

**Webfirm Group Limited ABN 70 001 287 510
and controlled entities**

**Half-Year Financial Report
31 December 2009**

Lodged with the ASX under Listing Rule 4.2A

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The half-year financial report does not include full disclosures of the type normally included in an Annual Financial Report. Accordingly, this financial report should be read in conjunction with the Annual Financial Report for the year ended 30 June 2009 and any public announcements made by Webfirm Group Limited during the interim reporting period in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

HALF-YEAR INFORMATION – 31 DECEMBER 2009
APPENDIX 4D (Rule 4.2A.3)
RESULTS FOR ANNOUNCEMENT TO THE MARKET

The Company has reduced its losses substantially in the 31 December 2009 half-year as a result of further cost reduction initiatives in addition to favourable outcomes on a number of commercial disputes which resulted in the Company writing back some costs previously provisioned.

During the 31 December 2009 half year, the full impact of the Global Financial Crisis (GFC) flowed through to the Media division, and external changes in the search advertising industry impacted unfavourably on the Searchworld division, with revenues in both divisions down on the previous corresponding period. The progressive revenue trend envisaged at the end of the June quarter failed to materialise, and management has reduced costs significantly in both divisions consistent with revenue shortfalls.

Please refer to the Directors' report for additional information relating to the results for the period.

	December 2009	December 2008	Movement	
	\$	\$	\$	%
Total revenue	2,793,062	5,276,632	(2,483,570)	(47%)
Net loss attributable to members of the parent entity after tax	(1,166,883)	(1,620,219)	453,336	28%
Net loss attributable to members of the parent entity	(1,166,883)	(1,620,219)	453,336	28%

Dividends

The Company has not proposed or declared to pay dividends.

Earnings Per Share	31-Dec-2009	31-Dec-2008
Weighted average number of ordinary shares on issue used in the calculation of earnings per share	180,485,503	129,278,902
Basic loss per share (cents)	(0.65)	(1.25)
Diluted loss per share (cents)	(0.65)	(1.25)
 Net Tangible Assets per share	 31-Dec-2009	 30-Jun-2009
Number of ordinary shares on issue used in the calculation of net tangible assets per share	198,558,520	138,558,520
Net tangible assets per share (cents)	0.42	(0.96)

Audit

The Half-Year Financial Report has been subject to review by BDO Audit (NSW-VIC) Pty Ltd and is not subject to dispute or qualification.

Directors' Report

Your Directors submit the financial report of the Company for the half-year ended 31 December 2009.

Directors

The names of Directors who held office during or since the end of the half-year:

Mr Adrian Giles:	Non-Executive Director and Chairman (appointed 8 October 2009)
Mr David Burden:	Managing Director and CEO
Mr Adrian Vanzyl:	Non-Executive Director
Mr Anthony Du Preez:	Executive Director (appointed 22 February 2010)
Mr Andrew Barlow:	Non-Executive Director and Chairman (resigned 8 October 2009, re-appointed as an Executive Director 16 February 2010)

Result of Operations

The net loss of the Company after providing for income tax for the half-year ended 31 December 2009 amounted to \$1,166,883 (31 December 2008, loss \$1,620,219).

Dividends

The Directors do not recommend the declaration of a dividend. No dividend has been declared or paid during the half-year.

Review of Operations

The half-year to 31 December 2009 represents the first reporting period in which Webfirm Group Limited has traded under its new corporate identity. The change of name and new brand have both been well received by the market.

During the half, on 8 October 2009 Mr Adrian Giles assumed the position of Chairman of Webfirm Group Limited following the resignation of Mr Andrew Barlow. Mr Barlow resigned to avoid any potential conflict arising from business partnership and later merger discussions between Webfirm Group and Adslot Pty Ltd (discussed further below) of which he is also Chairman.

Webfirm Group Limited achieved a significant and pleasing reduction in losses for the half-year to December 2009 compared to the previous corresponding half. Regrettably, as a result of the impact of the GFC and external changes in the global search advertising industry, revenues have fallen compared to the previous corresponding half.

