

# Praemium Limited

098 405 826

For the Half Year Ended 31 December 2006

## Appendix 4D

### ASX Half-Year Report

**Name of entity:** Praemium Limited

**ABN:** 74 098 405 826

**Reporting period:** Half-year ended 31 December 2006

**Previous corresponding period:** Half-year ended 31 December 2005

#### Results for announcement to the market

| <b>Results</b>                                                  |            |                  |  |
|-----------------------------------------------------------------|------------|------------------|--|
| Revenue from ordinary activities                                | up 95%     | to \$2,144,432   |  |
| Loss from ordinary activities after tax attributable to members | down 1446% | to (\$3,905,529) |  |
| Net loss for the period attributable to members                 | down 1446% | to (\$3,905,529) |  |

| <b>Dividends</b>                         | <b>Amount per security</b> | <b>Franked amount per security</b> |
|------------------------------------------|----------------------------|------------------------------------|
| <b>Current period</b>                    | -                          | -                                  |
| Ordinary dividend                        | -                          | -                                  |
| <b>Previous corresponding period</b>     | -                          | -                                  |
| Ordinary dividend                        | -                          | -                                  |
| No dividends are proposed for the period |                            |                                    |

#### Brief explanation of the figures reported above:

Refer to the attached Half-Year Report (Directors' Report – Review of Operations section), for commentary on the half-year results.

# Praemium Limited

098 405 826

For the Half Year Ended 31 December 2006

## Praemium Limited and Controlled Entities

### Notes to Appendix 4D

For the half-year ended 31 December 2006

#### Net tangible assets per security

|                                                  | Current period | Previous period |
|--------------------------------------------------|----------------|-----------------|
| Net tangible asset backing per ordinary security | 10.84 cents    | 0.007 cents     |

#### Control gained over entities having a material effect

|                                       |     |
|---------------------------------------|-----|
| Name of entity (or group of entities) | N/A |
|---------------------------------------|-----|

#### Loss of control of entities having a material effect

|                                       |     |
|---------------------------------------|-----|
| Name of entity (or group of entities) | N/A |
|---------------------------------------|-----|

#### Additional Dividend Information

Details of dividend declared or paid during or subsequent to the current period or the previous corresponding period are as follows:

| Record date | Payment date | Type | Amount per security | Franked amount per security | Total dividend |
|-------------|--------------|------|---------------------|-----------------------------|----------------|
|             |              |      |                     |                             |                |
|             |              |      |                     |                             |                |
|             |              |      |                     |                             |                |

#### Dividend Reinvestment Plan

Not applicable.

# Praemium Limited

098 405 826

For the Half Year Ended 31 December 2006

## Praemium Limited and Controlled Entities

### Notes to Appendix 4D

For the half-year ended 31 December 2006

#### Details of associates and joint venture entities

| Name of entities                                                   |                |                 |
|--------------------------------------------------------------------|----------------|-----------------|
|                                                                    | Current period | Previous period |
| Consolidated entity's percentage holding in each of these entities | -              | -               |
| Aggregate share of profits after tax of these entities             | -              | -               |
| Contribution to net profit after tax                               | -              | -               |
| Contribution to net profit after tax                               | -              | -               |

#### Compliance Statement

This report is based on financial statements reviewed by the auditor, copies of which are attached.

Signed:



Date: 30 January 2007

# Praemium Limited

098 405 826

For the Half Year Ended 31 December 2006

## Table of Contents

|                                                       | <b>Page</b> |
|-------------------------------------------------------|-------------|
| Directors' Report                                     | 5           |
| Auditor's Independence Declaration                    | 8           |
| Financial Report for Half-Year Ended 31 December 2006 |             |
| Condensed Consolidated Income Statement               | 9           |
| Condensed Consolidated Balance Sheet                  | 10          |
| Condensed Consolidated Statement of Changes in Equity | 11          |
| Condensed Consolidated Statement of Cash Flows        | 13          |
| Notes to the Financial Statements                     | 14          |
| Directors' Declaration                                | 26          |
| Independent Review Report                             | 27          |

# Praemium Limited

098 405 826

For the Half Year Ended 31 December 2006

## Directors' Report

The Directors present their report together with the condensed financial report of the consolidated entity consisting of Praemium Limited and the entities it controlled, for the half year ended 31 December 2006 and independent review report thereon. This financial report has been prepared in accordance with Australian International Financial Reporting Standards.

