KPMG

Photon Group Pty Limited

ABN 97 091 524 515

Annual Financial Report

For the year ended 30 June 2003

Photon Group Pty Limited

ABN 97 091 524 515

Contents

Photon Group Pty Limited
ABN 97 091 524 515

Directors report

The directors present their report together with the financial report of Photon Group Pty Limited ("the Company") and the consolidated entity being the Company and its controlled entities, for the year ended 30 June 2003 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr Timothy Hughes (revolving Chairman)
Mr Siimon Reynolds (revolving Chairman)
Mr Gregory Bundy (resigned 1 July, 2003)
Mr Anthony Armstrong
Ms Susan McIntosh
Mr John Falconer (resigned 1 July, 2003)

Principal activities

The principal activities of the economic entity during the course of the financial year was integrated marketing services, specialising in advertising, public relations, graphic design, production sales of promotion material and Point of Sales (POS), media planning and strategy, e-mail marketing and direct marketing.

Review and result of operations

The consolidated net profit/(loss) from ordinary activities after income tax amounted to $(638,156) (2002: $304,812). Annual growth was attributable from a combination of acquisitions and organic growth in existing companies.

Dividends

No Dividends were paid or declared by the company since the end of the previous financial year.

State of affairs

Significant changes in the state of affairs of the economic entity during the financial year were as follows:

The economic entity acquired 51% of the issued capital of The Precinct Group Pty Limited, (and its 100% owned subsidiary Precinct (Hong Kong) Limited), 51% of the issued capital of The Australian Business Theatre Group Pty Limited and 51% of the issued capital of Robbins Brandt Richter Limited (New Zealand).

Events subsequent to balance date

Subsequent to balance date the company has been in the process of planning an initial public offering which includes the acquisition of additional subsidiary companies that will form a material part of the group. At the date of this report details of the said initial public offering have not been finalised.

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Directors report

Likely Developments

Information about likely developments in the operations of the economic entity and the expected results of those operations in the future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the economic entity.

Options

During or since the end of the financial year, the Company granted options over unissued shares to the following directors or officers of the company:

Directors	Number of options granted	Exercise Price	Expiry Date
Mr T J Hughes	250,000	$1.50	27 November 2008
Mr A J Armstrong	100,000	$1.50	27 November 2008
Officers			
Mr G M Nesbitt	25,000	$1.50	27 November 2008

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

Expiry date	Exercise price	Number of shares
31 Jan 2006	$1.00	1,000,000
31 Jan 2006	$0.75	3,000,000
31 Jan 2007	$1.25	700,000
27 Nov 2008	$1.50	375,000

All options expire on the earlier of their expiry date or termination of the Directors or Officers employment.

Directors' interests

The relevant interest of each director in the shares or options over such instruments issued by the companies within the consolidated entity and other related body corporates, at the date of this report is as follows:

	Photon Group Pty Limited	
	Ordinary Shares	Options over Ordinary Shares
T J Hughes, Carinya Investment Management Pty Ltd and Egnar Holdings Superannuation Fund	1,469,444	874,000
S Reynolds, Moon Corporation Pty Ltd	3,840,000	1,000,000
A J Armstrong, Zeitgeist Australia Superannuation Fund	217,222	370,000
S T McIntosh	404,444	140,000

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Directors report

Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the following directors of the Company, Mr T J Hughes, Mr S Reynolds Mr G A Bundy, Mr A J Armstrong, Mr J Falconer, Ms S T McIntosh, and the secretary Mr G M Nesbitt against liabilities incurred in that capacity.

The company has also agreed to indemnify the current directors of its controlled entities and associated entities for all liabilities associated with bodily injury, combined business injury and property damage.

Insurance premiums

During the financial year the company has paid insurance premiums in respect of Directors' and Officers' liabilities, for current Directors and Officers covering the following:

- costs and expense incurred by the relevant officers in defending proceedings, whether civil or criminal; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

This report is made in accordance with a resolution of the directors.

