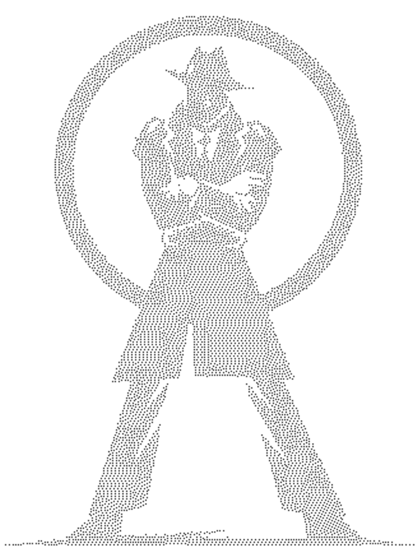
WebSpy

2004

ANNUAL REPORT



WEBSPY LTD
CORPORATE DIRECTORY

DIRECTORS

Mr J Andrys –Chief Executive Officer/Managing Director
Mr J Chua – Director
Mr T McGellin - Director

COMPANY SECRETARY

Mr A Ho

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SHARE REGISTRAR

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PERTH WA 6000
Telephone: 61 8 9323-2000
Facsimile: 61 8 9323-2033

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PERTH WA 6000

ASX CODE

WSY – Ordinary Shares
WSYO - Options

WEBSPY LTD

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WEBSPY LTD

CHIEF EXECUTIVE OFFICER'S LETTER

Fellow Shareholders,

Your Company has continued improving its operating cash performance over the past year producing its best results so far, with gross cash inflow from operating activities of over $3.3m, an increase of approximately $580,000 from last year and a decrease in operating outflows by just over $400,000. The second half of financial year 2003-2004 produced the Company's best half-year results to date generating nearly $2m in gross cash inflows from operating activities. I expect to see the Company continue to maintain a full year cashflow positive result from operating activities for 2004/2005 based on the current revenue growth trend.

During the past year the Company was recognised for its revenue growth by BRW Magazine and received position 35 in its Fast 100 listing, and then again by receiving position 18 in the Deloitte Technology Fast 50 listing. In the past five years of product sales the Company has taken its customer base from a couple of hundred to over 5000, with product sales totalling around $7.2 million to date.

The past year has also seen a number of milestones reached by both the Company's trust entity the Netlink Unit Trust and a few of the employees, in that the Trust is now 10 years old and some of the employees have now been working for it for over 10 years. This stability in the workforce is backed up by many other employees with long working histories within the organisation. Such a low turnover of key staff has resulted in reduced costs of employment and increased intellectual knowledge retention amongst the core workforce.

Company activity during the year has seen the continuation of sales and distribution of the core software products, (WebSpy® and Inspection Manager™) via the Company's three offices in Perth, London and Seattle. Together with software sales the Company has also seen the first full year of revenue from its Inspection Manger Services department, and continued to invest in research and development out of its Perth office. This activity is expected to continue through the current year with increased sales and service revenues, but with the addition of some new product lines being distributed initially through the Seattle office.

In May the Board saw the addition of Mr Tom McGellin as a non-executive director and then welcomed him into an executive role starting July 2004, signalling the board's intention to increase capacity and effectiveness. In June 2004 Mr Richard Chua resigned as a director of the company after serving as a non-executive for five years, and as the Company's Managing Director prior to that. The Board wishes Mr Chua the best in his endeavours and expresses its thanks for his contribution over the years.

I know that the Board and Staff are looking forward to the challenges of the 2004-2005 year with excitement and confidence in the knowledge that the year will be successful for all.

Jack Andrys
Chief Executive Officer
Managing Director
WebSpy Ltd

29th September 2004

WebSpy Operational Summary

Highlights

- WebSpy Internet Monitoring Division was able to achieve a 30% growth rate despite a strengthening Australian dollar reducing export earnings
- WebSpy Internet Monitoring Division sales for the financial year topped $1.8 million.
- Through consolidation of existing partnerships and development of new technology partners, WebSpy has strengthened its strategic position and developed new revenue channels as a result.
- Ratification of WebSpy's strengthened strategic position was achieved through the appointment of a Vice President of Business Development for North America
- New software was released in support of strategic partnerships and confirming WebSpy's move away from just Internet Monitoring to the broader view of network traffic analysis.
- The financial year saw two major software releases of WebSpy Analyzer Standard, Premium and Giga, strengthening WebSpy's core Analyzer product range

The 2003-2004 financial year was another success for the WebSpy Internet Monitoring Division, achieving consistent 30% sales growth across all regions whilst continuing to consolidate costs.

The continued emphasis on efficiency assured the WebSpy Internet Monitoring Division of its best financial year to date and enabled the Division to expand on its marketing opportunities, channel strategies and strategic goals to lay a solid foundation for future growth.

Product Development

Product development for the WebSpy range of internet monitoring and management tools this year focused on strengthening the existing product line, capitalizing on strategic opportunities and developing new technologies for market opportunities that were discovered.

Developments to the existing product range for this financial year have centered around improving the technologies that set WebSpy apart; including speed of data analysis, and ease of use of the software.

Throughout the year several key advancements were made in this area, specifically towards performance of log file loading, reporting and analysis for medium to large sized clients which now form the majority of the WebSpy client base.

In August 2003, WebSpy released versions 4.0 of WebSpy Analyzer Standard and Premium, and versions 2.0 of WebSpy Analyzer Gig and WebSpy Live. These releases were a significant milestone in the development of the product range as they moved all the Analyzer applications to work on WebSpy's proprietary log analysis database called the "Storage"
Following from the success of this release, point releases of the entire WebSpy range were made available to the public on the 19th August 2004, delivering the following feature enhancements.

- Improved Task Scheduling through a redesigned Task Wizard.
- Enhanced Storage management capabilities including the ability to save Storages based on filters, and Storage Splitting for distributed analysis.
- Zip File support enabling users to load log file data directly from compressed folders.
- Additional Report formats and improved report templates.
- Automatic updating of patches and loader updates ensuring that maintenance subscription holders always have the most up to date version of the software available.
- Extra fields in summaries to allow for enhanced data analysis.

In addition to development of the core product range, WebSpy has continued to seek out new opportunities and technologies. Following the full release of FlowMonitor in August 2003, WebSpy has progressed with research and development of non proxy analysis tools, and has actively sought technology partners to bring this to market. WebSpy expects to have a beta version of this new technology available before the end of the calendar year 2004.

WebSpy is also expanding product development to take advantage of the strategic opportunities offered by complimentary technology partners such as Exinda, Content Keeper and Fast Scout. Throughout the year, the development team completed a rebadge of WebSpy Analyzer Standard to be sold under OEM license with Fast Scout's Virtual Web blocking and filtering software. At the end of the year, a similar rebadging process with Content Keeper was well under way.

Product development has also researched and worked with Melbourne-based network optimisation specialist Exinda Networks (Pty) Ltd to look at ways to deliver an integrated solution to the international market.

Sales and Business Development

With several excellent software releases during the year, ever increasing marketing awareness for WebSpy software solutions and the advancement of several strategic partnerships, the 2003/2004 was another record breaking sales year for sales worldwide.

Each office was able to capitalise on WebSpy's current loyal and satisfied client base for ongoing maintenance subscription revenue and software upgrades as new technologies were introduced.

In addition to this, specific projects undertaken in each region are detailed below.

Australia
The fledging Australian sales office enjoyed its first full financial year in 2003/2004 and was able to take advantage of established distribution partners and an increased territory to enjoy sales growth across the board.

The focus on channel development saw 30% of sales in the region come through channel partners and this figure is set to increase in the 2004/2005 financial year with a goal of 50% of total sales set for the channel.

At the beginning of January, the Australian office took over territory management of Asia from North America to take advantage of the time zone advantages of managing this region from Australia. In the six months that Australia has been responsible for this region, WebSpy's channel partners have responded positively to the improved communications channels with marketing, brand awareness and of course sales increasing in the region.