## Director's Names

Dr. Don Stammer  
Mr. Arthur Naoumidis  
Mr. Robert Edgley  
Mr. Malcolm Taylor  
Ms. Christine Silcox

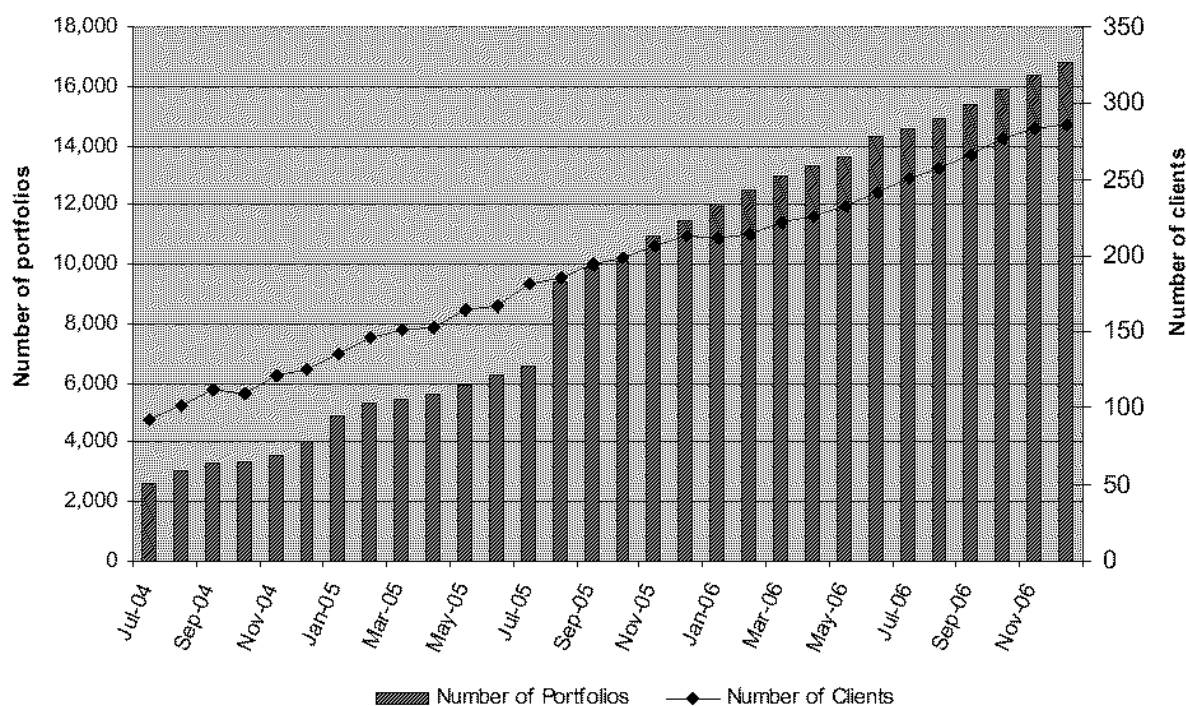
The Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

## Review of Operations

### Financial Summary

The company and its controlled entities made a net loss of \$3,905,529 after tax for the half year ended 31 December 2006. This compares with a net loss in the preceding period of \$252,607. The Group's net asset position is \$14,275,196 whilst its cash or cash equivalents as at December 31 are \$12,331,047.

Number of Clients and Portfolios under management



# Praemium Limited

098 405 826

For the Half Year Ended 31 December 2006

## Significant achievements

- Portfolio Administration Service (previously called PAS), re-branded as V-Wrap
- V-Wrap continues to grow
- SMA builds momentum
- Portfolio Desktop and other developments
- GBST Holdings Ltd (GBST) and Praemium Ltd integration
- UK continues to develop in accordance with our strategy

## V-Wrap Rebranding

PAS has been re-branded as V-Wrap in a move planned to ensure consistency of product position in both the Australian and the United Kingdom (UK) markets. The re-branding supports and promotes the firm's product as a virtual wrap without sacrificing its key strengths of flexibility, control, transparency and pricing positioning. Integral to the V-Wrap is the ability of Praemium's Separately Managed Account (SMA) to sit over the top of the V-Wrap platform.