Dated at Sydney this 20th day of January 2004.

A.J. Armstrong Director	S.T. McIntosh Director

Photon Group Pty Limited

Statements of financial performance
For the year ended 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Revenue from rendering of services	3	21,536,657	8,850,632	436,178	237,965
Other revenues from ordinary activities	3	384,422	84,480	672,124	256,662
Total revenue from ordinary activities		21,921,079	8,935,112	1,108,302	494,627
Employee expenses		(13,604,465)	(5,888,889)	(664,333)	(553,261)
Borrowing costs	4	(220,370)	(172,601)	(189,660)	(160,566)
Occupancy costs		(1,151,944)	(311,601)	(19,216)	(19,591)
Depreciation and amortisation expenses	4	(1,833,266)	(326,263)	(8,055)	(5,702)
Insurance expense		(174,384)	(111,315)	(41,327)	(78,302)
Consultancy fees		(622,047)	(168,085)	(57,784)	(56,679)
Equipment hire charges		(476,511)	(140,109)	(3,616)	(2,811)
Travel expense		(256,238)	(80,795)	(18,425)	(18,022)
Communication expenses		(581,851)	(269,532)	(18,620)	(18,576)
Provision for diminuition of investments		-		(1,268,378)	(428,316)
Other expenses from ordinary activities		(1,735,453)	(778,143)	(88,449)	(478,957)
Share of net profit of joint ventures accounted for using the equity method	27	93,784	71,684	-	-
Loss on subsidiary restructuring to joint venture entity	26	-	(32,814)	-	-
Profit/(loss) from ordinary activities before related income tax expense		1,358,334	726,649	(1,269,561)	(1,326,156)
Income tax expense relating to ordinary activities	6	974,040	483,838	-	-
Net profit/(loss)		384,294	242,811	(1,269,561)	(1,326,156)
Net profit/(loss) attributable to outside equity interests		1,022,450	745,648	-	-
Net profit/(loss) attributable to members of the parent entity	21	(638,156)	(502,837)	(1,269,561)	(1,326,156)

The statements of financial performance are to be read in conjunction with the notes to the financial statements as set out on pages 7 to 34.

Photon Group Pty Limited

Statements of financial position
As at 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Current assets					
Cash assets	8	5,541,783	3,451,532	2,335,935	1,324,003
Receivables	9	9,096,721	6,815,422	523,358	419,847
Other	10	634,746	219,701	65,014	51,488
Total current assets		15,273,250	10,486,655	2,924,307	1,795,338
Non-current assets					
Receivables	9	100,000	109,793	2,261,156	2,856,526
Investments accounted for using the equity method	11	540,751	442,272	-	-
Other financial assets	12	60,376	55,326	9,019,563	5,453,425
Intangible assets	13	10,714,685	8,176,335	-	-
Property, Plant and Equipment	14	1,092,109	578,937	12,674	11,622
Deferred tax assets	6(d)	194,306	120,998	-	-
Other	10	37,815	26,957	-	120
Total non-current assets		12,740,042	9,510,618	11,293,393	8,321,693
Total assets		28,013,292	19,997,273	14,217,700	10,117,031
Current liabilities					
Payables	15	9,662,884	7,081,146	1,797,573	207,473
Interest bearing liabilities	16	136,514	69,620	-	-
Current tax liabilities	6(b)	368,328	149,580	-	-
Provisions	17	931,087	520,432	61,131	18,302
Total current liabilities		11,098,813	7,820,778	1,858,704	225,775
Non-current liabilities					
Payables	15	531,098	-	-	-
Interest bearing liabilities	16	70,824	2,223,036	-	2,185,199
Deferred tax liabilities	6(c)	151,370	159,744	-	-
Provisions	17	103,124	178,895	-	-
Other	18	-	10,346	-	-
Total non-current liabilities		856,416	2,572,021	-	2,185,199
Total liabilities		11,955,229	10,392,799	1,858,704	2,410,974
Net assets		16,058,063	9,604,474	12,358,996	7,706,057
Equity					
Contributed equity	19	17,927,500	12,005,000	17,927,500	12,005,000
Accumulated losses	21	(5,595,265)	(4,957,109)	(5,568,504)	(4,298,943)
Reserves	20	(3,073)	-	-	-
Total parent entity interest		12,329,162	7,047,891	12,358,996	7,706,057
Outside equity interests	22	3,728,901	2,556,583	-	-
Total equity		16,058,063	9,604,474	12,358,996	7,706,057