WebSpy's key sales partner in Asia, MPI Technology Pty Ltd has continued to lead the way for sales in the region and at the conclusion of the financial year, MPI was in discussions with WebSpy to further enhance the partnership and WebSpy's representation in the South East Asian region.

In Australia, WebSpy's key marketing activities centered around attendance at exhibitions and trade shows in conjunction with partners to help raise the profile of the software in new markets.

During the financial year, WebSpy was represented at Info Security 2003 in Melbourne (August 2003), CeBIT Australia 2004 in Sydney (May 2004) and at the Microsoft Security Summit Road Show in March 2004 which visited Brisbane, Sydney, Melbourne, Canberra, Adelaide and Perth.

Through these marketing activities, WebSpy was able to increase its presence with corporate clients on the Australian eastern seaboard and also break into the lucrative federal government market, primarily through the signing of an OEM Licencing Agreement with Canberra based ContentKeeper Technologies Pty Ltd.

European Region
WebSpy's European office capped off its fifth year of operations with exceptional sales and increased operational efficiency. The region's traditionally strong markets in the United Kingdom, Germany and Benelux (Belgium, The Netherlands, and Luxembourg) continued to grow whilst new growth areas in Italy and France were a key focus for the year.

Growth in these regions was achieved as a result of ongoing work with some long term channel partners, as is the case with Sillaro in Italy, and direct sales efforts.

In the United Kingdom, WebSpy has also made inroads into the lucrative managed services market, working with a number of partners to offer WebSpy Internet Monitoring and Management Tools as a service to clients.

Similar to the Australian region, attendance at trade shows was the main focus of marketing activities Europe for the financial year. The two main events attended by WebSpy were both in London; Internet World in April 2004, and Information Security World in November 2003. Capitalising on WebSpy's continued partnership with Microsoft, WebSpy staff also attended Microsoft's European TechEd Conference, held in Barcelona in July 2003.

Following on from the significant inroads made with the enterprise market on the back of WebSpy Analyzer Giga, WebSpy's European office has been working closely with a number of large organisations throughout Europe on some large software implementations. Although no concrete agreements were formed by the end of the financial year, WebSpy is exceptionally well placed to capitalise on these opportunities in the 2004/2005 financial year.

North America
After struggling through a year of economic hardship in North America last financial year, WebSpy's North American operations enjoyed far more favourable economic conditions in 2003/2004. Despite the region's strong sales gains in local currency, especially in the second half of the financial year, much of this growth was overshadowed by a weakened US currency and strengthening Australian dollar.

North America continues to be the hotbed of strategic opportunity for WebSpy around the world and this financial year saw an intensification of efforts towards strategic business relationships, culminating at the end of the financial year with the appointment of Mr Neil McIrvin as Vice President of Strategic Business Development for North America.

Mr McIrvin will enhance WebSpy's current strategic business partnerships in the region as well as identify further opportunities for the business unit. In addition to this, the role will support the development and growth of WebSpy's sales team in Seattle as well as enhance channel opportunities and relationships.

WebSpy's current strategic affiliations that stand to benefit from Mr McIrvin's appointment in Seattle include the Company's ISV Royalty Agreement with Microsoft, the growing relationship with Novell and the US market push for Australian network optimization developer, Exinda.

Mr McIrvin will provide local knowledge in his review of WebSpy's go to market strategy for North America and is working closely with senior WebSpy staff in Perth, London and Seattle on both current and upcoming projects. Mr McIrvin's appointment represents the most senior sales position created and filled within the region and echoes the Company's plans to accelerate revenue growth and partnerships in the region.

Julia Andrys
Business Development Manager
WebSpy Ltd.

Netlink Operations Summary

In many respects 2003-2004 was a challenging year for Netlink Inspection, set against the backdrop of a world oil price coming off the bottom of a price cycle.

Meeting the needs of such a challenging operating environment entailed a refocussing of the business on servicing our clients' immediate needs while keeping an eye on the longer term direction of the industry. This held true in both Product development and Inspection Services.

The Products

Inspection Manager Enterprise (IME), our flagship product, has the capability to operate as a complete Asset Integrity Management System (AIMS) providing full life-of-field inspection coverage.

The philosophy of the software is – in the one product - to facilitate the rapid collection of comprehensive inspection data on-site and then provide the necessary tools for enterprise wide data storage, retrieval, reporting and analysis.

The Inspection Manager Enterprise Suite is a series of software applications or 'modules' that can be used independently or together as required by the user.

The modules are built around an industry accepted relational multi-user database, and utilises powerful database querying algorithms to produce efficient, comprehensive results. Each module of the application connects to the same database to provide a separate yet integrated service, which, when combined, provides a totally integrated business solution.


Inspection Manager Enterprise, Philippines

Inspection and Asset Management personnel can therefore use different modules (or multiple instances of the same module) at the same time greatly enhancing the applicability of this technology.

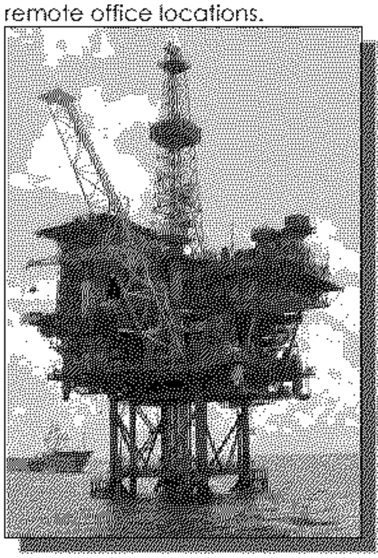
Ten years in the making, Inspection Manager Enterprise is becoming a mature product with a strong reputation in the marketplace and impressive market penetration in the Asia Pacific and the Middle East.

Long-term development is continuing, with the basic specifications for IME Version 3.0 now laid out. The product is slated to include some significant improvements in functionality resulting from continued technological advancement.

The past year saw the Inspection Manager family increase in size with the birth of three separate products – all highly integrated with IME and with the ability to greatly enhance the overall application of the software.

Web Overview is a powerful view of the IME database via a standard web browser. This is a huge step forward in the ability of the software to reach a large number of employees in an organisation without the need for specialised training. Built on our Version 3.0 schema, Web Overview combines the existing inspection data storage and retrieval advantages of IME with advanced library functionality to enable quick and easy access to company and asset data without the user needing to leave their computer.

And, as our clients are discovering, the power of the internet is ideal for keeping data synchronised between remote office locations.


HZ 32-3 Platform, Huizhou Field, China

The *Digital Video Recorder* (DVR) is a tool designed specifically for the data capture side of IME. Worldwide there is an increasing trend away from VHS tapes to DVDs and the digital medium in general. DVR provides full frame digital video capture and many other features with full integration to IME – all this in addition to the huge advantages in video storage and retrieval that the digital medium brings.

Only just released, *4-Site* is a tool for the performance of risk assessments and the process of risk-based-inspection (RBI). The software is able to flexibly handle numerous RBI models whether standard (eg. API581, AS4360) or custom built. It is designed for stand alone operation on our Version 3.0 schema, but when coupled with IME it will provide an additional level of integrity management otherwise unavailable in the market today.
The technical elements of 4-Site were developed in conjunction with the Perth office of Ionik Consulting, an engineering firm of the Wood Group specialising in asset integrity issues.

The Year's Highlights:

- Sale of Inspection Manager Enterprise to SeaQuill Inspection Services (a Covus Corporation / SogaTech Joint Venture).
- Development of the 'Web Overview' application as part of the ongoing implementation of IME system for Apache Energy.
- Development of the "Digital Video Recorder" and initial unit sales to subsea services companies.