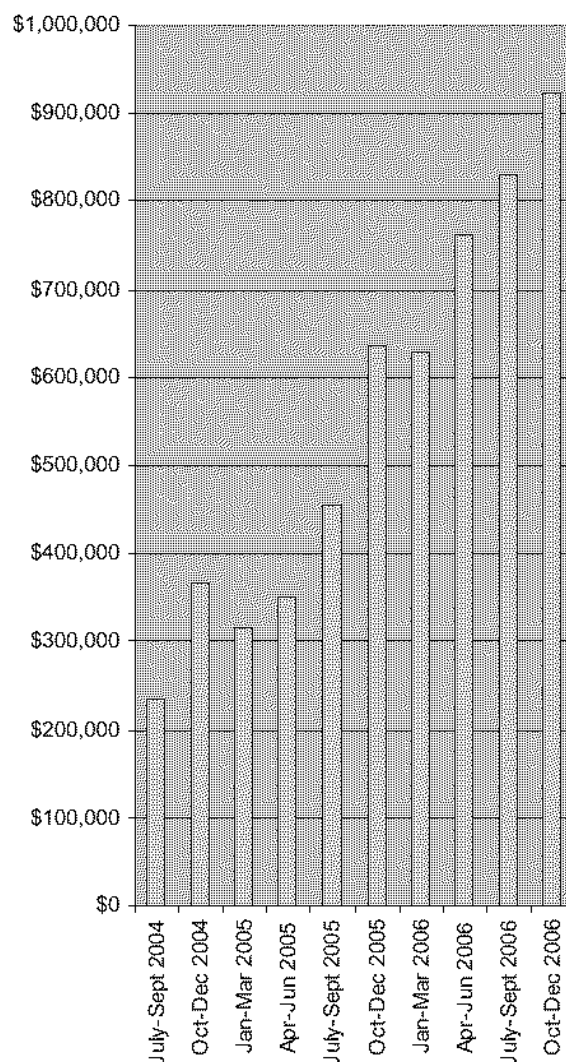
## V-Wrap Growth

V-Wrap has grown to approximately 16,700 portfolios under administration as at 31 December 2006, up from 14,320 at June 30<sup>th</sup> 2006 – an increase of approximately 17%. As at 31 December 2006 297 organisations were signed up as V-Wrap clients, representing a growth of 22% during the first half of this financial year.

In accordance with the plans set out in our prospectus, Praemium has established offices and engaged sales managers in NSW, SA and QLD. These have only recently been established and become operational.

Another key milestone for this half year was the signing of Ord Minnett-one of Australia's leading stock broking firms.

Quarterly Net Invoiced Revenue



# Praemium Limited

098 405 826

## Notes to the Financial Statements For the Year Ended 31 December 2006

### SMA Momentum

Praemium's SMA, which is currently offered exclusively by Blackrock (formerly Merrill Lynch Investment Managers), had 3 firms subscribing as clients at June 30<sup>th</sup> 2006, whereas at 31 December 2006 there were 27 firms subscribing as clients.

The clients are now in the process of developing and implementing their internal marketing plans for rollout in the coming months.

### Portfolio Desktop and other enhancements

As a result of client feedback, V-Wrap will shortly be enhanced by the addition of our Portfolio Desktop application which will incorporate market depth information, news, indices and market activity in addition to enhanced access to V-Wrap's advanced portfolio functions and offer intra day portfolio reconstruction. Other features, as disclosed in our 2006 annual report, namely the roll out of investment property, traders' and inheritance features are due to be launched within the first half of 2007.

### GBST Integration and Distribution Agreement

On the back of the company's push for continual development and product enhancements, Praemium has entered into an agreement with GBST which allows for the integration of their respective applications with V-Wrap. This will allow for automatic updating of daily transactions and client positions resulting in efficiencies and savings for clients.

As part of this agreement, Praemium and GBST will work together to market V-Wrap and the Portfolio Desktop to GBST's clients that do not already subscribe to Praemium's services.

### UK Strategy

Significant progress has been made in establishing our office and presence within the UK. We have had constructive feedback from the FSA on our impending application for the authorisations necessary to operate our Separately Managed Account (SMA) as a retail fund offering in the UK. It is anticipated that the application for manager authorisation will be submitted by the first week of February 2007 and an application for approval of the fund itself will follow thereafter.

The main technical components of our UK strategy are well advanced with the multi-currency and UK CGT customization currently being tested. We have engaged a global market data provider and are in the process of integrating their historic and ongoing data into the Praemium platform.

We have appointed a UK Board of directors which is made up of three non executives and two executives. The non executives are Lord Brabourne, David Harrison and Roland Ward whilst the executives are Arthur Naoumidis (managing director of Praemium Ltd), and Pete Burtonshaw (managing director for the UK operations).