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 7 to 34.

Photon Group Pty Limited

Statements of cash flows
For the year ended 30 June 2003

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Cash flows from operating activities					
Cash receipts in the course of operations		21,226,126	13,642,076	319,229	133,527
Cash payments in the course of operations		(17,182,274)	(12,364,913)	(1,116,479)	(847,462)
Dividends received		-	-	519,120	150,000
Interest received		174,594	41,111	78,524	24,317
Borrowing costs paid		(220,370)	(13,006)	(189,660)	(10,833)
Income taxes paid		(797,083)	(645,012)	-	-
Net cash provided by/(used in) operating activities	29	3,200,993	660,256	(389,266)	(550,451)
Cash flows from investing activities					
Payments for property, plant & equipment		(294,888)	(118,811)	(1,470)	(4,935)
Payments for investments (net of cash acquired)		(2,460,134)	(4,488,607)	(3,199,541)	(3,365,556)
Repayment of loans by related parties		-	144,270	679,709	584,392
Loans to related parties		-	(225,068)		(3,461,224)
Net cash used in investing activities		(2,755,022)	(4,688,216)	(2,521,302)	(6,247,323)
Cash flows from financing activities					
Proceeds from issue of shares		3,922,500	8,205,000	3,922,500	8,205,000
Proceeds from borrowings		2,531,098	448,000	-	448,000
Repayment of borrowings		(4,300,600)	(1,287,600)	-	(534,354)
Dividends paid to outside equity interest in controlled entities		(489,482)	(319,539)	-	-
Net cash provided by financing activities		1,663,516	7,045,861	3,922,500	8,118,646
Net increase (decrease) in cash held		2,109,487	3,017,901	1,011,932	1,320,872
Cash at the beginning of the financial year	29	3,432,296	414,395	1,324,003	3,131
Cash at the end of the financial year	29	5,541,783	3,432,296	2,335,935	1,324,003

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 7 to 34.

1 Statement of significant accounting policies

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

(a) Basis of preparation

In the opinion of the directors, the consolidated entity is not a reporting entity. The financial reports of the company and the consolidated entity have been drawn up as a special purpose financial report for distribution to the members and for the purpose of fulfilling the requirements of the Corporations Act 2001.

The financial reports have been prepared on the accrual basis of accounting as defined in AASB 1001, *Accounting Policies*, using the historical cost convention and going concern assumption. Except where stated they do not take into account changing money values or current valuations of non current assets.

The accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

The financial reports have been prepared in accordance with the requirements of the Corporations Act 2001, the recognition and measurement aspects of all applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board that have material effect. The financial report does not include the disclosure requirements of the following pronouncements having a material effect:

- AASB 1005 Segment Reporting
- AASB 1015 Acquisition of Assets

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included from the date control commences until the date control ceases.

Outside interests in the equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Joint Venture

A joint venture is either an entity or operation that is jointly controlled by the consolidated entity.

Joint venture entities

In the consolidated financial statements investments in joint venture entities are accounted for using equity accounting principals. Investments in joint venture entities are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the joint venture entity's net profit or loss is recognised in the consolidated statement of financial performance from the date joint control commenced until the date joint control ceases. Other movements in reserves are recognised directly in consolidated reserves.