Sales orders in the Webfirm division have experienced four months of successive growth to November 2009, with December 2009 also holding up strongly in light of the impact of the holiday season. The business of Human Traffic Pty Ltd, acquired in June 2009, was successfully integrated into the Webfirm business during the half-year, and the former owner of Human Traffic Mr Andrew Dalton was appointed as Webfirm's national sales and marketing manager in August 2009. The focus of the Webfirm division continues to be on achieving higher sales and production efficiency gains.

The Webfirm Media division was heavily impacted by the GFC in the 12 months to 31 December 2009, with customer spend on display advertising falling and some market consolidation occurring. The Media division delivered upon a number of key contracts and was able to halt the revenue attrition in the December 2009 half-year, and operating of a very small cost base, has continued to pursue a number of new sales leveraging its anwers.com.au search engine. In addition to these traditional online media sales the Media division has been working to educate the market about the benefits of location based advertising.

After a very promising 30 June 2009 half-year, the Searchworld division performance in the 31 December 2009 half has been disappointing. The division was able to secure a large number of downstream website publisher networks seeking quality search advertising feeds for their websites, but high quality feeds from upstream advertising networks proved more difficult to secure than anticipated both in Australia and the United States.

Directors' Report (Continued)

The lack of these advertising feeds has seen Searchworld revenues deteriorate in this reporting half-year. As a result further cost cutting in the division has been undertaken including closing of the US branch. On a positive note, the team have productised their internally developed AdFeedEngine system and achieved a number of early sales of this new product in the December half-year.

Following a capital raising program undertaken during the half year, the Company raised \$3.60 million before costs to support Webfirm's share of the development of the Adslot business partnership. Late in the half-year, the Company announced a decision to acquire 100% of the business of Adslot, and subsequently announced a further raising of \$4.2 million before costs via a fully underwritten non-renounceable 3 for 5 entitlements offer to existing shareholders. This raising was to fund the remainder of the Adslot business development costs.

The funds raised in the capital raising will primarily be used to further develop the Adslot technology platform and to commercialise the product in Australia during 2010. The Adslot business builds and operates large scale 'private electronic marketplaces' for media publishers to sell premium advertising inventory to advertisers and advertising agencies. It uses proprietary mathematical algorithms to maximise yield and relies on a unique patented set of technologies. This deal has provided Webfirm with an exciting opportunity to capitalise on a much larger market than its existing business units could attain. It has provided Webfirm with a new key focus via a patent-protected technology platform that it can use to create a truly unique business and participate in the global online advertising market currently turning over US\$420 billion. Adslot's initial products will aim to prove out the technology through the A\$433 million Australian classifieds industry.

In September 2009 the Company completed an unmarketable parcel program – an initiative to sell the shares of holders with less than a marketable parcel of shares. The successful execution of the program resulted in the number of shareholders in the Company reducing to a more manageable level (from more than 3,000 holders to just over 2,000 currently) thus reducing corporate and administration costs for the Company, and allowing shareholders with low value parcels of shares to dispose of these without brokerage costs.

With much of the Company's focus now on the early stage development of the Adslot technologies, the company will be taking a longer-term view of the success metrics of the business and will commence to report on the achievement against key milestones that underpin a developing global business.

Auditor's Independence Declaration

The lead auditor's independence declaration for the half-year ended 31 December 2009 under Section 307C of the *Corporations Act 2001* is set out on page 18.

This report is signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors.

A handwritten signature in dark ink, appearing to be 'Adrian Giles', is written over a horizontal line. The signature is somewhat stylized and scribbled.

