVES				
Foreign currency translation reserve (a)	(109,857)	(62,383)	-	-

Nature and purpose of reserve

(a) Foreign currency translation reserve

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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22. RESERVES (cont'd)

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Balance 1 July	(62,383)	(42,160)	-	-
Currency translation differences arising during the year	(47,474)	(20,223)	-	-
Balance 30 June	(109,857)	(62,383)	-	-

23. RETAINED LOSSES

Retained losses at beginning of year	(16,835,890)	(17,223,021)	(17,381,544)	(17,468,147)
Profit after income tax	1,663,257	387,131	1,969,144	86,603
Retained losses at end of year	(15,172,633)	(16,835,890)	(15,412,400)	(17,381,544)

24. RELATED PARTY TRANSACTIONS

Details of key management personnel

The following were key management personnel of the Consolidated Group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Directors

Mr J Andrys	Managing Director
Mr T McGellin	Executive Director
Mr W Brooks	Non-Executive Director (appointed 23 May 2008)
Mr J Chua	Non-Executive Director

There are no specified executives of WebSpy Limited.

Key management personnel remuneration

Information regarding remuneration of individual directors and executives and some equity instruments disclosures has been included in the Remuneration Report on pages 10 to 12.

Loans to key management personnel

There were no loans to key management personnel during the year.

Other key management personnel transactions

Apart from the details disclosed in the Remuneration Report, no director has entered into a material contract with the Parent Entity or the Consolidated Group since the end of the previous financial year.

Equity holdings

Shares

The movement during the reporting period in the number of ordinary shares in WebSpy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2008	Held at 1 July 2007	Held at date of appointment	Purchases	Received on exercise of options	Held at 30 June 2008
Director					
Mr J Andrys	8,753,878	N/A	-	-	8,753,878
Mr T McGellin	6,075,886	N/A	-	-	6,075,886
Mr W Brooks	N/A	6,348,235	481,000	-	6,829,235
Mr J Chua	13,695,167	N/A	-	-	13,695,167

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24. RELATED PARTIES (cont'd)

Equity holdings

Shares

2007	Held at 1 July 2006	Purchases	Received on exercise of options	Sales	Held at date of resignation	Held at 30 June 2007
Director						
Mr J Andrys	8,753,878	-	-	-	N/A	8,753,878
Mr T McGellin	7,277,686	3,031,586	-	(4,233,386)	N/A	6,075,886
Mr J Chua	13,695,167	-	-	-	N/A	13,695,167
Mr I Gibson	5,849,754	-	-	-	5,849,754	N/A

Options

The movement during the reporting period in the number of options over ordinary shares in WebSpy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2008	Held at 1 July 2007	Held at date of appointment	Granted as compensation	Other Changes *	Held at 30 June 2008	Vested during the year
Director						
Mr J Andrys	4,000,000	N/A	-	(4,000,000)	-	-
Mr T McGellin	4,000,000	N/A	-	(4,000,000)	-	-
Mr W Brooks	-	-	-	-	-	-
Mr J Chua	-	N/A	-	-	-	-

* Other changes represent options that expired or were forfeited during the year.

2007	Held at 1 July 2006	Granted as compensation	Other Changes *	Held at date of resignation	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Director							
Mr J Andrys	8,000,000	-	(4,000,000)	N/A	4,000,000	-	4,000,000
Mr T McGellin	8,000,000	-	(4,000,000)	N/A	4,000,000	-	4,000,000
Mr J Chua	-	-	-	N/A	-	-	-
Mr I Gibson	-	-	-	-	-	-	-

* Other changes represent options that expired or were forfeited during the year.

No options held by specified directors were vested but not exercisable.

Non-key management personnel disclosures

Loans are made by the Parent Entity, WebSpy Limited, to its wholly owned subsidiaries for capital purchases and working capital purposes. The loans outstanding between the Parent Entity and its subsidiaries have no fixed date of repayment and are non-interest bearing. Details of the Parent Entity's interest in its subsidiaries are set out in Note 31.