- Development of "4-Site" Risk Application and the ongoing relationship with Ionik Consulting.
- Successful completion of the Qatar Petroleum contract for the supply of Inspection Manager Enterprise as a Subsea Data Acquisition and Asset Management System.

Inspection Services

The first full year of operation for the Services division saw significant activity and the establishment of a reasonable track-record in the provision of offshore inspection services using IME.


Wandoo B Platform, Australia

NIS personnel, software and equipment were on the ground in the oil fields of Australia and South-East Asia working in the full range of conditions; from a single inspector and laptop, to a 24-hr inspection team with a network of inspection computers and sensors.

The ongoing support of existing clients was also extended from the realms of product support, data conversion, custom development and bug fixes to include the following:

- ongoing management of the client's IME database
- preparation of inspection reports from raw data
- analysis and interpretation of inspection data
- development of client procedures for inspection and the corporate use of IME

All this activity has brought enormous benefits to the Netlink Inspection team and our software. With NIS personnel using IME both for ourselves and on behalf of our clients, the software is continually being refined and new areas of development are being driven by client need. Web Overview and the Digital Video Recorder being prime examples.

The Year's Highlights:

- Inspection personnel employed offshore in Australia, Philippines, China and Qatar.
- Personnel employed in client-representative roles in the North West Shelf for the Wandoo Production Alliance and Apache Energy Ltd.
- Continuation of maintenance contracts with Apache Energy, ConocoPhillips, Qatar Gas, SeaQuill Inspection Services and Woodside Energy.

Looking Ahead

The year ahead is full of positives for Netlink Inspection. The rebounding world oil price has remained at its current level long enough to encourage oil & gas producers to re-examine and invest in upgrading their asset management systems.

As sales leads begin to re-emerge for Inspection Manager Enterprise, our new releases, Web Overview and 4-Site are opening doors to the topside and onshore markets.

Mason Linden
Operations Manager
Netlink Inspection


Pipeline wall thickness measurement, Australia

The Directors present their Report together with the financial report of WebSpy Limited (the "Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

Directors

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

Managing Director – Jack Andrys (appointed 16 August 1999)

Mr Andrys, aged 41, 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 – Tom McGellin (appointed 28 May 2004)

Mr McGellin, aged 52, 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 currently holds board level positions on other non listed public companies.

Non-Executive Director – Joseph Chua (appointed 30 November 2001)

Mr Chua, aged 46, graduated in 1982 with a Bachelor of Arts, Honours degree in Business Law from City of London Polytechnic, UK and was called to the Bar at Gray's Inn at the end of 1983. Following his stay at the Gray's Inn and Inner Temple from 1983 to 1984, he returned to Malaysia and joined Kim Hin Industry Berhad as its Marketing Director in 1985. He is currently the executive chairman of Kim Hin Industry Berhad. Mr Chua represents the single largest shareholder group in WebSpy Ltd.

Mr Chua will be retiring by rotation and seeking re-election by shareholders at the 2004 Annual General Meeting.

Non-Executive Director – Richard Chua (appointed 16 December 1994, resigned 1 June 2004)

Results

The result of the consolidated entity for the year ended 30 June 2004 was a loss from ordinary activities after income tax of $1,096,292 (2003: $1,503,527).

Principal Activity

The principal activity of the consolidated entity during the course of the financial year was software development, sales and the provision of services.

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.

Review of Operations

A review of the consolidated entity's activities and operations is contained in the section "Operations Review" appearing earlier in the 2004 Annual Financial Report.

State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Environmental Regulation

The consolidated 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 consolidated 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 consolidated entity.

Events Subsequent to Balance Date

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At balance date, it was not possible to quantify the effect of the convergence to IFRS as key IASs and AASBs are currently under development. Other than the matter discussed above, 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.

Likely Developments

The consolidated entity will continue with its software development and sales business in Australia, the United States and Europe.

Directors' and Senior Executives' Remuneration

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and senior executives of the Company. Broadly, the Company's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive in attracting, retaining and motivating people of the highest quality.

Details of the nature and amount of each major element of the remuneration of each Director of the Company during the financial year were:

	Base remuneration (salary & fees) $	Super contributions $	Leave Payouts $	Total $
Directors				
Non-executive				
Mr J Chua	20,000	-	-	20,000
Mr R Chua[1]	18,334	-	-	18,334
Mr T McGellin	1,667	-	-	1,667
Executive				
Mr J Andrys	191,669	18,750	19,230	229,649

1. Mr R Chua resigned on 1 June 2004.

No securities were issued to directors of the Company and Consolidated Entity during the year. The Company and consolidated entity currently has no executive officers concerned in, or who take part in, the management of the body.

Directors' Meetings

The number of directors' meetings held in the period each director held office during the financial year and the number of meetings attended by each director are:

	Board Meetings	
Director	Held	Attended
J Andrys	4	4
R Chua	3	3
J Chua	4	3
T McGellin	1	1

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

Directors' Interests

The relevant interest of each Director in the shares and options [issued by the companies within the consolidated entity] at the date of this report is as follows:

	WebSpy Limited	
Director	Ordinary shares	Options
J Andrys(1)	8,277,878	1,609,496
J Chua	13,695,167	1,566,000
T McGellin(2)	4,801,586	992,317

1. 3,800 shares and 760 options held indirectly by Com.air Pty Ltd, of which Mr Andrys is a director.
2. 4,801,586 shares and 992,317 options held indirectly by Underpass Holdings Pty Ltd as trustee for The Tom McGellin Trust, of which Mr McGellin is the beneficiary.

Options

At the date of this report, unissued ordinary shares of the Company under option are:

- 21,492,501options exercisable at 8 cents each on or before 31 May 2006. (ASX Code: WSYO).

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Indemnification and insurance of directors

Indemnification

The Company has agreed to indemnify the directors of the Company against liability incurred to a third party (not being the Company or any related company) that may arise from their position as directors of the Company and its controlled entities, unless the liability arises out of conduct involving a lack of good faith.

The Company 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 Company 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.

Dated at Perth, Western Australia this 29th day of September 2004.

Signed in accordance with a resolution of the Directors:

J Andrys
Director

This statement summarises the corporate governance practices adopted by the Board. WebSpy Limited's objective is to achieve best practice in corporate governance, and the Company's officers and employees are committed to achieving this objective.

ASX Best Practice Recommendations

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. The recommendations are not prescriptive and if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where the Company considered it was not appropriate to presently comply with a particular recommendation the reasons are set out in the latter part of this statement.

Board of Directors

Role of the Board

The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of shareholders by:

- setting objectives, goals and strategic direction with management with a view to maximising shareholder value;
- overseeing the financial position and monitoring the business and affairs of the Company;
- establishing corporate governance, ethical, environmental and health and safety standards;
- ensuring significant business risks are identified and appropriately managed; and
- ensuring the composition of the Board is appropriate, selecting directors for appointment to the Board and reviewing the performance of the Board and the contributions of individual directors.

The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

Board composition

The Board comprises three Directors including two executive Directors.

The Directors are subject to election by shareholders. All Directors, apart from the Managing Director, are subject to re-election by rotation within every three years. The Company's Constitution provides that one-third of the Directors retire by rotation at each AGM. Those Directors who are retiring may submit themselves for re-election by shareholders, including any Director appointed to fill a casual vacancy since the date of the previous AGM. The composition of the Board is reviewed at least annually to ensure the balance of skills and experience is appropriate. The Directors have a broad range of qualifications, experience and expertise in the information technology and finance industries. The skills, experience and expertise of Directors are set out in the Directors' Report.

The names of the Directors in office at the date of this Report, the date of their appointment, their status as non-executive, executive or independent Directors, are set out in the Directors' Report.

Independence of non-executive directors

The Board considers an independent director to be a non-executive director who meets the criteria for independence included in the ASX Best Practice Recommendations. A majority of the Board of directors is not comprised of independent directors under this definition however each individual member of the Board is satisfied that whilst the Company may not comply with best practice recommendations 2.1, 2.2 and 2.3, the Board always acts with independence and in accordance with the Statement of Corporate Governance.