Transactions eliminated on consolidation

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

Unrealised gains resulting from transactions with joint ventures are eliminated to the extent of the economic entity's interest. Unrealised gains relating to joint venture entities are eliminated against the carrying amount of investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence recoverable amount impairment.

1 Statement of significant accounting policies (continued)

(b) Principles of consolidation

Changes in ownership interest

Loss of control, no joint control or significant influence

When control ceases, a gain or loss is recognised as the difference between net sales proceeds, if any, and the consolidated carrying amount (including post-acquisition share of profits, goodwill and equity). Any remaining investment is then accounted for at cost if unlisted, or fair value if listed.

Loss of control, joint control or significant influence retained

When control ceases but significant influence or joint control is retained, the carrying amount at the date of change in status of the investment is determined as if it had been an associate/joint venture entity since acquisition date, opening equity amounts are reinstated and any remaining effect of the change in status is recognised as a revenue or expense, including any associated movement in outside equity interest.

Retention of control

When some or all of the ownership interest is sold, but control is retained, the gain or loss on sale is recognised as the difference between the net sales proceeds, if any, and consolidated carrying amount portion adjusted for the net pre acquisition profits, goodwill and equity relating to the portion sold.

New issue of capital by controlled entity

When a controlled entity makes a new issue of capital and the consolidated entity's percentage of ownership changes, the share of retained profits and reserves is attributed to the Company and outside equity interest reflecting the new ownership interest. The adjustment is not reflected in net profit but as a direct adjustment to the specific equity accounts.

New issue of capital by associate or joint venture entity

When an associate or joint venture entity makes a new issue of capital changing the consolidated entity's percentage ownership, changes in the share of retained profits are reflected in net profit and changes in the share of reserves are reflected as direct adjustments to the specific equity accounts.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Rendering of services

Revenue from rendering services is recognised in proportion to the stage of completion method associated with a project when the stage of project completion can be reliably measured.

Where the outcome of a project cannot be reliably estimated the project costs are expenses as incurred. Where it is probable that the costs will be recovered, revenue is only recognised to the extent of costs incurred. An expected loss is recognised immediately as an expense.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

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).

Dividends

Revenue from dividends and distributions from controlled entities is recognised by the parent entity when they are declared, determined or publicly recommended by the controlled entities.

Dividends received out or pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

Photon Group Pty Limited

Notes to the financial statements
For the year ended 30 June 2003

1 Statement of significant accounting policies (continued)

Interest revenue

Recent revenue is recognised as it accrues.

(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 taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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 are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Foreign currency

Transactions

Foreign currency transactions are translated into Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting 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 statement of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are brought to account in the statement of financial performance.

The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

(g) Borrowing costs

Borrowing costs include interest and the amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

(h) Taxation

The consolidated entity 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 account purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses, when realisation is virtually certain.

1 Statement of significant accounting policies (continued)

(i) Acquisition of assets

All assets acquired, including property, plant and equipment 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.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the assets will flow to the consolidated entity in future years, otherwise, expensed as incurred.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

(j) Receivables

The recoverability of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors to be settled within 60 days are carried at amounts due.

(k) Work in progress

Work in progress is stated at the lower of cost and net realisation value. Cost comprises direct materials, direct labour and appropriate proportion of variable and fixed overhead expenditure.

(l) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Joint ventures

In the Company's financial statements, investments in joint venture entities are carried at the lower of cost and recoverable amount.

Other entities

Investments in other listed entities are carried at the lower of cost and recoverable amount.

1 Statement of significant accounting policies (continued)

(m) 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

A lease 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 repayment of principal. The interest components of the lease payments 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.

(n) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

For associates and joint venture entities, the consolidated financial statements include the carrying amount of goodwill in the equity accounted investment carrying amount.

(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 their recoverable amount at reporting 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 expensed in the reporting period in which it occurs.

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) Depreciation and amortisation

Useful lives

All assets, including intangibles have limited useful lives and are depreciated/amortised using the straight line method or diminishing value method over their estimated useful lives. Assets are depreciated or amortised from the date of acquisition.