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24. RELATED PARTIES (cont'd)

Aggregate amounts receivable from the Consolidated Group are as follows (Note 11):

	Parent Entity	
	2008 \$	2007 \$
<i>Current</i>		
Loans to subsidiaries	7,448,238	7,314,213
Provision for loans to subsidiaries	(7,347,801)	(7,199,933)
	100,437	114,280

No dividends were received from the Consolidated Group in the 2008 or 2007 financial year.

25. EMPLOYEE OPTION PLAN

The Parent Entity has in place an incentive scheme known as the Webspy Limited Staff Option Incentive Scheme ("Scheme"). No options to subscribe for ordinary fully paid shares were issued or exercised under the Scheme during the year, and there are no options on issue at balance date.

26. COMMITMENTS	Consolidated Group		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Operating lease commitments				
Payables				
Future operating lease rentals not provided for in the financial statements and payable:				
- not later than one year	119,358	285,929	64,479	193,437
- later than one year but not later than five years	12,123	169,565	-	64,479
	131,481	455,494	64,479	257,916

The Consolidated Group leases property under non-cancellable operating leases expiring from one to four years and is payable monthly or quarterly in advance. The lease rentals are subject to review periodically to market rental rates or CPI increases, whichever is higher. Leases generally provide the Consolidated Group with a right of renewal at which time all terms are renegotiated.

Receivables				
	2008 \$	2007 \$	2008 \$	2007 \$
Future operating lease rentals not provided for in the financial statements and receivable:				
- not later than one year	36,000	88,380	36,000	88,380
- later than one year but not later than five years	-	24,260	-	24,260
	36,000	112,640	36,000	112,640

The Parent Entity subleased part of their office premises from March 2008 for a period of 8 months. The option to renew the sublease is 3 years subject to the Parent Entity extending its option over its lease on the offices.

27. SEGMENT INFORMATION

(a) Description of segments

The Consolidated Group's business units operate in three main geographical areas: Australia, the United States and Europe.

Australia is the home country of the parent entity which is also the main operating entity. The areas of operation are principally software development, sales and the provision of services. The Netlink Inspection business unit was sold during the year, and has previously been included in the Australian geographical segment.

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(b) Primary reporting format - geographical segments

2008	Australia	North America	Europe	Total continuing operations	Discontinued operation	Consolidated Group
Revenue						
External sales	304,781	493,626	788,469	1,586,876	1,658,086	3,244,962
Other revenue	121,537	-	-	121,537	1,825,250	1,946,787
Total segment revenue	426,318	493,626	788,469	1,708,413	3,483,336	5,191,749
Unallocated revenue				3,677	-	3,677
Consolidated revenue				1,712,090	3,483,336	5,195,426
Result						
Segment result	(997,062)	132,493	239,081	(625,488)	2,206,718	1,581,230
Unallocated revenue and income tax benefit				82,027	-	82,027
Profit for the year						1,663,257
Depreciation and amortisation	29,601	1,046	6,352	36,999	12,703	49,702
Assets						
Segment assets	515,544	71,712	197,596	784,852	-	784,852
Unallocated assets				1,823,149	-	1,823,149
Consolidated total assets				2,608,001	-	2608,001
Acquisition of non-current segment assets	25,870	-	1,918	27,788	33,636	61,424
Liabilities						
Segment liabilities	(263,378)	(39,959)	(86,768)	(390,105)	-	(390,105)

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27. SEGMENT INFORMATION (continued)

(b) Primary reporting format - geographical segments (continued)

