

Appendix 4E

Preliminary Final Report to the Australian Stock Exchange

Part 1

Name of Entity	WebSpy Limited
ABN	60 066 153 982
Financial Year Ended	30 June 2004
Previous Corresponding Reporting Period	Financial year ended 30 June 2003

Part 2 – Results for Announcement to the Market

	\$'000	Percentage increase /(decrease) over previous corresponding period
Revenue from ordinary activities	2,766	11%
Loss from ordinary activities after tax attributable to members	(1,070)	(29%)
Net loss attributable to members	(1,070)	(29%)

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	Nil	Nil
Interim Dividend	Nil	Nil
Record date for determining entitlements to the dividends (if any)	Not Applicable	

Brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Refer Part 10 for commentary on the results for the year.

Part 3 – Contents of ASX Appendix 4E

Section	Contents
Part 1	Details of entity, reporting period
Part 2	Results for announcement to the market
Part 3	Contents of ASX Appendix 4E
Part 4	Consolidated statement of financial performance
Part 5	Accumulated losses
Part 6	Consolidated statement of financial position
Part 7	Consolidated statement of cash flows
Part 8	Basis of preparation
Part 9	Loss from ordinary activities
Part 10	Commentary on results
Part 11	Notes to the consolidated statement of cash flows
Part 12	Details relating to dividends
Part 13	Earnings per share
Part 14	Net tangible assets per security
Part 15	Details of entities over which control has been gained or lost
Part 16	Details of associates and joint venture entities
Part 17	Issued securities
Part 18	Segment information
Part 19	Subsequent events
Part 20	Impact of adopting Australian equivalents to International Financial Reporting Standards
Part 21	Information on audit or review

Part 4 – Consolidated Statement of Financial Performance

	2004 (\$)	2003 (\$)
Revenue from sale of goods	1,878,475	1849,395
Revenue from rendering of services	701,253	341,754
Other revenue from ordinary activities	185,848	303,189
Total revenue	2,765,576	2,494,338
Cost of goods sold	(177,563)	(16,443)
Marketing expenses	(1,835,678)	(1,966,406)
Administrative expenses	(404,629)	(468,923)
Technical expenses	(457,213)	(814,145)
Research and development expenses	(760,605)	(731,649)
Borrowing costs	(4,284)	(299)
Write down of research and development expenditure	(402,728)	-
Loss from ordinary activities before related income tax benefit	(1,277,124)	(1,503,527)
Income tax benefit relating to ordinary activities	207,229	-
Loss from ordinary activities after related income tax benefit	(1,069,895)	(1,503,527)

Part 5 – Accumulated losses

	2004 (\$)	2003 (\$)
Accumulated losses at the beginning of the year	(15,372,607)	(13,869,080)
Loss for the year	(1,069,895)	(1,503,527)
Accumulated losses at the end of the year	(16,442,502)	(15,372,607)

Part 6 – Consolidated Statement of Financial Position

	2004 (\$)	2003 (\$)
CURRENT ASSETS		
Cash assets	272,997	865,734
Receivables	498,013	732,944
Other	41,932	50,860
Total Current Assets	812,942	1,649,538
NON CURRENT ASSETS		
Receivables	371,067	77,587
Property, plant & equipment	235,650	167,964
Capitalised research and development expenditure	-	460,129
Total Non Current Assets	606,717	705,680
TOTAL ASSETS	1,419,659	2,355,218
CURRENT LIABILITIES		
Payables	396,677	332,989
Provisions	93,549	94,450
Interest bearing liabilities	59,554	-
Total Current Liabilities	549,780	427,439
NON CURRENT LIABILITIES		
Interest bearing liabilities	11,995	-
Total Non Current Liabilities	11,995	-
TOTAL LIABILITIES	561,775	427,439
NET ASSETS	857,884	1,927,779
EQUITY		
Contributed equity	17,261,804	17,261,804
Reserves	38,582	38,582
Accumulated losses	(16,442,502)	(15,372,607)
TOTAL EQUITY	857,884	1,927,779

Part 7 – Consolidated Statement of Cash Flows

	2004 (\$)	2003 (\$)
Cash flows from operating activities		
Cash receipts in the course of operations	3,101,010	2,663,583
Cash payments in the course of operations	(3,148,909)	(3,551,540)
Interest received	8,571	51,330
Income tax refunds	207,229	-
Borrowing costs paid	(4,284)	(299)
<i>Net cash provided by/(used in) operating activities</i>	163,617	(836,926)
Cash flows from investing activities		
Payments for plant and equipment	(171,811)	(81,766)
Proceeds from sale of investments	23,896	130,245
Proceeds from disposal of property, plant & equipment	9,000	12,045
Payments to Term Deposit	(371,067)	-
Payments for capitalised research and development	(317,721)	(304,578)
Repayment of loans by other entities	-	2,500
<i>Net cash used in investing activities</i>	(827,703)	(241,554)
Cash flows from financing activities		
Proceeds from issue of shares and options	(201)	38,783
Proceeds from borrowings	124,995	-
Repayment of interest bearing liabilities	(53,445)	(107,904)
<i>Net cash provided by/(used in) financing activities</i>	71,349	(69,121)
NET DECREASE IN CASH HELD	(592,737)	(1,147,601)
Cash at the beginning of the financial year	865,734	2,013,335
Cash at the end of the financial year	272,997	865,734

Part 8 – Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2003 annual financial report.