Director:
Adrian Giles

Melbourne

Dated this 24th day of February, 2010

Consolidated Statement of Comprehensive Income
For the Half-Year Ended 31 December 2009

	Note	31-Dec-2009 \$	31-Dec-2008 \$
Total revenue from continuing ordinary activity	3	2,793,062	5,276,632
Other income	3	1,641	238,244
Website publishers & related costs	4	286,065	(1,994,075)
Depreciation and amortisation expenses		(112,554)	(118,307)
Finance costs		-	(3,157)
Salaries and employment related costs		(2,858,577)	(3,465,618)
Telephone and internet		(80,904)	(132,989)
Share based payment expense		(28,639)	(255,222)
Marketing costs		(54,523)	(153,123)
Lease - rental premises		(170,491)	(257,221)
Impairment of trade receivables		(231,563)	(50,837)
Listing & registrar fees		(79,720)	(113,136)
Legal fees		(221,222)	(60,320)
Travel expenses		(130,567)	(128,522)
Audit and accountancy fees		(90,830)	(104,996)
Other expenses		(187,541)	(209,175)
Loss before income tax	4	(1,166,363)	(1,531,822)
Income tax expense		(520)	(88,397)
Loss after income tax expense		(1,166,883)	(1,620,219)
Net loss attributable to minority interests		-	-
Net loss attributable to members of Webfirm Group Limited		(1,166,883)	(1,620,219)
Other comprehensive income			
Foreign exchange translation		(7,263)	-
Total other comprehensive income		(7,263)	-
Total comprehensive income for the half year		(1,174,146)	(1,620,219)
Earnings per share			
Basic loss per share (cents)		(0.65)	(1.25)
Diluted loss per share (cents)		(0.65)	(1.25)

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

Consolidated Statement of Financial Position
As at 31 December 2009

	Note	31-Dec-2009	30-Jun-2009
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		2,068,728	695,376
Trade and other receivables		1,229,843	2,456,591
Total current assets		3,298,571	3,151,967
NON-CURRENT ASSETS			
Property, plant and equipment		201,085	231,962
Trade and other receivables		200,000	-
Intangible assets		3,067,103	2,938,087
Total non-current assets		3,468,188	3,170,049
TOTAL ASSETS		6,766,759	6,322,016
CURRENT LIABILITIES			
Trade and other payables		1,727,310	3,679,577
Other liabilities		974,207	864,893
Provisions		150,991	152,733
Total current liabilities		2,852,508	4,697,203
NON-CURRENT LIABILITIES			
Provisions		8,325	20,767
Total non-current liabilities		8,325	20,767
TOTAL LIABILITIES		2,860,833	4,717,970
NET ASSETS		3,905,926	1,604,046
EQUITY			
Issued capital		40,805,560	37,358,173
Reserves		3,996,879	3,975,503
Retained losses		(40,896,513)	(39,729,630)
TOTAL EQUITY		3,905,926	1,604,046

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

**Consolidated Statement of Changes in Equity
For the Half-Year Ended 31 December 2009**

	Note	31-Dec-2009 \$	31-Dec-2008 \$
Total equity at the beginning of the half-year		1,604,046	3,766,391
Movement in foreign exchange translation reserve		(7,263)	-
Other comprehensive income		(7,263)	-
Loss for the half-year attributable to members of the company		(1,166,883)	(1,620,219)
Loss attributable to minority interests		-	-
Total comprehensive income for the half-year		(1,174,146)	(1,620,219)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs		3,447,387	1,617,211
Increase in employee share based payments reserve		28,639	255,222
Changes in minority interest from disposals		-	-
		3,346,026	1,872,433
Total equity at the end of the half-year attributable to members of Webfirm Group Limited		3,905,926	4,018,605

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

Consolidated Statement of Cash Flows
For the Half-Year Ended 31 December 2009

	Note	31-Dec-2009	31-Dec-2008
		\$	\$
Cash flows from operating activities			
Receipts from trade and other debtors (inclusive of GST)		3,899,415	3,841,591
Interest received		29,709	56,718
Government grants and other receipts		1,641	225,878
Payments to trade creditors, other creditors and employees (inclusive of GST)		(5,820,615)	(5,507,124)
Interest paid		-	(3,157)
Net cash outflows from operating activities		(1,889,850)	(1,386,094)
Cash flows from investing activities			
Payments for property, plant and equipment		(47,907)	(16,074)
Payments for intangible assets		(129,015)	-
Loans to related entities		-	-
Net cash outflows from investing activities		(176,922)	(16,074)
Cash flows from financing activities			
Proceeds from issue of shares		3,447,387	1,559,211
Net cash inflows from financing activities		3,447,387	1,559,211
Net increase/(decrease) in cash held		1,380,615	157,043
Cash at the beginning of the half-year		695,376	1,443,689
Effect of exchange rate changes on cash		(7,263)	-
Cash at the end of the half-year		2,068,728	1,600,732