2007

	Australia	North America	Europe	Total continuing operations	Discontinued operation	Consolidated Group
Revenue						
External sales	545,568	515,275	794,381	1,855,224	1,504,728	3,359,952
Unallocated revenue						6,055
Consolidated revenue						3,366,007
Result						
Segment result	(579,208)	111,280	206,275	(261,653)	290,020	28,367
Unallocated revenue and income tax benefit						358,764
Profit for the year						387,131
Depreciation and amortisation	30,209	1,532	12,534	44,275	6,785	51,060
Assets						
Segment assets	497,150	79,045	194,205	770,400	256,052	1,026,452
Unallocated assets						173,803
Consolidated total assets						1,200,255
Acquisition of non-current segment assets	29,043	1,324	-	30,367	22,454	52,821
Liabilities						
Segment liabilities	(218,276)	(31,024)	(148,466)	(397,766)	(189,299)	(587,065)

(c) Secondary reporting - business segments

The principal activity of the Consolidated Group is software development and sales. More than 90% of segment revenue and segment profits/(losses), and more than 90% of segment assets, relate to these operations.

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28 EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2008 was based on the profit attributable to ordinary shareholders of \$1,663,257 (2007: \$387,131) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2008 of 119,141,275 (2007: 119,141,275) calculated as follows:

Profit attributable to ordinary shareholders

	Consolidated					
	2008			2007		
	Continuing operations \$	Discontinued operation \$	Total \$	Continuing operations \$	Discontinued operation \$	Total \$
Profit/(loss) for the year	(540,516)	2,203,773	1,663,257	92,901	294,230	387,131

Weighted average number of ordinary shares	2008 Number	2007 Number
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share.		
Issued ordinary shares at 1 July	119,141,275	119,141,275
Effect of shares issued during the year	-	-
Used as the denominator in calculating basic profit per share for the year	<u>119,141,275</u>	<u>119,141,275</u>

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2008 was based on profit attributable to ordinary shareholders of \$1,663,257 and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 119,141,275, as calculated below:

Weighted average number of ordinary shares (diluted)	Number 2008	Number 2007
Weighted average number of ordinary shares (basic)	119,141,275	119,141,275
Effect of share options on issue	-	12,032,877
Weighted average number of ordinary shares (diluted) at 30 June	<u>119,141,275</u>	<u>131,174,152</u>

Options on issue at year-end are considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. The options are not included in the determination of basic earnings per share. Details relating to the options are set out in note 21. There were no options on issue at reporting date.

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	Consolidated Group		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
29. CASHFLOW INFORMATION				
(a) Reconciliation of cash:				
For the purposes of the statements of cash flows, cash includes cash on hand and at bank and other funds held at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	1,823,149	173,803	1,717,516	3,814
(b) Reconciliation of after income tax to net cash used in operating activities				
Profit/(loss) after income tax	1,663,257	387,131	1,969,144	86,603
Add/(less) non-cash items:				
Gain on disposal of NIS business unit	(1,800,000)	-	(2,013,500)	-
Forgiveness of debt	-	-	(631,528)	-
Loss on disposal of fixed assets	878	-	-	-
Provision for controlled entity receivables	-	-	147,868	(192,997)
Provision for employee entitlements	5,022	32,227	(6,565)	7,124
Depreciation and amortisation	49,702	51,060	5,544	2,141
Impairment of inventories	11,984	-	-	-
Foreign exchange loss	(47,047)	(4,560)	-	-
Net cash provided by/(used in) operating activities before changes in assets and liabilities	(116,204)	465,858	(529,037)	(97,129)
Changes in assets and liabilities during the financial year:				
Decrease/(Increase) in receivables	(123,747)	(238,428)	39,951	(357,918)
(Increase)/Decrease in prepayments	(10,987)	14,198	-	-
(Increase)/Decrease in inventories	5,344	(1,387)	-	-
Increase/(Decrease) in payables	(28,104)	(197,716)	(16,008)	(59,468)
Net cash provided by/(used in) operating activities	(273,698)	42,525	(505,094)	(514,515)

30. FINANCIAL INSTRUMENTS DISCLOSURE

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

The main purpose of non-derivative financial instruments is to raise finance for Group operations.