Part 9 – Loss from Ordinary Activities

The loss from ordinary activities before income tax benefit includes the following items of revenue and expense:

	2004 (\$)	2003 (\$)
Revenue		
Sale of goods revenue from operating activities	1,878,475	1,849,395
Rendering of services revenue from operating activities	701,253	341,754
Interest income	19,333	68,059
Other income	8,409	450
Proceeds from sale of plant and equipment	9,000	6,866
Proceeds from sale of investments	23,896	120,245
Proceeds from government grant	125,210	92,390
Expenses		
Write down of research and development expenditure	(402,728)	-
Depreciation and amortisation of:		
- plant and equipment	(70,968)	(99,810)
- motor vehicles	-	(13,362)
- leasehold improvements	(38,323)	(416)
Amortisation of intangibles:		
- research and development	(375,122)	(297,088)
- intellectual property	-	(184,974)
Finance charges on capitalised leases	(4,284)	(299)
Lease rental expense – operating leases	(247,793)	(335,373)
Net foreign exchange loss/(gains)	(32,624)	(109,050)
Provision for employee entitlements	901	62,328

Part 10 – Commentary on Results

In the year ended 30 June 2004, the Group increased its revenue by 11% to \$2.766 million. Despite another year of increased revenue, the Company incurred a net operating loss after tax of \$1.070 million which is 29% down from the previous year.

This net operating loss included the following items:

➤ Write down of research and development expenditure	(\$402,728)
➤ Research and development expenses	(\$760,605)
➤ Recoupment of Future Income Tax Benefit	\$207,229

The Company's policy is to review the amortised balance of intangibles at each reporting date. At 30 June 2004, the Directors believe that the balance of research and development expenditure exceeded the value of expected future benefits. As a result of the Company decided to write down the carrying value of research and development expenditure. In consequence of the decision to write down intangibles and development and marketing expenditure as they are incurred, the Company's Statement of Financial Position is clearly positioned to implement a convergence programme to International Financial Reporting Standards.

Part 11 – Notes to the Consolidated Statement of Cash Flows

	2004 (\$)	2003 (\$)
(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 statements of financial position as follows:		
Cash assets	272,997	456,734
Security deposits	-	409,000
	<u>272,997</u>	<u>865,734</u>
(b) Reconciliation of net cash flows from operating activities to loss after income tax		
Loss after income tax	(1,069,895)	(1,503,527)
Add non-cash items:		
Write down of research and development expenditure	402,728	-
Amortisation of research and development	375,122	482,417
Profit on sale of investments	(23,896)	(120,245)
Profit on sale of fixed assets	(9,000)	(6,866)
Provision for doubtful trade and other debtors	-	-
Provision for employee entitlements	(901)	62,328
Depreciation	63,123	112,355
Amortisation	38,323	817
Foreign exchange loss	(21)	-
Net cash used in operating activities before change in assets and liabilities	(224,417)	(972,721)
Changes in assets and liabilities during the financial year:		
Decrease/(Increase) in receivables	312,516	219,633
Decrease/(Increase) in prepayments	8,928	(43,905)
Increase/(Decrease) in payables	66,590	(39,933)
Net cash provided by/(used in) operating activities	<u>163,617</u>	<u>(836,926)</u>

Part 12 – Details Relating to Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	
Amount per security	
Total dividend	
Amount per security of foreign sourced dividend or distribution	
Details of any dividend reinvestment plans in operation	
The last date for receipt of an election notice for participation in any dividend reinvestment plans	

Part 13 – Earnings per Share

	2004	2003
Basic earnings per share		
Ordinary shares	(1.00 cents)	(1.40 cents)
The Company's potential ordinary shares are not considered dilutive and accordingly the basic loss per share is the same as diluted loss per share.		
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share	107,462,505	107,462,505
Potential ordinary shares are not considered dilutive and accordingly diluted earnings per share is not disclosed for this reason.		