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

Notes to the Financial Statements for the Half-Year ended 31 December 2009**Note 1: Basis of preparation of half-year financial report**

This general purpose financial report for the interim half-year reporting period ended 31 December 2009 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2009 and any public announcements made by Webfirm Group Limited during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

a) Reporting Bases and Conventions

The half-year consolidated financial statements have been prepared on an accruals basis and are based upon historical costs. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the group's annual financial report for the year ended 30 June 2009. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

b) Going Concern

The half-year financial report for the six months ended 31 December 2009 has been prepared on a going concern basis.

The directors are confident that any material uncertainty as to the ability of the group to continue as a going concern has been largely mitigated by the further capital raising subsequent to half-year end (refer to note 8). \$4.2m has been received from the issue of new ordinary shares under an entitlements offer. Additionally, management will continue to monitor and reduce expenditure if further forecast revenues do not materialise. Accordingly the financial report has been prepared on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in this financial report. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amount and classification of liabilities that might be necessary should the group not continue as a going concern.

**Notes to the Financial Statements for the Half-Year ended 31 December 2009
(Continued)**

Note 2: Segment Information

Primary Reporting – Business Segments

	Display Media	Search Media	Web Development & Hosting	Consolidated
	\$	\$	\$	\$
Half-year ended 31 December 2009				
External sales	236,281	499,357	2,027,715	2,763,353
Segment result	(78,502)	113,594	(451,803)	(416,711)
Depreciation	-	991	48,006	48,997
Amortisation	-	16,426	25,364	41,790

Balance Sheet 31 December 2009

Segment assets	135,736	541,464	2,262,839	2,940,039
Segment liabilities	(179,842)	(719,207)	(1,385,094)	(2,284,143)

Half-year ended 31 December 2008

Revenue

External sales	650,686	2,277,023	2,292,205	5,219,914
Segment result from continuing operations	(216,762)	(70,909)	(539,027)	(826,698)
Depreciation	2,595	2,531	40,670	45,796
Amortisation	-	-	9,557	9,557

Balance Sheet 30 June 2009

Segment assets	82,674	1,656,821	2,140,333	3,879,828
Segment liabilities	(207,574)	(2,480,180)	(1,287,460)	(3,975,214)

Notes to the Financial Statements for the Half-Year ended 31 December 2009 (Continued)

Note 2: Segment Information

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

	31-Dec-2009	31-Dec-2008
	\$	\$
Total segment result	(416,711)	(826,698)
Interest revenue	29,709	56,718
Other income	1,641	238,244
Depreciation	(70,764)	(84,485)
Amortisation	(41,790)	(33,822)
Share option expenses	(28,639)	(255,222)
Other head office expenses	(639,809)	(626,557)
Loss before tax from continuing operations	(1,166,363)	(1,531,822)

Note 3: Revenue Information

	31-Dec-2009	31-Dec-2008
	\$	\$
Revenue		
Total revenue from continuing operations	<u>2,793,062</u>	<u>5,276,632</u>
Other income		
R&D tax offset grant	-	225,878
Sundry income	1,641	12,366
	<u>1,641</u>	<u>238,244</u>

Note 4: Expenses

Loss before income tax includes the following specific expenses:

	31-Dec-2009	31-Dec-2008
	\$	\$
Website publishers & related costs	(286,065)	1,994,075

Included within website publishers & related costs in the 31 December 2009 period are significant credit adjustments resulting from favourable outcomes on a number of commercial disputes which resulted in the Company writing back costs previously provisioned.