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk, foreign currency risk, and interest rate risk.

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30. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Credit Risk

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. The credit risk on financial assets of the Company that have been recognised in the balance sheet is the carrying amount of those financial assets, net of any provision for doubtful debts. The Group has established a credit policy which is reviewed regularly. The Group manages credit risk by dealing with customers with good credit history and establishing sales limits where appropriate for each customer. A new customer is analysed individually for creditworthiness. Customers who fail to meet credit worthiness may transact on a prepayment basis. Customers are monitored by analysing and summarising the trade receivables by age of debt. The Consolidated Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

The carrying amount of the Group's/Company's financial assets represents the maximum credit exposure:

	Consolidated Group Carry Amount		Company Carry Amount	
	2008 \$	2007 \$	2008 \$	2007 \$
Cash and cash equivalents	1,823,149	173,803	1,717,516	3,814
Trade and other receivables - current	699,732	884,047	332,218	359,849
Trade and other receivables - non-current	-	16,860	100,437	114,280
	2,522,881	1,074,710	2,150,171	477,943

The Group's maximum exposure to credit risk for trade receivables at reporting date by geographic region was:

Country	Carrying Amount	
	2008 \$	2007 \$
Australia	52,976	282,398*
Europe	142,596	141,802
North America	54,246	45,290
	249,818	469,490

* includes \$231,567 from discontinued operations

Trade debtors comprise the following:

Region	2008			2007		
	Carrying amount \$	No. of debtors	Average debt \$	Carrying amount \$	No. of debtors	Average debt \$
Australia *	52,976	22	2,408	282,398	33	8,558
Europe	142,596	33	4,321	141,802	32	4,431
North America	54,246	22	2,466	45,290	34	1,332
	249,818	77	3,244	469,490	99	4,742

* The 2007 amounts include debtors of \$231,567 from discontinued operations. The number of debtors from continuing operations was 22, with an average debt of \$2,311.

The single highest debtor in the Group is \$14,950 [2007: \$49,590], with an overall average debt of \$3,244 [2007: \$4,742] and an average age of 14.5 days [2007: 23.6 days].

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30. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Consolidated Group		
	Gross	Impairment
Not past due	204,283	-
Past due 0-30 days	39,240	-
Past due 31-120 days	6,295	-
Past due 121 – one year	-	-
	<u>249,818</u>	<u>-</u>

Included in Other Receivables are amounts owed in relation to the disposal of the Netlink Inspection business unit of \$69,791. Also included are deposits as follows:

- \$6,323 [2007: \$7,171] lodged as security pursuant to a property rental agreement in the United States,
- \$22,992 [2007: \$26,211] as security pursuant to a property rental agreement in the United Kingdom, and
- \$16,860 [2007: \$16,860] as security pursuant to a property rental agreement in Western Australia.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. To mitigate this risk, the Group endeavours to ensure that it continually has sufficient available cash resources to meet its liabilities. The Group presently does not have borrowings. Its main obligation relates to the payment of creditors, which it endeavours to settle in normal commercial terms. Management of liquidity risk includes monitoring forecast cash flows and ensuring that adequate cash reserves are maintained.

Maturity Analysis

The following are the estimated maturities of financial liabilities:

Consolidated

2008

Financial Liabilities	Carrying Amount	Contractual Cash Flow	1 Month or Less	2-6 Months	6-12 Months
Non-derivatives					
Trade creditors	61,110	61,110	61,110	-	-
Other creditors and accruals	180,389	180,389	168,389	12,000	-
Unclaimed monies	11,942	11,942	11,942	-	-
	<u>253,441</u>	<u>253,441</u>	<u>241,441</u>	<u>12,000</u>	<u>-</u>

2007

Financial Liabilities	Carrying Amount	Contractual Cash Flow	1 Month or Less	2-6 Months	6-12 Months
Non-derivatives					
Trade creditors	136,027	136,027	136,027	-	-
Other creditors and accruals	249,209	249,209	234,209	15,000	-
Unclaimed monies	11,998	11,998	11,998	-	-
	<u>397,234</u>	<u>397,234</u>	<u>382,234</u>	<u>15,000</u>	<u>-</u>