Part 14 – Net Tangible Assets per Security

	2004	2003
Net tangible asset backing per ordinary security	0.8 cents	1.4 cents

Part 15 – Details of Entities Over Which Control has been Gained or Lost

Name of entity (or group of entities)	Not Applicable
Date control gained or lost	
Contribution of the controlled entity (or group of entities) to the profit/(loss) from ordinary activities during the period, from the date of gaining or losing control	
Profit (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period	
Contribution to consolidated profit/(loss) from ordinary activities from sale of interest leading to loss of control	

Part 16 – Details of Associates and Joint Venture Entities

	Ownership Interest		Contribution to net profit/(loss)	
	2004%	2003 %	2004 \$A'000	2003 \$A'000
Name of entity	N/A	N/A	N/A	N/A
Associates				
Joint Venture Entities				
Aggregate Share of Losses				

Part 17 – Issued Securities

	2004 (\$)	2003 (\$)
Share capital		
107,462,505 [2003: 107,462,505] fully paid ordinary shares	17,261,804	17,261,804
Options		
There are 21,492,501 options [2003: 21,492,501] on issue. These options are exercisable at 8 cents each on or before 31 May 2006.		

Part 18 – Segment Information

	Australia \$		North America \$		Europe \$		Consolidated \$	
	2004	2003	2004	2003	2004	2003	2004	2003
Revenue								
Segment revenue	1,317,267	1,208,852	583,385	550,943	845,591	672,774	2,746,243	2,432,569
Unallocated interest revenue							19,333	61,769
							2,765,576	2,494,338
Result								
Segment result	(1,428,954)	(1,546,187)	147,019	1,759	192,707	(20,868)	(1,089,228)	(1,565,296)
Unallocated revenue/expenses							19,333	61,769
							(1,069,895)	(1,503,527)
Depreciation and amortisation	863,090	548,242	14,548	34,152	9,503	13,256	887,141	595,650
Assets								
Segment assets	843,172	1,160,586	94,841	112,598	208,649	216,300	1,146,662	1,489,484
Unallocated corporate assets							272,997	865,734
Consolidated total assets							1,419,659	2,355,218
Liabilities								
Segment liabilities	(433,857)	(324,552)	(34,419)	(27,293)	(93,499)	(75,594)	(561,775)	(427,439)

Secondary reporting

Business segments

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

Part 19 – Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Part 20 – Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Company must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board (AASB).

The Company is seeking external advice and has allocated internal resources to assess those accounting policies and key areas that are likely to be impacted by the transition to IFRS. Priority has been given to the consideration of the impact of the Australian equivalents to IFRS and the preparation of a statement of financial position in accordance with those Australian equivalent standards as at 30 June 2004. This will form the basis of accounting for Australia equivalents of IFRS in the future, and is required, when the Company prepares its first financial report, in accordance with IFRS, for the year ended 30 June 2006.

Set out below is an explanation of the significant accounting policies which will change and which may impact on future financial reports prepared in accordance with IFRS. These changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Taxation

Under the Australian equivalent to IAS 12 "Income Taxes", a "balance sheet approach" will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognizes deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statements of financial position or performance.

Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement" financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- ▲ financial asset or financial liability measured at fair value through the statement of financial performance;
- ▲ held to maturity investments measured at amortised costs, subject to impairment;
- ▲ loans and receivables measured at amortised cost, subject to impairment;
- ▲ available for sale assets measured at fair value with changes in fair value measured directly in equity; and
- ▲ financial liability measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments.

Share based Payments

The Company currently does not recognize an expense for options issued to directors and employees. Under AASB 2 "Share Based Payments", the Company will be required to recognize an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

Part 20 – Impact of adopting Australian equivalents to International Financial Reporting Standards (cont'd)

Intangible Assets

Under the Australian equivalent to IAS 38 "Intangible Assets, intangibles acquired in a business combination and which have finite useful lives must be amortised over their useful lives. Internally generated goodwill, brands and costs related to research activities and item similar in substance may not be recognized as assets. All expenditure on research must be expensed when it is incurred. This will result in a change in the Company's current accounting policy which allows for the capitalization of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond a reasonable doubt. The de-recognition of intangibles that do not qualify for recognition could impact significantly on the Company's equity.

Impairment of Assets

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in the Company's current accounting policy which determines recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to IFRS, as not all standards have been analysed yet, and some decisions have not yet been made where choices of accounting policies are available.

Part 21 – Audit/Review Status

This report is based on accounts to which one of the following applies:

(Tick one)

The accounts have been audited	<input type="checkbox"/>	The accounts have been subject to review	<input type="checkbox"/>
The accounts are in the process of being audited or subject to review	<input checked="" type="checkbox"/>	The accounts have not yet been audited or reviewed	<input type="checkbox"/>

If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

Not applicable

If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:

Not applicable