### Revenue Growth

Praemium's revenue for the Quarter ended 31<sup>st</sup> December 2006 was \$922K up 11% from the quarter ended 30<sup>th</sup> September 2006 and up 45% from the quarter ended 31<sup>st</sup> December 2005.

### Auditor's Declaration

A copy of the auditor's declaration in respect of the review for the half-year is provided within this report.

Signed in accordance with a resolution of the Directors:



Director.....(Arthur Naoumidis)

Dated: 30 January 2007

**Auditor's Independence Declaration**

**Under Section 307C of the Corporations Act 2001**

To the Directors of Praemium Limited:

I declare that, to the best of my knowledge and belief, during the period ended 31 December 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

  
William Buck  
Chartered Accountants

  
Brad Taylor  
Partner

Dated this 30<sup>th</sup> day of January 2007.

Melbourne, Australia.

# Praemium Limited

098 405 826

Notes to the Financial Statements  
For the Year Ended 31 December 2006

## Condensed Income Statement

|                                                            | Economic Entity    |                  |
|------------------------------------------------------------|--------------------|------------------|
|                                                            | Half Year 2006     | Half Year 2005   |
|                                                            | \$                 | \$               |
| Revenue                                                    | 2,144,432          | 1,099,550        |
| Other income                                               | 825                | -                |
| Employee costs                                             | (3,417,381)        | (775,137)        |
| Depreciation, amortisation and impairments                 | (114,412)          | (33,229)         |
| Legal, professional, advertising and insurance expense     | (1,537,625)        | (186,241)        |
| Commissions expense                                        | (69,501)           | (94,889)         |
| Travel expenses                                            | (264,353)          | (57,291)         |
| Research and development expense                           | -                  | -                |
| Other expenses                                             | (647,514)          | (202,899)        |
| Finance costs                                              | -                  | (2,471)          |
| <b>Profit before income tax expense</b>                    | <b>(3,905,529)</b> | <b>(252,607)</b> |
| Income tax expense                                         | -                  | -                |
| <b>Profit attributable to members of the parent entity</b> | <b>(3,905,529)</b> | <b>(252,607)</b> |
| Basic earnings/(loss) per share<br>(cents per share)       | <b>(0.029)</b>     | <b>(0.012)</b>   |
| Diluted earnings/(loss) per share<br>(cents per share)     | <b>(0.029)</b>     | -                |

The accompanying notes form part of these financial statements

# Praemium Limited

098 405 826

Notes to the Financial Statements  
For the Year Ended 31 December 2006

| Condensed Balance Sheet              | Economic Entity Economic Entity |                   |
|--------------------------------------|---------------------------------|-------------------|
|                                      | 31 December 2006                | 30 June 2006      |
|                                      | \$                              | \$                |
| <b>Current assets</b>                |                                 |                   |
| Cash and cash equivalents            | 12,331,047                      | 17,063,834        |
| Trade and other receivables          | 1,603,476                       | 716,494           |
| <b>Total current assets</b>          | <b>13,934,523</b>               | <b>17,780,328</b> |
| <b>Non-current assets</b>            |                                 |                   |
| Financial assets                     | 393,514                         | 359,470           |
| Property, plant and equipment        | 1,520,282                       | 424,371           |
| Intangible assets                    | 13,326                          | 14,376            |
| <b>Total non-current assets</b>      | <b>1,927,122</b>                | <b>798,217</b>    |
| <b>TOTAL ASSETS</b>                  | <b>15,861,645</b>               | <b>18,578,545</b> |
| <b>Current liabilities</b>           |                                 |                   |
| Trade and other payables             | 1,436,363                       | 753,885           |
| Provisions                           | 136,966                         | 66,240            |
| <b>Total current liabilities</b>     | <b>1,573,329</b>                | <b>820,125</b>    |
| <b>Non-current liabilities</b>       |                                 |                   |
| Provisions                           | 13,120                          | 10,260            |
| <b>Total non-current liabilities</b> | <b>13,120</b>                   | <b>10,260</b>     |
| <b>TOTAL LIABILITIES</b>             | <b>1,586,449</b>                | <b>830,385</b>    |
| <b>NET ASSETS</b>                    | <b>14,275,196</b>               | <b>17,748,159</b> |
| <b>EQUITY</b>                        |                                 |                   |
| Share capital                        | 19,897,544                      | 19,923,967        |
| Reserves                             | 490,877                         | 31,824            |
| Accumulated losses                   | (6,113,225)                     | (2,207,632)       |
| <b>TOTAL EQUITY</b>                  | <b>14,275,196</b>               | <b>17,748,159</b> |