1 Statement of significant accounting policies (continued)

(p) Depreciation and amortisation (continued)

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed.

The depreciation/amortisation rates used for each class of assets are as follows:

	2003		2002	
	Prime Cost	Diminishing Value	Prime Cost	Diminishing Value
Property, plant and equipment				
Computer equipment	25% - 40%	20% - 40%	25% - 40%	25% - 40%
Office furniture and equipment	5% - 25%	5% - 40%	5% - 25%	7.5% - 40%
Leasehold improvements	10% - 33.33%	-	33.33%	20%
Equipment under finance lease	25%	-	25%	-
Intangibles				
Goodwill	20 years		20 years	

(q) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

(r) Interest bearing liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "other creditors and accruals".

(s) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement date based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Profit sharing and bonus plans

A liability is recognised for profit sharing and bonus plans.

Superannuation plan

The company and its controlled entities contribute to several defined contribution employee superannuation plans. Contributions are recognised as an expense as they are made.

1 Statement of significant accounting policies (continued)

(t) Provisions

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

2 Changes in accounting polices

(a) Employee benefits

The consolidated entity has applied the revised AASB 1028 "Employee benefits" for the first time from 1 July 2002. There was no material change in the result for the year as a result of the adoption of AASB 1028.

The liability for wages and salaries and annual leave is now calculated using the remuneration rates the Company expects to pay as at each reporting date, not wage and salary rates current at reporting date.

(b) Provisions and contingent liabilities

The consolidated entity has applied AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets* for the first time from 1 July 2002. There was no material change in the result for the year as a result of the adoption of AASB 1044.

Dividends are now recognised at the time they are declared, determined or publicly recommended.

(c) Related parties

The consolidated entity has applied AASB 1017 Related Party Disclosures for the first time from 1 July 2002. There was no change to the result for the year as a result of the adoption of AASB 1017. Disclosures required under this standard are made at Note 31. Comparative information is not provided as it would be impractical to collate this information.

(d) Financial Instruments

The consolidated entity has applied AASB 1033 *Presentation and Disclosure of Financial Instruments* for the first time from 1 July 2002. There was no change to the result for the year as a result of the adoption of AASB 1033. Disclosures required under this standard are made at Note 23. Comparative information is not provided as it would be impractical to collate this information.

Photon Group Pty Limited

Notes to the financial statements
For the year ended 30 June 2003

	Consolidated		The Company	
	2003	2002	2003	2002
3 Revenue from ordinary activities	$	$	$	$
Rendering services from operating activities	21,536,657	8,850,632	436,178	237,965
Other revenues:				-
From operating activities				
Interest				
Related parties	-	-	32,327	34,179
Other parties	174,594	52,195	78,524	-
Dividends received				
Related parties	-	-	561,000	210,120
From outside operating activities				
Gross proceeds on sale of non-current assets	273	-	273	-
Trade Grants	161,266	-	-	-
Other	48,289	32,285	-	12,363
Total other revenues	384,422	84,480	672,124	256,662
Total revenue from ordinary activities	21,921,079	8,935,112	1,108,302	494,627

4 Profit from ordinary activities before income tax expense

(a) Profit from ordinary activities before tax expense has been arrived at after charging/(crediting) the following items:

	Consolidated 2003	Consolidated 2002	The Company 2003	The Company 2002
Borrowing costs:				
Related parties	114,236	159,338	114,236	147,303
Other parties	106,134	13,263	75,424	13,263
Depreciation of:				
Plant and equipment	271,144	113,515	8,055	5,702
Amortisation of:				
Goodwill	1,536,002	171,738	-	-
Leased Assets	26,120	41,010	-	-
Total depreciation and amortisation	1,833,266	326,263	8,055	5,702
Net bad and doubtful debt expense including movements in provision for doubtful debts	8,554	(50,818)	-	(69,300)
Net expense when a subsidiary becomes a joint venture	-	32,814	-	-
Net expense for movements in provision for:				
Employee entitlements	281,311	75,800	42,830	(830)
Provision for Non-recovery of loan to related party	(62,000)	62,000	(62,000)	655,824
Diminution in value of investments		-	1,268,378	428,316
Restructure	-	(300,000)	-	(300,000)
Operating lease rental expense:				
Minimum lease rental payments	1,294,094	181,795	15,754	2,480
Net (gain)/loss on disposal of non-current assets	240	-	(273)	-
Foreign exchange (gain)/loss	5,287	-	(58,700)	-

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
5 Auditors' Remuneration				
Audit services:				
Auditors of the Company – KPMG	98,000	45,600	80,000	11,700
Taxation services:				
Auditors of the Company – KPMG	30,256	48,100	16,756	48,100
	128,256	93,700	96,756	59,800

6 Taxation

(a) Income tax expense

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Prima facie income tax expense calculated at 30% on the profit from ordinary activities	407,500	217,995	(380,868)	(397,847)
Increase in income tax expense due to:				
Amortisation of goodwill	460,801	51,568	-	-
Capital expenses	-	-	-	318,209
Other non-deductible expenses	87,669	46,130	34,156	24,871
Write-off of investment	-	-	380,513	
Effect of higher tax rate on overseas incomes	7,194	-	-	-
Decrease in income tax expense due to:				
Share of joint venture entities' net profit	(28,135)	(21,505)	-	-
Rebatable dividend income	-	-	(168,300)	(45,900)
Other non-assessable income	(59,215)	(5,250)	-	
Under/(over) provision for tax in previous year	(14,556)	45,850	-	-
Effect of timing differences not previously brought to account	31,973	(21,189)	-	-
Realisation of tax losses not previously brought to account	(201,720)	(27,627)	-	-
Add: Tax losses not brought to account	282,529	197,866	134,499	100,667
Income tax expense attributable to profit from ordinary activities	974,040	483,838	-	-

(b) Current tax liabilities

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Provision for current income tax	334,305	112,036	-	-
Provision for deferred tax instalments	34,023	37,544	-	-
	368,328	149,580	-	-

(c) Deferred tax liabilities

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Provision for deferred instalments	79,420	111,666	-	-
Provision for deferred income tax	71,950	48,078	-	-
	151,370	159,744	-	-

Photon Group Pty Limited

Notes to the financial statements
For the year ended 30 June 2003

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
6 Taxation (continued)				
(d) Deferred tax assets				
Future income tax benefit	194,306	120,998	-	-
Future income tax benefit not taken into account				
The potential future income tax benefits in the company and its controlled entities arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain:				
Revenue losses	2,200,761	2,350,465	1,169,932	1,042,782
Capital losses	1,894,239	1,876,739	1,894,239	1,876,739
Tax losses carried forward	4,095,000	4,227,204	3,064,171	2,919,521

The potential future income tax benefit will only be obtained if:

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

(2) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and

(3) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

7 Dividends

	The Company	
	2003	2002
	$	$
Dividend franking account		
30% franking credits available to shareholders of Photon Group Pty Limited for subsequent financial years	287,772	153,000

The above amounts represent the balance of the franking account at year end adjusted for:

(1) franking credits that will arise from the payment of the current tax liability

(2) franking debits that will arise from the payment of dividends recognised as a liability at year end

(3) franking credits that will arise from the receipt of dividends recognised as receivables at year end

(4) franking credits that may be prevented from being distributed in subsequent years

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

Change in measurement of the dividend franking account

In accordance with the New Business Tax System (Imputation) Act 2002, the measurement basis of the dividend franking account changed on 1 July 2002 from an after-tax profits to an income tax paid basis.

The amount of franking credits available to shareholders disclosed at 30 June 2003 has been measured under the new legislation and represents income tax paid amounts available to frank distributions. The balance disclosed at 30 June 2002 has been measured under the legislation existing at 30 June 2002 and represents the after-tax profits able to be distributed fully franked at the current tax rate.