Independent professional advice

The Board has adopted a formal policy on access to independent professional advice which provides that Directors are entitled to seek independent professional advice for the purposes of the proper performance of their duties. The advice is at the Company's expense, subject to the prior approval of the Chairman. Advice so obtained is to be made available to all Directors.

Meetings

The Board held 4 scheduled meetings during the reporting period and no unscheduled meetings were held during that year. Senior management attended and made presentations at the Board Meetings as considered appropriate and were available for questioning by Directors.

Board committees

The Board has not formally constituted an audit committee. The entire board currently undertakes the duties of an audit committee which includes:

- supervising the engagement of the external auditor and monitoring their performance;
- reviewing the effectiveness of management information and other systems of internal control;
- reviewing all areas of significant financial risk and arrangements in place to contain those to acceptable levels;
- reviewing significant transactions that are not a normal part of the Company's business;
- reviewing the year-end and interim financial information and ASX reporting statements;
- monitoring the internal controls and accounting compliance with the Corporations Act, ASX Listing Rules, external audit reports and ensuring prompt remedial action where required; and
- reviewing the Company's financial statements and accounting procedures.

The Company's auditor is invited to attend the annual general meeting and the Company supports the principle of the auditor being available to answer questions on the conduct of the audit and the content of the audit report.

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.

Evaluation of Board performance

During the reporting period an evaluation of the Board and key executives was carried out on an informal basis. As the activities of the Company develop, it will establish more formal evaluation procedures, including quantitative measures of performance.

Remuneration policies

Executive Directors and key executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors receive a fixed monthly fee for their services.

Attendance at Board and Committee meetings

The attendance of Directors at Board meetings during the year is detailed in the Directors' Report.

Managing business risks and internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility the Board has instigated an internal control framework that includes the following:

- Financial reporting – there is a comprehensive budgeting and forecasting system with updates provided to the Board at each Board meeting. Periodic reports are provided to the Board. Quarterly, half yearly and annual reports are prepared in accordance with the Corporations Act 2001 and ASX Listing Rules.

- The Managing Director and the Company Secretary are required to confirm in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards.
- The Company has written policies covering health and safety.

Ethical standards

The Board is committed to promoting the practice of high ethical standards. All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company in the following areas:

- professional conduct;
- dealings with suppliers, advisers and regulators;
- dealings with the community; and
- dealings with other employees.

Trading in the Company's securities by directors and employees

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all Directors and employees. Under the policy, Directors are prohibited from short term trading in the Company's securities whilst in possession of price sensitive information. The Board must be notified of any proposed transaction and must give clearance for the transaction to proceed.

Privacy

The Company has resolved to comply with the National Privacy Principles contained in the Privacy Act 1988, to the extent required for a company the size and nature of WebSpy Limited.

Information disclosure

The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. In accordance with the continuous disclosure requirements under the ASX Listing Rules, the Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the ASX in a timely manner and that all information provided to the ASX is immediately available to shareholders and the market on the Company's website.

Analysts and press briefings may be conducted following the release of half-year results, full-year results and major announcements and, from time to time, briefings with major shareholders may be conducted in order to promote a better understanding of the Company. In conducting briefings, the Company takes care to ensure that any price sensitive information included in the content of briefings has already been made available to all shareholders and the market.

Shareholders

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders through:

- continuous disclosure in the form of public announcements on ASX;
- annual reports to shareholders;
- investor briefings;
- the meeting Chairman's address delivered at the Annual General Meeting; and
- notices of all meetings of shareholders and explanatory notes of proposed resolutions.

In addition, information for shareholders is available on WebSpy's website: www.webspy.com, including recent announcements, presentations, past and current reports to shareholders, biographical information on Directors and information relating to operations.

Shareholders are encouraged at annual general meetings to ask questions of Directors and senior management and also the Company's external auditors, who are required to be in attendance.

Retirement benefits for non-executive directors

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

ASX Guidelines on Corporate Governance

Pursuant to ASX Listing Rules, WebSpy Limited must provide a statement disclosing the extent to which the ASX best practice recommendations have not been followed in the reporting period. The Company sets out below an explanation of the areas where it does not presently comply with ASX best practice recommendations.

Composition of the Board

A majority of the Board of directors is not comprised of independent directors under the ASX definition of independence, as set out in the ASX Corporate Governance Council Best Practice Recommendations. Each individual member of the Board is satisfied that whilst the Company may not comply with best practice recommendations 2.1, 2.2 and 2.3, the Board always acts with independence and in accordance with the Statement of Corporate Governance.

Website

The ASX guidelines also prescribe that the Company should maintain a dedicated corporate governance information section on its website. Such a dedicated information section is not presently available on the Company's website, although the annual financial report will be posted to the website and the Statement of Corporate Governance can be viewed there.

Board committees

The Company does not presently have a separate audit, nomination or remuneration committee as required by best practice recommendations 4.2, 2.4 and 9.2, respectively. The Company is in its early stages of development and as such, the entire Board conducts the function of such committees. The duties of such committees have been considered and adopted by the Board. The board invites persons with relevant industry and financial experience when required to carry out the functions of such committees.

WEBSPY LTD
STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Revenue from sale of goods		1,874,911	1,849,395	-	-
Revenue from rendering of services		701,253	341,754	-	-
Other revenues from ordinary activities		185,848	303,189	166,517	284,854
Total revenue from ordinary activities	2	2,762,012	2,494,338	166,517	284,854
Cost of sales		(190,017)	(16,443)	-	-
Corporate and administrative expenses		(404,628)	(468,923)	(404,628)	(463,745)
Technical expenses		(457,713)	(814,145)	-	-
Marketing and selling expenses		(1,841,558)	(1,966,406)	(2,343)	-
Research & development expenses		(764,605)	(731,649)	(72,065)	(87,580)
Borrowing costs		(4,284)	(299)	(4,284)	-
Provision for non-recovery of loan to controlled entity		-	-	(850,092)	(1,208,463)
Write down of research and development expenditure		(402,728)	-	-	-
Loss from ordinary activities before related income tax benefit	3	(1,303,521)	(1,503,527)	(1,166,895)	(1,474,934)
Income tax benefit attributable to loss from ordinary activities	5	207,229	-	207,229	-
Loss from ordinary activities after related income tax benefit	19	(1,096,292)	(1,503,527)	(959,666)	(1,474,934)
Basic loss per share	25	(1.02 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.

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

WEBSPY LTD
STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
CURRENT ASSETS					
Cash assets	6	272,997	865,734	2,525	468,931
Receivables	7	494,447	732,944	32,277	22,823
Other	8	41,932	50,860	-	-
Total Current Assets		809,376	1,649,538	34,802	491,754
NON CURRENT ASSETS					
Receivables	7	371,067	77,587	865,779	1,389,601
Other financial assets	9	-	-	-	-
Property, plant & equipment	10	235,650	167,964	101,240	7,406
Intangibles	11	-	-	-	-
Capitalised research and development expenditure	12	-	460,129	-	-
Total Non Current Assets		606,717	705,680	967,019	1,397,007
TOTAL ASSETS		**1,416,093**	**2,355,218**	**1,001,821**	**1,888,761**
CURRENT LIABILITIES					
Payables	13	419,508	332,989	98,785	91,763
Interest bearing liabilities	14	59,554	-	59,554	-
Provisions	15	93,549	94,450	-	5,845
Total Current Liabilities		572,611	427,439	158,339	97,608
NON CURRENT LIABILITIES					
Interest bearing liabilities	14	11,995	-	11,995	-
Total Non Current Liabilities		11,995	-	11,995	-
TOTAL LIABILITIES		**584,606**	**427,439**	**170,334**	**97,608**
NET ASSETS		**831,487**	**1,927,779**	**831,487**	**1,791,153**
EQUITY					
Contributed equity	17	17,261,804	17,261,804	17,261,804	17,261,804
Reserves	18	38,582	38,582	38,582	38,582
Accumulated losses	19	(16,468,899)	(15,372,607)	(16,468,899)	(15,509,233)
TOTAL EQUITY		**831,487**	**1,927,779**	**831,487**	**1,791,153**

The statements of financial position are to be read in conjunction with the notes to the financial statements.