The accompanying notes form part of these financial statements

# Praemium Limited

098 405 826

Notes to the Financial Statements  
For the Year Ended 31 December 2006

## Condensed Statement of Changes in Equity

### Economic Entity 2006

|                                                   | Ordinary<br>Shares | Retained<br>Earnings | Foreign<br>Currency<br>Translation<br>Reserve | Option<br>Reserve | Assets<br>Available<br>for sale<br>Revaluation<br>Reserve | Total              |
|---------------------------------------------------|--------------------|----------------------|-----------------------------------------------|-------------------|-----------------------------------------------------------|--------------------|
|                                                   | \$                 | \$                   | \$                                            | \$                | \$                                                        | \$                 |
| Equity as at July 1 2006                          | 19,923,967         | (2,207,632)          | (12,058)                                      | 43,882            | -                                                         | 17,748,159         |
| <b>Net income recognised directly in equity</b>   |                    |                      |                                               |                   |                                                           |                    |
| Equity raising costs                              | (26,423)           |                      |                                               |                   |                                                           | (26,423)           |
| Foreign currency translation reserve              | -                  |                      | (8,489)                                       |                   |                                                           | (8,489)            |
| Assets available for sale Revaluation reserve     |                    |                      |                                               |                   | 43,084                                                    | 43,084             |
| Retained Earnings correction to 30 June 2006      |                    | (64)                 |                                               |                   |                                                           | (64)               |
| <b>Sub-total</b>                                  | <b>(26,423)</b>    | <b>(64)</b>          | <b>(8,489)</b>                                |                   | <b>43,084</b>                                             | <b>8,108</b>       |
| <b>Recognised income and expense for the year</b> |                    |                      |                                               |                   |                                                           |                    |
| Loss attributable to members of the parent entity |                    | (3,905,529)          |                                               |                   |                                                           | (3,905,529)        |
| <b>Sub-total</b>                                  |                    | <b>(3,905,529)</b>   |                                               |                   |                                                           | <b>(3,905,529)</b> |
| Option reserve                                    |                    |                      |                                               | 424,458           |                                                           | 424,458            |
| <b>Sub-total</b>                                  | <b>-</b>           | <b>-</b>             | <b>-</b>                                      | <b>424,458</b>    | <b>-</b>                                                  | <b>424,458</b>     |
| <b>Equity as at 31 December 2006</b>              | <b>19,897,544</b>  | <b>(6,113,225)</b>   | <b>(20,547)</b>                               | <b>468,340</b>    | <b>43,084</b>                                             | <b>14,275,196</b>  |

The accompanying notes form part of these financial statements

# Praemium Limited

098 405 826

Notes to the Financial Statements  
For the Year Ended 31 December 2006

## Condensed Statement of Changes in Equity

|                                                   | Economic Entity 2005 |                    |                                      |                |                                               | Total            |
|---------------------------------------------------|----------------------|--------------------|--------------------------------------|----------------|-----------------------------------------------|------------------|
|                                                   | Ordinary Shares      | Retained Earnings  | Foreign Currency Translation Reserve | Option Reserve | Assets Available for sale Revaluation Reserve |                  |
|                                                   | \$                   | \$                 | \$                                   | \$             | \$                                            | \$               |
| Equity as at July 1 2005                          | 1,597,963            | (1,213,477)        | -                                    | -              | -                                             | 384,486          |
| <b>Recognised income and expense for the year</b> |                      |                    |                                      |                |                                               |                  |
| Loss attributable to members of the parent entity | -                    | (252,607)          | -                                    | -              | -                                             | (252,607)        |
| <b>Sub-total</b>                                  |                      | <b>(252,607)</b>   |                                      |                |                                               | <b>(252,607)</b> |
| Issue of shares                                   | 500,000              | -                  | -                                    | -              | -                                             | 500,000          |
| <b>Sub-total</b>                                  | <b>500,000</b>       | <b>-</b>           | <b>-</b>                             | <b>-</b>       |                                               | <b>500,000</b>   |
| <b>Equity as at 31 December 2005</b>              | <b>2,097,963</b>     | <b>(1,466,084)</b> | <b>-</b>                             | <b>-</b>       | <b>-</b>                                      | <b>631,879</b>   |