**Notes to the Financial Statements for the Half-Year ended 31 December 2009
(Continued)**

Note 5: Equity Securities Issued

	31-Dec-2009	31-Dec-2008
Issues of Ordinary Shares during the half-year	\$	\$
Ordinary Shares issued – value \$	<u>3,447,387</u>	<u>1,617,211</u>
Ordinary Shares issued – number	<u>60,000,000</u>	<u>26,495,232</u>

Note 6: Business Combinations

Half-Year ended 31 December 2009

There were no business combinations for the half-year ended 31 December 2009. On 29 June 2009 Webfirm Pty Ltd acquired the business (net assets) of Human Traffic Pty Ltd, a Perth based web development and online marketing company, for consideration consisting of \$40,000 in cash and 385,000 ordinary shares in Webfirm Group Limited (escrowed for 12 months). The assets acquired included all of the existing Human Traffic customer contracts. The Human Traffic business has been integrated into the Webfirm division.

Half-Year ended 31 December 2008

There were no business acquisitions in the half-year ended 31 December 2008.

Note 7: Contingencies

Default on sale by Wavtech Pty Ltd

As disclosed in Note 21 of the 30 June 2009 Annual Report, 65% (650 shares) of Optum E S Pty Ltd was disposed of for an amount of \$800,000 due under the terms of a Sale and Purchase Agreement, however this amount was not paid. Webfirm Group Limited successfully pleaded a claim for summary judgement against Wavtech Pty Ltd for its default on settling the sale, however the judgement required the Company to seek specific performance which it is proceeding with. A full provision has been made against this amount. Whilst it is unlikely that there are sufficient funds in Wavtech to meet the judgement amount, action against the individual directors may follow a successful action to wind up the defaulting company. Costs of this matter, should it proceed to trial are estimated at \$40,000 - \$90,000. Webfirm Group Limited continued to prosecute this claim during the reportable half-year in the Supreme Court of Western Australia.

Should there be a successful outcome to the legal action, the Company may recognise additional income of \$800,000.

**Notes to the Financial Statements for the Half-Year ended 31 December 2009
(Continued)**

Note 8: Events subsequent to reporting date

On 28 January 2010 the Company held an extraordinary general meeting of members in order that shareholders be given an opportunity to approve the acquisition of Adslot Pty Ltd by the Company, to approve the issue of shares to the Adslot vendors, and to approve the issue of options to directors. All resolutions put to the meeting were passed.

On 16 February 2010 Webfirm Group Limited completed a capital raising program to support the ongoing development of the Adslot business consisting of a fully underwritten non-renounceable 3 for 5 entitlements offer to existing shareholders to raise \$4.2 million before costs (the last of the underwriters funds received on 16 February 2010). The Company issued 119,135,289 new ordinary shares under the entitlements offer.

On 16 February 2010 Webfirm Group Limited completed the acquisition of Adslot Pty Ltd (announced on 21 December 2009) by the allotment of 171,428,571 ordinary shares in Webfirm Group Limited to Adslot shareholders in exchange for 100% of the securities in Adslot.

Directors' Declaration

In the Directors' opinion:

- (a) The financial statements and notes set out on pages 5 to 13 are in accordance with the *Corporations Act 2001*, including:
 - i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Webfirm Group Limited will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors.

A handwritten signature in dark ink, consisting of a stylized, scribbled name followed by a long horizontal line extending to the right.

Adrian Giles
Chairman

Melbourne

Dated this 24th day of February, 2010

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Webfirm Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Webfirm Group Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report 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 2009 and 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*. As the auditor of Webfirm Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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 of Webfirm Group Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.



BDO Audit (NSW-VIC) Pty Ltd

Chartered Accountants



Michael Climpson

Director

Melbourne, 24th February 2010

DECLARATION OF INDEPENDENCE BY MICHAEL CLIMPSON TO THE DIRECTORS OF WEBFIRM GROUP LIMITED

As lead auditor of Webfirm Group Limited for the half year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

This declaration is in respect of Webfirm Group Limited and the entities it controlled during the period



Michael Climpson
Director

BDO Audit (NSW-VIC) Pty Ltd
Chartered Accountants

Melbourne
24th February 2010