WEBSPY LTD
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Cash flows from operating activities					
Cash receipts in the course of operations		3,101,010	2,663,583	125,231	92,840
Cash payments in the course of operations		(3,148,909)	(3,551,540)	(436,709)	(520,717)
Interest received		8,571	51,330	6,628	45,039
Income tax refunds		207,229	-	207,229	-
Borrowing costs paid		(4,284)	(299)	(4,284)	-
Net cash provided by/(used in) operating activities	24(b)	163,617	(836,926)	(101,905)	(382,838)
Cash flows from investing activities					
Payments for property, plant and equipment		(171,811)	(81,766)	(133,476)	(9,916)
Proceeds from sale of investments		23,896	130,245	23,896	130,245
Proceeds from disposal of property, plant and 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	-	2,500
Loans to controlled entities		-	-	(326,270)	(1,064,897)
Net cash used in investing activities		(827,703)	(241,554)	(435,850)	(942,068)
Cash flows from financing activities					
(Transactions costs)/net proceeds from issue of shares and options		(201)	38,783	(201)	38,783
Proceeds from borrowings		124,995	-	124,995	-
Repayment of interest bearing liabilities		(53,445)	(107,904)	(53,445)	-
Net cash provided by/(used in) financing activities		71,349	(69,121)	71,349	38,783
NET DECREASE IN CASH HELD		(592,737)	(1,147,601)	(466,406)	(1,286,123)
Cash at the beginning of the financial year		865,734	2,013,335	468,931	1,755,054
Cash at the end of the financial year	24(a)	**272,997**	**865,734**	**2,525**	**468,931**

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

(b) Financial Position

The consolidated entity has recorded a loss for the year of $1,096,292 (2003: $1,503,527). The parent entity has recorded a loss of $959,666 (2003: $1,474,934). At 30 June 2004, the consolidated entity has a surplus in working capital of $263,765 (2003: $1,222,099). The parent entity has a surplus/(deficient) in working capital of ($123,537) (2003: $394,146). Whilst the consolidated entity has yet to establish profitable operations, the directors have prepared the financial statements on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this to be appropriate for the following reasons:

- The consolidated entity is forecast to be cash positive through normal activities in sales of software and services.
- The Company has downsized current operational resources following completion of research and development work without affecting revenue activities.
- WebSpy Ltd in Perth has completed its relocation to new premises, which saw a number of once off costs in December 2003 and January 2004.
- The Company believes it has the ability to raise additional equity if required.

Based on the above, the directors are confident that the consolidated entity will be able to continue operations into the foreseeable future.

(c) Principles of consolidation

The consolidated financial statements of the consolidated entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity").

The balances and effects of transaction between controlled entities included in the consolidated financial statements have been eliminated.

(d) 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 the 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 statement of financial position.

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

(e) Investments

Investments are carried in the financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the statements of financial performance when they are received.

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

(f) Acquisition of assets

All assets acquired including plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

(g) Depreciation and amortisation

Items of property, plant and equipment are depreciated/amortised from the date of acquisition using the straight line method over their estimated useful lives.

The depreciation and amortisation rates used for plant and equipment are as follows:

Plant and equipment	27 - 33%
Leasehold improvements	20%
Motor vehicles	15%

(h) Intellectual property

Intellectual property represents the fair value of assets acquired and is amortised over the period of time during which benefits are expected to arise.

Intellectual property is amortised on a straight line basis over 4 years.

The amortised balance of intellectual property is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance statement.

(i) Revenue recognition

Sale of goods

Sales revenue comprises revenue earned (net of the amount of goods and services tax (GST), returns, discounts and allowances) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when the control of goods passes to the customer.

Rendering of services

Revenue from rendering services is recognised in the period in which the service is provided, having regard to the stage of completion of the contract.

Interest income

Interest income is recognised as it accrues.

Sale of non-current assets

The gross proceeds of non-current asset sales not originally purchased for the intention of resale are included as revenue at the date the contract of sale is completed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Government Grants

Government Grants received are recognised as revenue when received.

(j) Taxation

The Company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

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

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

(k) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statements of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign entities

The statements of financial position of overseas controlled entities which are integrated foreign operations are translated using the temporal method. The statements of financial performance statements are translated at a weighted average rate for the year. Exchange differences arising on translation are brought to account as exchange gains or losses in the statements of financial performance.

(l) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A leased asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by the repayments of the principal. The interest components of the lease payment are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis, is more representative of the pattern of benefits to be derived from the leased property.

(m) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised. The expenditure is amortised on a straight line basis over a four year period in which the related benefits are expected to be realised.

The amortised balance of research and development is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the statement of financial performance in the period.

(n) Employee entitlements

Wages, salaries and annual leave

The provision for employee entitlements to wages, salaries and annual leave represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at nominal amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs. Future cashflows have not been discounted.

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

Employee option plan

WebSpy Ltd operates an employee option plan. There were no options issued under the plan during the year. Further information about the plan is set out in Note 21 to the financial statements. Other than the costs incurred in administering the plan, which are expensed as incurred, the plan does not result in any expense to the Company.

(o) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

(p) Receivables

The collectability of debts is assessed at balance date and specific provision is made for any doubtful debts.

Trade debtors

To be settled within 30 days are carried at amounts due.

Term debtors

Term debtors are generally settled within 12 months and carried at amounts due as a market rate of interest is charged.

(q) Payables

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

(r) Borrowing costs

Borrowing costs include interest and are expensed as incurred.

(s) Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the Company on issue during the financial year.

		Consolidated		Company	
		2004	2003	2004	2003
		$	$	$	$
2.	**REVENUE FROM ORDINARY ACTIVITIES**				
	Sale of goods revenue	1,874,911	1,849,395	-	-
	Rendering of service revenue	701,253	341,754	-	-
		2,576,164	2,191,149	-	-
	Other revenues				
	From operating activities				
	Interest	19,333	68,059	17,390	61,769
	Other income	8,409	450	21	450
	From outside operating activities				
	Gross proceeds from sale of plant and equipment	9,000	12,045	-	-
	Gross proceeds from sale of investments	23,896	130,245	23,896	130,245
	Proceeds from government grant	125,210	92,390	125,210	92,390
	Total other revenues	185,848	303,189	166,517	284,854
	Total revenues from ordinary activities	2,762,012	2,494,338	166,517	284,854
3.	**LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX BENEFIT**				
(a)	**Individually significant items included in loss from ordinary activities before income tax benefit**				
	Provision for non-recovery of loan to controlled entity	-	-	850,092	1,208,463
	Write down of research and development expenditure	402,728	-	-	-
(b)	**Loss from ordinary activities before income tax benefit has been arrived at after (charging)/ crediting the following accounts:**				
	Profit on sale of investments	23,896	120,245	23,896	120,245
	Profit/(loss) on sale of plant and equipment	(1,594)	6,866	-	-
	Depreciation and amortisation of:				
	- plant and equipment	(70,968)	(99,810)	(3,290)	(3,593)
	- motor vehicles	-	(13,362)	-	-
	- leasehold improvements	(38,323)	(416)	(36,352)	-
	Amortisation of intangibles:				
	- research and development expenditure	(375,122)	(297,088)	-	-
	- intellectual property	-	(184,974)	-	-
	Total depreciation and amortisation expense	(484,413)	(595,650)	(39,642)	(3,593)
	Finance charges on capitalised leases	(4,284)	(299)	(4,284)	-
	Total borrowing costs	(4,284)	(299)	(4,284)	-
	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	5,845	5,845