The accompanying notes form part of these financial statements

# Praemium Limited

098 405 826

Notes to the Financial Statements  
For the Year Ended 31 December 2006

| Condensed Cash Flow Statement                                     | Economic Entity    |                  |
|-------------------------------------------------------------------|--------------------|------------------|
|                                                                   | Half Year 2006     | Half Year 2005   |
| Note                                                              | \$                 | \$               |
| <b>Cash from operating activities:</b>                            |                    |                  |
| Receipts from customers                                           | 1,686,603          | 974,940          |
| Payments to suppliers and employees                               | (5,555,695)        | (1,256,949)      |
| Interest received                                                 | 387,431            | 8,366            |
| Borrowing costs paid                                              | -                  | (978)            |
| <b>Net cash (used by) /provided from operating activities</b>     | <b>(3,481,661)</b> | <b>(274,621)</b> |
| <b>Cash flows from investing activities:</b>                      |                    |                  |
| Dividends received                                                | 4,290              | -                |
| Payments for property, plant and equipment                        | (1,208,276)        | (246,874)        |
| Acquisition of other investments                                  | 8,436              | -                |
| Loans to related parties - payments made                          | -                  | -                |
| <b>Net cash used in investing activities</b>                      | <b>(1,195,550)</b> | <b>(246,874)</b> |
| <b>Cash flows from financing activities:</b>                      |                    |                  |
| Proceeds from the issue of share capital                          | -                  | 500,000          |
| Share issue transaction costs                                     | (26,423)           | -                |
| <b>Net cash provided by financing activities</b>                  | <b>(26,423)</b>    | <b>500,000</b>   |
| <b>Net cash increase (decreases) in cash and cash equivalents</b> | <b>(4,703,634)</b> | <b>(21,495)</b>  |
| Cash and cash equivalents at beginning of year                    | 17,063,834         | 174,030          |
| Effect of exchange rates on cash holdings in foreign currencies   | (29,153)           | -                |
| <b>Cash and cash equivalents at end of year</b>                   | <b>12,331,047</b>  | <b>152,535</b>   |

The accompanying notes form part of these financial statements

# Praemium Limited

098 405 826

Notes to the Financial Statements  
For the Year Ended 31 December 2006

## 1 Statement of Significant Accounting policies

### (a) General information

The financial report is a general purpose financial report that covers the consolidated position of Praemium Limited and controlled entities (the economic entity), and Praemium Limited as an individual parent entity ('parent entity'). Praemium Limited is a listed public company, incorporated and domiciled in Australia.

Praemium Limited changed from a proprietary company to a public company on 13 January 2006 and changed its name from Praemium Proprietary Limited at the same time.

This half year financial report does not include all the notes of the type usually included in an annual financial report. It is recommended that this financial report be read in conjunction with the financial report for the year ended 30 June 2006 and any public announcements made by Praemium Ltd during the half year in accordance with any continuance disclosure obligations arising under the Corporations Act 2001.

The financial report for this half year is prepared in accordance with the accounting policies, methods and computations as that used in the financial report for the year ended 30 June 2006.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (b) Basis of preparation

The financial report of Praemium Limited and controlled entities has been prepared in accordance with AASB 134 "Interim Financial Reporting".

#### (i) Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs as modified by the revaluation of available for sale financial assets, financial assets and liabilities at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

The accounting policies set out below have been consistently applied to all years presented, except as noted above.

#### (ii) Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised Standards and Interpretations have not resulted in changes to the Group's accounting policies.

# Praemium Limited

098 405 826

## Notes to the Financial Statements

For the Half Year 31 December 2006

### 1 Accounting policies continued

#### (c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Praemium Limited ("parent entity") as at 31 December 2006 and the results of all subsidiaries as 31 December 2006. Praemium Limited and its subsidiaries are referred to in this financial report as the "Group".

A subsidiary is any entity over which Praemium Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

All subsidiaries have a June financial year end.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies adopted by the Group.

Subsidiaries are fully consolidated from the date which control is transferred to the Group. They are de-consolidated from the date control ceases.

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations). Cost is measured as the fair value of the assets given, equity instruments issued (net of transaction costs) or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

# Praemium Limited

098 405 826

## Notes to the Financial Statements

For the Half Year 31 December 2006

### 1 Accounting policies continued

#### (d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

##### (i) Plant and equipment

Plant and equipment is measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors for indications of impairment. If any such indications exist, an impairment test is carried out, and any impairment losses on the assets recognised. To ensure that costs are not recognised in excess of their recoverable amounts, the recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employed and subsequent disposals discounted to their net present value.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

##### (ii) Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding land, is depreciated on a straight-line basis over their useful lives (commencing from the time the asset is ready for use). Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciable amount is the carrying value of the asset less estimated residual amounts. The residual amount is based on what a similar asset of the expected condition of the asset at the end of its useful life could be sold for.