The change in the basis of measurement does not change the underlying value of franking credits or tax offsets available to shareholders from the dividend franking account.

Comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis the "franking credits available" balance at 30 June 2002 would have been $66,571.

8 Cash Assets

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
Cash at bank and on hand	3,930,403	3,451,532	1,335,935	1,324,003
Bank short term deposits	1,611,380	-	1,000,000	-
	5,541,783	3,451,532	2,335,935	1,324,003

The bank short term deposits mature within 30 days and pay interest at a weighted average interest rate of 4.65% at 30 June 2003.

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
9 Receivables					
Current					
Trade debtors		9,061,374	6,747,292	420,044	274,074
Less: Provision for doubtful trade debtors		(73,385)	(63,269)	-	-
		8,987,989	6,684,023	420,044	274,074
Other debtors		108,732	131,399	1,314	85,653
Dividends receivable		-	-	102,000	60,120
		108,732	131,399	103,314	145,773
		9,096,721	6,815,422	523,358	419,847
Non-current					
Loans to related parties		100,000	171,793	2,261,156	2,918,526
Less: Provision for non-recovery		-	(62,000)	-	(62,000)
		100,000	109,793	2,261,156	2,856,526

No interest is charged on term debtors.

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
10 Other Assets					
Current					
Work in progress		512,486	159,920	-	-
Prepayments		119,670	59,781	65,014	51,488
Other		2,590	-	-	-
		634,746	219,701	65,014	51,488
Non-current					
Deposits		37,815	26,957	-	120
11 Investments accounted for using the equity method					
Joint venture entities	27	540,751	442,272	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
12 Other financial assets					
Non-current					
Deposits – interest bearing		56,648	55,326	-	-
Interest bearing deposits are amounts paid to secure leasing facilities. These amounts are held in bank term deposit accounts and pay at an average weighted interest rate of 3.88% at 30 June 2003.					
Investments in controlled entities – at cost	26	-	-	10,340,974	5,511,153
Less: Provision for diminution in value		-	-	(1,768,378)	(500,000)
		-	-	8,572,596	5,011,153
Investments in joint venture entities – at cost	27	-	-	1,022,195	1,017,500
Less: Provision for diminution in value		-	-	(575,228)	(575,228)
		-	-	446,967	442,272
Shares in listed entity – at cost		3,728	-	-	-
		60,376	55,326	9,019,563	5,453,425
13 Intangibles					
Goodwill		12,460,314	8,385,960	-	-
Less: accumulated amortisation		(1,745,629)	(209,625)	-	-
		10,714,685	8,176,335	-	-
14 Property, plant and equipment					
Computer equipment					
At cost		1,518,191	361,103	17,273	15,580
Accumulated depreciation		(1,084,790)	(162,584)	(7,962)	(8,423)
		433,401	198,519	9,311	7,157
Office furniture & equipment					
At cost		1,622,337	604,638	6,772	6,722
Accumulated depreciation		(1,072,232)	(360,147)	(3,409)	(2,257)
		550,105	244,491	3,363	4,465
Leasehold Improvements					
At cost		99,751	86,105	-	-
Accumulated amortisation		(38,025)	(18,220)	-	-
		61,726	67,885	-	-
Plant & equipment under finance lease					
At cost		101,322	100,042	-	-
Accumulated amortisation		(54,445)	(32,000)	-	-
		46,877	68,042	-	-
Total		1,092,109	578,937	12,674	11,622