	Consolidated		Company	
	2004	2003	2004	2003
	$	$	$	$
4. AUDITOR' S REMUNERATION				
Amounts received or due and receivable by the auditor for:				
Audit services – KPMG	24,193	24,245	24,193	24,245
– other auditors	11,453	11,516	-	-
Other services – other auditors	3,984	9,348	2,500	-
	39,630	45,109	26,693	24,245

5. TAXATION

(a) Income tax benefit

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Prima facie income tax benefit calculated at 30% (2003: 30%) on the operating loss	391,057	451,058	350,069	442,480
Decrease in income tax benefit due to non tax deductible items:				
Amortisation of intellectual property	-	(55,492)	-	-
Amortisation and write down of research and development expenditure	(233,355)	(89,126)	-	-
Provision for non-recovery of loans to controlled entities	-	-	(255,028)	(362,539)
Sundry items	(43)	(5,173)	(376)	(1,985)
Future income tax benefit recouped	207,229	-	207,229	-
Future income tax benefit not brought to account	(157,659)	(301,267)	(94,665)	(77,956)
Income tax benefit attributable to operating loss	207,229	-	207,229	-
Estimated future income tax benefits calculated at 30% (2003: 30%) arising from tax losses and other expenditure that have not been brought to account at balance date, as realisation of the benefit is not regarded as virtually certain.	3,258,000	3,100,000	1,733,000	1,638,000

(b) Future Income Tax Benefit not brought to account

The future income tax benefit which may be derived from this expenditure and tax losses has not been carried forward as an asset in the statements of financial position and will only be obtained if:

(i) the relevant Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction of the loss to be realised, or the benefit can be realised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

(ii) the relevant Company continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant Company and/or the consolidated entity in realising the benefit from the deduction of the loss.

WebSpy Limited and its controlled entities are currently reviewing the impact of tax consolidation legislation on the group. The decision to implement this legislation has not yet been finalised.

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
6. CASH ASSETS					
Cash at bank and on hand		223,491	385,774	2,525	(11,029)
Security deposit	(a)	-	409,000	-	409,000
Bank short term deposits		49,506	70,960	-	70,960
		272,997	865,734	2,525	468,931
7. RECEIVABLES					
Current					
Trade debtors		330,774	659,300	-	-
Provision for doubtful trade debtors		-	(10,445)	-	-
Term debtors	(b)	135,807	124,262	135,807	124,262
Provision for doubtful term debtor		(106,092)	(106,092)	(106,092)	(106,092)
Other debtors		194,236	138,761	2,562	3,870
Provision for doubtful other debtors		(112,506)	(112,500)	-	-
Deposits	(c)	52,228	38,875	-	-
Interest Receivable		-	783	-	783
		494,447	732,944	32,277	22,823
Non-current					
Trade debtors		-	77,587	-	-
Security deposit	(a)	371,067	-	-	-
Loans to controlled entities		-	-	7,619,599	7,293,329
Provision for non-recovery of loans		-	-	(6,753,820)	(5,903,728)
		371,067	77,587	865,779	1,389,601

(a) Security deposit

This security deposit involves a term deposit letter of set off to a maximum value of $409,000 as guarantee, indemnity and security for a loan facility in favour of a director- related Company, Com.Air Pty Ltd, of which Mr Andrys is a director.

(b) Term debtors

The loan is a non-recourse loan and the initial advance has been fully provided for. The interest rate applicable is 9% per annum payable quarterly in arrears.

(c) Deposits

The deposit represents $3,145 (2003: $5,755), lodged as security pursuant to a property rental agreement in the United States, $32,223 (2003: $33,120) as security pursuant to a property rental agreement in the United Kingdom and $16,860 as security pursuant to a property rental agreement in Western Australia.

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
8. OTHER CURRENT ASSETS				
Prepayments	41,932	50,860	-	-

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
9. OTHER FINANCIAL ASSETS				
Controlled entities				
Unlisted units, at cost	-	-	898,553	898,553
Unlisted shares, at cost	-	-	93,237	93,237
Less: provision for diminution	-	-	(991,790)	(991,790)
	-	-	-	-
Other corporations				
Listed shares, at cost	-	77,202	-	77,202
Less: provision for diminution	-	(77,202)	-	(77,202)
Total other financial assets	-	-	-	-
10. PROPERTY, PLANT & EQUIPMENT				
Plant and equipment, at cost	662,173	639,921	70,974	70,974
Less: Accumulated depreciation	(529,382)	(471,957)	(66,858)	(63,568)
	132,791	167,964	4,116	7,406
Leasehold improvements, at cost	174,701	32,736	163,704	30,228
Less: Accumulated amortisation	(71,859)	(32,736)	(66,580)	(30,228)
	102,842	-	97,124	-
Motor vehicles, at cost	51,108	51,108	-	-
Less: Accumulated depreciation	(51,108)	(51,108)	-	-
	-	-	-	-
Total plant and equipment net book value	235,650	167,964	101,240	7,406
Reconciliations				
Reconciliations of the carrying amount of each class of property, plant and equipment are set out below:				
Plant and equipment				
Balance at the beginning of the year	167,964	184,456	7,406	1,083
Additions	46,388	83,318	-	9,916
Disposals	(10,594)	-	-	-
Depreciation	(70,968)	(99,810)	(3,290)	(3,593)
Balance at the end of the year	132,791	167,964	4,116	7,406
Leasehold improvements				
Balance at the beginning of the year	-	416	-	-
Additions	141,165	-	133,476	-
Amortisation	(38,323)	(416)	(36,352)	-
Balance at the end of the year	102,842	-	97,124	-

	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
10. PROPERTY, PLANT & EQUIPMENT (cont'd)				
Motor vehicles				
Balance at the beginning of the year	-	9,991	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	-	(9,991)	-	-
Balance at the end of the year	-	-	-	-
Leased motor vehicles				
Balance at the beginning of the year	-	8,550	-	-
Disposals	-	(5,179)	-	-
Amortisation	-	(3,371)	-	-
Balance at the end of the year	-	-	-	-
11. INTANGIBLES				
Intellectual property, at cost	-	1,459,599	-	-
Less: Intellectual property written off	-	(179,925)	-	-
Less: Accumulated amortisation	-	(1,279,674)	-	-
	-	-	-	-
12. CAPITALISED RESEARCH AND DEVELOPMENT EXPENDITURE				
Capitalised research and development expenditure	1,574,718	1,256,997	-	-
Less: Accumulated amortisation	(1,171,990)	(796,868)	-	-
Less: Amount written down	(402,728)	-	-	-
	-	460,129	-	-
Reconciliation				
A reconciliation of the carrying amount of capitalised research and development expenditure is set out below:				
Balance at the beginning of the year	460,129	452,638	-	-
Expenditure deferred in current period	317,721	304,579	-	-
Amortisation	(375,122)	(297,088)	-	-
Amount written down	(402,728)	-	-	-
Balance at the end of the year	-	460,129	-	-
13. PAYABLES				
Trade creditors	95,677	185,525	24,450	49,263
Other creditors and accruals	323,831	147,464	74,335	42,500
	419,508	332,989	98,785	91,763

	Consolidated		Company	
	2004	2003	2004	2003
	$	$	$	$
14. INTEREST BEARING LIABILITIES				
Current				
Lease liabilities	59,554	-	59,554	-
	59,554	-	59,554	-
Non-current				
Lease liabilities	11,995	-	11,995	-
The lease liabilities are secured over the leased assets.				
15. PROVISIONS				
Employee entitlements	93,549	94,450	-	5,845
16. 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	(22,031)	(19,580)	-	-
Amounts receivable:				
Current	64,074	71,731	-	-
British pounds				
Amounts payable:				
Current	(77,384)	(70,749)	-	-
Amounts receivable:				
Current	98,573	124,967	-	-
17. CONTRIBUTED EQUITY				
Share capital				
107,462,505 (2003: 107,462,505) fully paid ordinary shares	17,261,804	17,261,804	17,261,804	17,261,804

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up the Company, ordinary shareholders rank after creditors.