Property plant and equipment is measured initially at cost. Cost includes all directly attributable expenditure incurred including costs to get the asset ready for its use as intended by management. Costs include an estimate of any expenditure expected to be incurred at the end of the asset's useful life, including restoration, rehabilitation and decommissioning costs.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset           | Depreciation Rate | Method        |
|--------------------------------|-------------------|---------------|
| Plant, Furniture and equipment | 10% - 20%         | Straight-line |
| Computer equipment             | 20%               | Straight-line |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred back to the income statement as part of the profit or loss on disposal.

## **1 Accounting policies continued**

### **(e) Financial Instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### **(i) Trade receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### **(iii) Financial liabilities and equity**

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

#### **(iv) Bank borrowings**

Interest-bearing bank loans and overdrafts are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

#### **(v) Trade Payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost.

#### **(vi) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**(vii) Fair value**

The net fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the statement of financial position and notes to the financial statement. Fair value being defined as the amount that could be exchanged for an asset between, knowledgeable willing parties in an arm's length transaction.

**(viii) Available-for-sale Financial Assets**

Available-for-sale financial assets, comprising principally units in unlisted registered schemes, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included as non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs and are subsequently measured at fair value. Changes in fair value are recognised directly in equity in an available-for-sale assets revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

**(ix) Shares in controlled entities**

Shares in controlled entities are measured at cost.

## 1 Accounting policies continued

### (f) Intangible assets

#### (i) Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred.

Rebate concessions received in relation to research and development expenditure are brought to account as revenue where expenditure has been expensed.

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised.

#### (ii) Licences

Licences are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.

### (g) Impairment

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. For assets where such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that the revaluation reserve relates to that asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Impairment testing is performed annually for goodwill and intangible assets with indefinite useful lives.

## 1 Accounting policies continued

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised as income in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal is recognised as a revaluation increase.

### (h) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance sheet date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### (i) Equity Settled Compensation

The Group operates a share based compensation scheme.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

### (j) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

### (k) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and on unused tax losses. No deferred tax assets or liabilities will be recognised from the initial recognition of an asset or liability excluding a business combination, which at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is recognised in the income statement except where it relates to items which are recognised directly in equity, in which case the deferred tax is recognised directly in equity.

# **Praemium Limited**

098 405 826

Notes to the Financial Statements

For the Half Year 31 December 2006

## **1 Accounting policies continued**

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The directors have elected for those entities within the consolidated entity that are wholly owned Australian resident entities to be taxed as a single entity from July 1 2005. The adoption of the tax consolidation system has not yet been formally notified to the Australian Taxation Office. The head entity within the tax consolidated group for the purposes of tax consolidation is Praemium Ltd.

Entities within the tax consolidated group have entered into a tax sharing agreement with the head entity. Under the terms of this agreement, Praemium Ltd and each of the entities within the tax consolidated group has agreed to pay a tax equivalent payment to or from the entity, based on the net accounting profit or loss of the entity and the current tax rate. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

# Praemium Limited

098 405 826

## Notes to the Financial Statements

For the Half Year 31 December 2006

### 1 Accounting policies continued

#### (l) Leases

Leases of fixed assets where substantially all the risks and rewards incidental to the ownership of the asset, but not the legal ownership, that are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised at the inception of the lease by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property and the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense.

The interest expense is recognised in the income statement so as to achieve a constant periodic rate of interest on the remaining balance of the liability outstanding.

Leased assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged to the income statement on a straight line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

#### (m) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the rendering of services is recognised upon the delivery of services to customers and the associated risks of ownership have passed.

Interest revenue is recognised on a proportional basis using the effective interest rate in relation to the outstanding financial asset.

All revenue is stated net of the amount of goods and services tax (GST), returns, trade allowances and other duties and taxes paid.

Revenue in the form of Grant income is recognised when earned and receivable.

#### (n) Foreign currency translation

##### (i) Functional and presentation currency

The functional currency of each of the Group's entities is identified as the currency of the primary economic environment in which that entity operates, and is used in the recognition of transactions and balances for that entity. Where the functional currency of a group entity is different from the parent's functional currency, the entity has been translated for consolidation using the method described below for 'Group Entities'.