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30. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Company

2008

Financial Liabilities	Carrying Amount	Contractual Cash Flow	1 Month or Less	2-6 Months	6-12 Months
Non-derivatives					
Trade creditors	12,055	12,055	12,055	-	-
Other creditors and accruals	44,192	44,192	32,192	12,000	-
Unclaimed monies	11,942	11,942	11,942	-	-
	<u>68,189</u>	<u>68,189</u>	<u>56,189</u>	<u>12,000</u>	<u>-</u>

2007

Financial Liabilities	Carrying Amount	Contractual Cash Flow	1 Month or Less	2-6 Months	6-12 Months
Non-derivatives					
Trade creditors	21,228	21,228	21,228	-	-
Other creditors and accruals	54,286	54,286	39,286	15,000	-
Unclaimed monies	11,998	11,998	11,998	-	-
Inter-company loan	267,046	267,046	-	-	267,046
	<u>354,558</u>	<u>354,558</u>	<u>72,512</u>	<u>15,000</u>	<u>267,046</u>

Currency risk

The currency risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in foreign exchange rates. The Consolidated Group is exposed to foreign currency on sales and purchases that are denominated in a currency other than Australian Dollars. The currencies giving rise to this risk are primarily British Pounds and US Dollars. The Group does not have any significant exposure to foreign exchange and manages foreign exchange risk by matching foreign exchange income and expenses and assets and liabilities. At this stage, the Group does not seek to hedge this exposure.

The Group's exposure to foreign currency risk at balance date was as follows:

2008

	Group		Company	
	GBP	USD	GBP	USD
Trade and other receivables	83,556	60,283	-	-
Trade and other payables	(38,430)	(37,250)	-	-
Balance sheet exposure	<u>45,126</u>	<u>23,033</u>	<u>-</u>	<u>-</u>

2007

	Group		Company	
	GBP	USD	GBP	USD
Trade and other receivables	71,170	46,098	-	-
Trade and other payables	(62,890)	(26,086)	-	-
Balance sheet exposure	<u>8,280</u>	<u>20,012</u>	<u>-</u>	<u>-</u>

The parent entity carries inter-company loans with its subsidiaries. The loans are denominated in the functional currencies of the business units, and are translated at reporting date at the prevailing spot rates through equity. Where appropriate, the parent entity has provided for the non-recovery of the loans. The net carrying value (in AUD) of the loans in the accounts of the parent entity (after provision) at 30 June 2008 is nil [2007: \$267,046].

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30. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

The following significant exchange rates applied during the year:

	Average Rate		Reporting Date Spot Rate	
	2008	2007	2008	2007
GBP	0.4508	0.4068	0.4829	0.4236
USD	0.9047	0.7907	0.9626	0.8487

Sensitivity analysis

Based on the financial instruments held at 30 June, a 10% strengthening/weakening of the Australian Dollar against the US Dollar and British Pound at 30 June would have reduced the profit for the year by \$10,671/increased the profit by \$13,042 (2007: reduced the profit for the year by \$3,921/increased the profit by \$4,792), mainly as a result of foreign exchange losses/gains on translation of foreign currency denominated financial instruments. The impact was greater in 2008 owing to the larger balance sheet exposures as noted above.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Group exposure to interest rate is not significant.

At the reporting date the interest rate profile of the Company is as follows:

	Consolidated Carrying amount		Company Carrying amount	
	2008	2007	2008	2007
Interest Bearing Financial assets	1,823,149	173,803	1,717,516	3,814
Interest Bearing Financial liabilities	-	-	-	-
	<u>1,823,149</u>	<u>173,803</u>	<u>1,717,516</u>	<u>3,814</u>

Cash and cash equivalents

The Company held its cash reserves on deposit and in cheque accounts during the financial year, which earned interest at rates ranging between 0% and 8% (2007: 0% and 6.2%), depending on account balances.