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.

	Consolidated		Company	
	2004	2003	2004	2003
	$	$	$	$
18. RESERVES				
Share Option Reserve	38,582	38,582	38,582	38,582
Movements during the year				
Balance at beginning of year	38,582	-	38,582	-
Add: proceeds arising through the issue of 21,492,501 options in May 2003 at an issue price of 0.2 cents each	-	42,985	-	42,985
Less: Transaction costs arising from the issue of options	-	(4,403)	-	(4,403)
Balance at end of year	38,582	38,582	38,582	38,582

Nature and purpose of reserve

Share Option Reserve

The share option reserve recognises the proceeds from issue of options over ordinary shares. Upon exercise or lapse of these options, amounts recorded in the share option reserve are transferred to contributed equity or accumulated losses respectively.

	Consolidated		Company	
19. ACCUMULATED LOSSES				
Accumulated losses at beginning of year	(15,372,607)	(13,869,080)	(15,509,233)	(14,034,299)
Loss from ordinary activities after income tax	(1,096,292)	(1,503,527)	(959,666)	(1,474,934)
Accumulated losses at end of year	(16,468,899)	(15,372,607)	(16,468,899)	(15,509,233)

20. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration of specified directors and specified executives by the consolidated entity

Executive Directors and key executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors receive a fixed monthly fee for their services.

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.

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

20. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

The following table provides the details of all directors of the Company ("specified directors") and the nature and amount of the elements of their remuneration for the year. The Company and consolidated entity currently has no executives ("specified executives") concerned in, or who take part in, the management of the body.

	PRIMARY				POST-EMPLOYMENT			
	Salary & fees $		Non-monetary benefits $		Superannuation benefits $		Total $	
Specified directors	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Non-executive								
Mr J Chua	20,000	15,000	-	-	-	-	20,000	15,000
Mr T McGellin	1,667	-	-	-	-	-	1,667	-
Mr R Chua	18,334	15,000	-	-	-	-	18,334	15,000
Executive								
Mr J Andrys	210,899	229,948	-	20,191	18,750	12,600	229,649	262,739
Total	250,900	259,948	-	20,191	18,750	12,600	269,650	292,739

Equity holdings and transactions

The movement during the reporting period in the number of securities held directly, indirectly or beneficially by each specified director, including their personally-related entities, is as follows:

Shares

	Held at 1 Jul 2003	Purchases	Received on Exercise of options	Held on Appointment	Held at Resignation	Held at 30 Jun 2004
Directors						
Mr J Andrys	8,043,678	192,200	-	N/A	N/A	8,235,878
Mr R Chua	3,340,000	-	-	N/A	3,340,000	N/A
Mr J Chua	13,695,167	-	-	N/A	N/A	13,695,167
Mr T McGelliln	N/A	-	-	4,801,586	N/A	4,801,586

Options exercisable at $0.08 on or before 31 May 2006

	Held at 1 Jul 2003	Granted as remuneration	Other Changes*	Held on Appointment	Held at Resignation	Held at 30 Jun 2004
Directors						
Mr J Andrys	1,608,736	-	760	N/A	N/A	1,609,496
Mr R Chua	668,000	-	-	N/A	668,000	N/A
Mr J Chua	1,556,000	-	-	N/A	N/A	1,556,000
Mr T McGelliln	N/A	-	-	992,317	N/A	992,317

All options vested on the date of issue. No options held by specified directors are vested but not exercisable.

* Other changes represents the net movement in options that were issued, expired or were forfeited during the year.

21. EMPLOYEE OPTION PLAN

The Company 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.

22. COMMITMENTS

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Operating lease commitments					
Future operating lease rentals not provided for in the financial statements and payable:					
- Not later than one year		83,390	150,482	41,566	28,000
- Later than one year but not later than five years		288,507	47,947	277,104	-
		371,897	198,429	318,670	28,000
Finance lease commitments					
Finance lease rentals for leasehold improvements are payable as follows:					
- Not later than one year		62,408	-	62,408	-
- Later than one year but not later than five years		12,285	-	12,285	-
Less: finance charges		(3,144)	-	(3,144)	-
		71,549	-	71,549	-
Lease liabilities provided for in the financial statements					
- Current	14	59,554	-	59,554	-
- Non Current	14	11,995	-	11,995	-
		71,549	-	71,549	-

23. SEGMENT INFORMATION

Primary reporting Geographical segments	Australia $A'000 2004	Australia $A'000 2003	North America $A'000 2004	North America $A'000 2003	Europe $A'000 2004	Europe $A'000 2003	Consolidated $A'000 2004	Consolidated $A'000 2003
Revenue								
Segment revenue	1,317,267	1,202,562	579,819	550,943	845,592	672,774	2,742,678	2,426,279
Unallocated interest revenue							19,333	68,059
							2,762,011	2,494,338
Result								
Segment result	(1,659,016)	(1,552,477)	143,454	1,759	192,707	(20,868)	(1,322,855)	(1,571,586)
Unallocated interest revenue							226,563	68,059
							(1,096,292)	(1,503,527)
Depreciation and amortisation	460,362	548,242	14,548	34,152	9,503	13,256	484,413	595,650
Non cash expenses other than depreciation and amortisation	402,727	-	-	-	-	-	402,727	-
Assets								
Segment assets	472,105	1,160,586	91,275	112,598	208,649	216,300	772,029	1,489,484
Unallocated cash							644,064	865,734
Consolidated total assets							1,416,093	2,355,218
Liabilities								
Segment liabilities	(456,690)	(324,552)	(34,419)	(27,293)	(93,499)	(75,594)	(584,608)	(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.

	Consolidated		Company	
	2004	2003	2004	2003
	$	$	$	$
24. NOTES TO THE STATEMENTS OF CASHFLOWS				
(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	2,525	59,931
Security deposit	-	409,000	-	409,000
	272,997	865,734	2,525	468,931
(b) Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities				
Loss from ordinary activities after income tax	(1,096,292)	(1,503,527)	(959,666)	(1,474,934)
Add/(less) non-cash items:				
Write off R&D expenditure	402,728	-	-	-
Amortisation of R&D	375,122	482,417	-	-
Profit on sale of investments	(23,896)	(120,245)	(23,896)	(120,245)
Profit on sale of fixed assets	(9,000)	(6,866)	-	
Provision for doubtful trade and other debtors	-	-	-	-
Provision for controlled entity receivables	-	-	850,092	1,208,463
Provision for employee entitlements	(901)	62,328	(5,846)	5,845
Depreciation	70,968	112,355	3,290	3,593
Amortisation	38,323	817	36,352	-
Foreign exchange loss	(21)	-	-	-
Net cash used in operating activities before changes in assets and liabilities	(242,969)	(972,721)	(99,674)	(377,278)
Changes in assets and liabilities during the financial year:				
Decrease/(Increase) in receivables	316,081	219,633	(9,454)	(16,318)
Decrease/(Increase) in prepayments	8,928	(43,905)	-	-
Increase/(Decrease) in payables	81,577	(39,933)	7,223	10,758
Net cash used in operating activities	163,617	(836,926)	(101,905)	(382,838)

25. LOSS PER SHARE

	Consolidated 2004	Consolidated 2003
	Number of shares	
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.