The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

# Praemium Limited

098 405 826

## Notes to the Financial Statements

For the Half Year Ended 31 December 2006

### (ii) Group entities

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

— assets and liabilities are translated at year-end exchange rates prevailing at the balance sheet date; and

— income and expenses are translated at the rate on the date of the transaction, or an average exchange rate for the period (if the average approximates the actual rate for that period).

Exchange differences arising on translation of Group entities from a different functional currency are recognised directly in a foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the entity is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (iii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the spot rate on balance sheet date. Non-monetary items measured at historical cost are not retranslated. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

### (o) Goods and Services tax (GST)

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

1. where the amount of the GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
2. for receivable and payables which are recognised inclusive of GST.

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

# **Praemium Limited**

098 405 826

## **Notes to the Financial Statements**

**For the Half Year Ended 31 December 2006**

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

### **(p) Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

# Praemium Limited

098 405 826

## Notes to the Financial Statements

For the Half Year Ended 31 December 2006

### 2 Segment Reporting

The group operated in two geographic areas during the half year ended 31 December 2006, Australia and the United Kingdom. Comparative figures are not shown as the group operated only in one geographic segment in 2005, Australia.

|                                              | Australia          | United Kingdom     | Consolidated       |
|----------------------------------------------|--------------------|--------------------|--------------------|
|                                              | Half Year 2006     | Half Year 2006     | Half Year 2006     |
|                                              | \$                 | \$                 | \$                 |
| <b>REVENUE</b>                               |                    |                    |                    |
| <b>Revenue from external customers:</b>      |                    |                    |                    |
| Revenue - external customers                 | <u>2,144,432</u>   | <u>-</u>           | <u>2,144,432</u>   |
| <b>Total revenue from external customers</b> | <b>2,144,432</b>   | <b>-</b>           | <b>2,144,432</b>   |
| Other revenue/income                         | <u>825</u>         | <u>-</u>           | <u>825</u>         |
| <b>Total revenue</b>                         | <b>2,145,257</b>   | <b>-</b>           | <b>2,145,257</b>   |
| <b>RESULT</b>                                |                    |                    |                    |
| Net profit for the year                      | <u>(1,196,336)</u> | <u>(2,709,193)</u> | <u>(3,905,529)</u> |
| <b>ASSETS</b>                                |                    |                    |                    |
| Segment assets                               | <u>14,878,719</u>  | <u>982,926</u>     | <u>15,861,645</u>  |
| <b>Total assets</b>                          | <b>14,878,719</b>  | <b>982,926</b>     | <b>15,861,645</b>  |
| <b>LIABILITIES</b>                           |                    |                    |                    |
| Segment liabilities                          | <u>1,127,618</u>   | <u>458,831</u>     | <u>1,586,449</u>   |
| <b>Total liabilities</b>                     | <b>1,127,618</b>   | <b>458,831</b>     | <b>1,586,449</b>   |

# Praemium Limited

098 405 826

Notes to the Financial Statements

For the Half Year Ended 31 December 2006

## Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 9 to 25 in accordance with the *Corporations Act 2001*:

- a) Comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*, and
- b) Give a true and fair view of the financial position of the consolidated entity as at 31 December 2006 and of its performance as represented by the results of its operations and its cash flows, for the half year ended on that date.

In the Directors' opinion there are reasonable grounds to believe that Praemium Limited will be able to pay its debts as and when they become payable.

This declaration is made in accordance with a resolution of Directors.



Arthur Naoumidis  
Director

Dated: 30 January 2007

## Independent Review Report to the Members of Praemium Limited

### Scope

We have reviewed the half year financial report of Praemium Limited for the half year ended 31 December 2006 comprising the condensed balance sheet, condensed income statement, condensed cash flow statement and the condensed statement of changes in equity, notes to and forming part of the financial statements and the Directors' Declaration.

The half year financial report includes the financial statements of the consolidated entity comprising the entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The entity's directors are responsible for the half year financial report.

We have performed an independent review of the half year financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the half year financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the entity to meet its obligations to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report, as defined in the scope section of Praemium Limited is not in accordance with:

- the Corporations Act 2001, including:
  - giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
  - complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- other mandatory professional reporting requirements in Australia.



William Buck  
Chartered Accountants



Brad Taylor  
Partner

Dated this 30th of January 2007.