Other than cash, all of the Company's financial assets are non-interest bearing.

Interest bearing liabilities

All of the Company's financial liabilities are non-interest bearing. The Company has no set interest rate management policy.

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(b) Fair values

The directors consider that the carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables recorded in the financial statements approximate their fair values.

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	Consolidated 2008		Consolidated 2007	
	Carrying amount \$	Net fair value \$	Carrying amount \$	Net fair value \$
<i>Financial Assets</i>				
Cash and cash equivalents	1,823,149	1,823,149	173,803	173,803
Trade and other receivables	699,732	699,732	900,907	900,907
Total financial assets	2,522,881	2,522,881	1,074,710	1,074,710
<i>Financial liabilities</i>				
Trade and other payables	271,441	271,441	397,234	397,234
Total financial liabilities	271,441	271,441	397,234	397,234

	Company 2008		Company 2007	
	Carrying amount \$	Net fair value \$	Carrying amount \$	Net fair value \$
<i>Financial Assets</i>				
Cash and cash equivalents	1,717,516	1,717,516	3,814	3,814
Trade and other receivables	432,655	432,655	474,129	474,129
Total financial assets	2,150,171	2,150,171	447,943	447,943
<i>Financial liabilities</i>				
Trade and other payables	68,189	68,189	87,512	87,512
Total financial liabilities	68,189	68,189	87,512	87,512

31. CONTROLLED ENTITIES

The Parent Entity is WebSpy Limited, incorporated in Australia (20 September 1994).

a) Controlled entities consolidated

Name of Entity	Country of Incorporation	Date of Incorporation	Ownership Interest 2008 %	Ownership Interest 2007 %
WebSpy UK Limited	United Kingdom	7 January 1998	100%	100%
Netlink Unit Trust	Australia	24 July 1996	100%	100%
Netlink (WA) Pty Ltd	Australia	1 July 1999	100%	100%
WebSpy US Inc	United States	8 September 2000	100%	100%
Netlink Inspection Pty Ltd	Australia	1 July 2005	0%	100%

b) Disposal of controlled entity

On 29 May 2008, the Parent Entity disposed of its 100% interest in Netlink Inspection Pty Ltd. An operating profit of \$2,645,028 after income tax was attributable to members of the Parent Entity from the disposal. No remaining interest in the entity was held by any member of the Consolidated Group.

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32. EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to balance date that would have a material financial effect on the financial statements for the year ended 30 June 2008.

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DIRECTORS' DECLARATION

In the opinion of the Directors of WebSpy Limited:

- (a) the financial statements and notes and the remuneration disclosures that are set out in Sections A to D of the Remuneration Report, set out on pages 14 to 48 and pages 10 to 12, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Parent Entity and the Economic Entity's financial position as at 30 June 2008 and their performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards;
- (c) the remuneration disclosures that are set out in Sections A to D of the Remuneration Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
- (d) there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the year ended 30 June 2008.

Dated at Perth, Western Australia this, 26th day September 2008.



J Andrys
Director

INDEPENDENT AUDIT REPORT TO MEMBERS OF WEBSPY LIMITED AND ITS CONTROLLED ENTITIES

We have audited the accompanying financial report of WebSpy Limited (the company) and WebSpy Limited and its Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and 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 control 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 compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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 judgment, 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.

Auditor's Opinion

In our opinion, the financial report of WebSpy Limited and WebSpy Limited and its Controlled Entities is in accordance with the Corporations Act 2001 including:

- (a) (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) 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 in pages 10 to 12 of the directors' report for the year ended 30 June 2008. 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 WebSpy Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

WHK HORWATH PERTH AUDIT PARTNERSHIP



CYRUS PATELL
Principal

Perth, WA

Dated this 26th day of September 2008

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