26. FINANCIAL INSTRUMENTS DISCLOSURE

(a) Interest rate risk exposure

The consolidated entity's exposure to interest rate risk is set out below:

Cash

Cash includes short term deposit of $49,506 (2003: $70,960) maturing in less than one year and paying interest at 30 June 2004 of 3.75% per annum (2003: 4.35%). The balance of funds was held in cheque and business management accounts, which during the year earned interest at rates ranging between 0% and 2%, depending on account balances.

Receivables

Receivables include a loan of $135,807 (2003: $124,262) to Templar Resources Ltd [refer Note 7(b)] with an interest rate of 9% per annum. The initial amount of the loan has been fully provided for.

The balance of funds is a security deposit of $371,067 (2003: $409,000) maturing in less than one year and paying interest at 30 June 2004 of 1.25% per annum (2003: 4%).

Interest bearing liabilities

A finance lease of $71,549 as discussed in Note 14 at an interest rate of 8.9% per annum.

(b) Credit risk exposures

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

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the statements of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers in various countries.

The Company is not materially exposed to any individual overseas country or individual customer.

(c) Net fair values of financial assets and liabilities

The financial assets and liabilities included in the assets and liabilities in the statements of financial position are carried at amounts that approximate net fair values.

27. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

		2004 %	2003 %
Parent entity			
WebSpy Limited			
Controlled entities			
WebSpy UK Limited	(i)	100%	100%
Netlink Unit Trust	(ii)	100%	100%
Netlink (WA) Pty Ltd	(ii)	100%	100%
Webspy US Inc	(iii)	100%	100%

(i) Incorporated in the United Kingdom
(ii) Established in Australia
(iii) Incorporated in the United States

28. EVENTS SUBSEQUENT TO REPORTING DATE

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).

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impact of any changes in accounting policies in the transition period leading up to the adoption date. This standard applies to interim and annual reporting periods from 30 June 2004 and ceasing to operate on the first-time adoption of Australian equivalents to IFRS.

Subsequently the Company has allocated internal resources and in conjunction with its auditors is assessing 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.

Pursuant to AASB 1047 the Company must provide a statement disclosing the key potential implications of the conversion to IFRS for reporting periods from 1 January 2005. The Company sets out below 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 AASB 112 "*Income Taxes*", a "balance sheet approach" will be adopted for calculating taxation, replacing the "statement of financial performance approach" currently used. This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Under the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting result and/or taxable income/ (loss).

Under current standard AASB 1020, the recognition criteria for tax losses is when realisation is virtually certain. Under AASB 112, the recognition criteria is less strict and deferred tax assets are recognised when recovery is probable.

The full impact of changes arising from the application of AASB 112 has yet to be quantified.

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;

28. EVENTS SUBSEQUENT TO REPORTING DATE (Cont'd)

- 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 recognise an expense for options issued to directors and employees. Under AASB 2 "Share Based Payments", the Company will be required to recognise an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

Intangible Assets

Under AASB 138 *"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 items similar in substance may not be recognised as assets. All expenditure on research must be expensed when it is incurred except development phase expenditure in certain circumstances. This will result in a change in the Company's current accounting policy which allows for the capitalisation of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond a reasonable doubt.

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 a change to the Company's current accounting policy which determines recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that the impairment of assets will be recognised sooner and the amount of any write downs will be greater

Other than the impact of IFRS as noted above, 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 Company, the results of those operations, or the state of affairs of the Company, in future financial years.

In the opinion of the directors of WebSpy Ltd:

(a) the financial statements and notes, set out on pages 16 to 35 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations; and

(b) as set out in note 1(b), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

J Andrys
Director

Dated at Perth, Western Australia, this 29th day of September 2004

KPMG

Independent audit report to members of Webspy Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Webspy Limited (the "Company") and the Consolidated Entity, for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

KPMG

Audit opinion

In our opinion, the financial report of Webspy Limited is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

D McComish

D P McCOMISH
Partner

Perth
Dated 30 September 2004

Details of shares and options as at 30 September 2004:

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

Restricted Securities

The Company has no restricted securities.

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Substantial shareholder	Number of Shares
Kim Hin (Malaysia) Sdn Bhd	16,282,500
Mr J Chua	13,685,167
Mr Jack Paul Andrys	8,277,878

On-Market Buy Back

There is no current on-market buy-back.

Distribution schedules

Distribution of each class of Security as at 30 September 2004:

Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	33	30,158	0.03
1,001 - 5,000	134	438,154	0.41
5,001 - 10,000	166	1,477,124	1.37
10,001 - 100,000	370	14,087,455	13.11
100,001 - Over	105	91,429,614	85.08
Total	808	107,462,505	100.00

Options exercisable at $0.08 on or before 31 May 2006

Range	Holders	Units	%
1 - 1,000	39	24,989	0.12
1,001 - 5,000	72	195,263	0.91
5,001 - 10,000	22	178,890	0.83
10,001 - 100,000	61	2,482,595	11.55
100,001 - Over	35	18,610,764	86.59
Total	229	21,492,501	100.00

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 16,667 as at 30 September 2004):

Holders	Units
383	2,658,079

Top holders

The 20 largest registered holders of each class of security as at 30 September 2004 were:

Fully paid ordinary shares

Name	No. of Shares	%
Kim Hin (Malaysia) Sdn Bhd	16,282,500	15.15
Mr J Chua	13,685,167	12.73
Mr Jack Paul Andrys	8,277,878	7.70
Baracus Pty Ltd	6,569,120	6.11
Underpass Holdings Pty Ltd <Tom McGellin A/C>	4,801,586	4.47
Pacific Link Global Enterprise Limited	3,725,945	3.47
Mr Richard Chua	2,300,000	2.14
Siaw Yian Chong	2,295,002	2.14
Mr Ben Rockefeller	2,160,000	2.01
Prominent Capital Management Limited	2,068,916	1.93
Chui Tham Chua	1,985,000	1.85
Spidermax Pty Ltd <The Lockitt Family A/C>	1,500,000	1.40
Royal Sunset Pty Ltd	1,370,000	1.27
Wai Heng Ho	1,041,302	0.97
Donjand Nominees Pty Ltd <Shepard Super Fund A/C>	953,291	0.89
Mr Roger Hearnden <Super Fund A/C>	821,000	0.76
Casir (Aust) Pty Ltd	815,000	0.76
Jaylin Pty Ltd <Linden Super Fund A/C>	799,999	0.74
Miss Lee Ting Ling	740,001	0.69
Microvision Consultations Pty Ltd <Van Blommestein Super A/C>	725,000	0.67
	72,916,707	67.85

Options exercisable at $0.08 on or before 31 May 2006

Name	No. of Options	%
1. Kim Hin (Malaysia) Sdn Bhd	3,000,000	13..96
2. Spruzen Corporation Pty Ltd	2,142,764	9.97
3. Mr Jack Paul Andrys	1,608,736	7.48
4. Mr J Chua	1,556,000	7.24
5. Miss Wai Heng Ho	1,258,444	5.86
6. Underpass Holdings Pty Ltd <Tom McGellin A/C>	992,317	4.62
7. Pacific Link Global Enterprise Limited	934,826	4.35
8. Mrs Tanya Margaret Karal	825,000	3.84
9. Mr Roger James Kilpatrick & Mrs Debbie Kilpatrick <Lavender Rise S/Fund A/C>	502,000	2.34
10. Mr Richard Chua	460,000	2.14
11. Mr Christopher Thomas Merrick	459,000	2.14
12. Prominent Capital Management Limited	413,840	1.93
13. P W Petersen & Associates Pty Ltd	382,000	1.78
14. Mr Anthony Ho	364,000	1.69
15. Mr Michael John Thompson	359,000	1.67
16. Mrs Julia Andrys	331,000	1.54
17. Toltec Holdings Pty Ltd	296,797	1.38
18. Mr Diranne Lee-Renwick	290,000	1.35
19. Mr Daniel Brett Jones	241,000	1.12
20. Killara Ridge Pty Ltd	200,000	0.93
	16,616,724	77.33