14 Property, plant and equipment (continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Computer equipment				
Carrying amount at the beginning of the year	198,519	281,096	7,157	7,440
Transfer to P&E under finance lease	-	(94,916)	-	-
Additions	382,849	114,336	8,381	4,220
Depreciation	(148,009)	(66,148)	(6,227)	(4,503)
Net foreign currency differences on translation of self-sustaining operations	42	-	-	-
Disposals	-	(35,849)	-	-
Carrying amount at the end of the year	433,401	198,519	9,311	7,157
Office furniture & equipment				
Carrying amount at the beginning of the year	244,491	209,905	4,465	4,950
Additions	409,552	118,034	726	715
Depreciation	(103,601)	(47,367)	(1,828)	(1,200)
Net foreign currency differences on translation of self-sustaining operations	176	-	-	-
Disposals	(513)	(36,081)	-	-
Carrying amount at the end of the year	550,105	244,491	3,363	4,465
Leasehold improvements				
Carrying amount at the beginning of the year	67,885	50,686	-	-
Additions	13,360	31,335	-	-
Amortisation	(19,533)	(14,136)	-	-
Net foreign currency differences on translation of self-sustaining operations	14	-	-	-
Carrying amount at the end of the year	61,726	67,885	-	-
Plant & equipment under finance lease				
Carrying amount at the beginning of the year	68,042	-	-	-
Additions	4,955	94,916	-	-
Amortisation	(26,120)	(26,874)	-	-
Carrying amount at the end of the year	46,877	68,042	-	-

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
15 Payables					
Current					
Trade Creditors		5,600,667	3,815,524	91,278	199,002
Other creditors and accruals		1,872,482	1,150,221	74,843	8,471
Unearned income		558,283	-	-	-
Payable to other persons		1,631,452	2,115,401	1,631,452	-
		9,662,884	7,081,146	1,797,573	207,473
Non current					
Loans from directors		531,098	-	-	-
16 Interest bearing liabilities					
Current					
Bank overdraft		-	19,236	-	-
Lease liabilities – hire purchase		101,866	-	-	-
- finance lease	24	34,648	30,206		
Other		-	20,178	-	-
		136,514	69,620	-	-
Non-current					-
Lease liabilities – hire purchase		64,001	-	-	-
- finance lease	24	6,823	37,837		
Loans from related parties – secured		-	2,185,199	-	2,185,199
		70,824	2,223,036	-	2,185,199
Financing arrangements					
The consolidated entity has access to the following lines of credit:					
Total facilities available:					
Bank overdrafts		810,000	720,000	-	-
Bill acceptance facility		7,000,000	-	7,000,000	-
		7,810,000	720,000	7,000,000	-
Facilities used at reporting date:					
Bank overdrafts		-	19,236	-	-
Bill acceptance facility		-	-	-	-
		-	19,236	-	-
Facilities not utilised at reporting date:					
Bank overdraft		810,000	700,764	-	-
Bill acceptance facility		7,000,000	-	7,000,000	-
		7,810,000	700,764	7,000,000	-

16 Interest bearing liabilities (continued)

Financing arrangements (continued)

Bank overdrafts

The bank overdraft of the Ad Partners Group Partnership, [maximum $560,000] is secured by a property owned by outside equity holders, Ad Partners Australia Pty Limited and a fixed and floating charge over the assets and undertakings of the Ad Partners Group Partnership. The bank overdraft of Australian Business Theatre Group Pty Limited (maximum $250,000), is secured by guarantees by three directors of that company and a registered mortgage over all assets and undertakings of Australian Business Theatre Group Pty Limited. The bank overdrafts are payable on demand and subject to annual review. Interest on bank overdrafts is charged at prevailing market rates. The overdrafts were not being utilised at 30 June 2003.

Bill acceptance facility

The bill acceptance facility is subject to annual review. This facility was unused as at the 2003 reporting date. The facility bears interest of fixed and variable rates based on prevailing market rates. The bill acceptance facility is secured by a First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of Photon Group Pty Limited.

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
17 Provisions				
Current				
Employee benefits	931,087	318,552	61,131	18,302
Dividends	-	201,880	-	-
	931,087	520,432	61,131	18,302
Non-current				
Employee benefits	103,124	178,895	-	-
18 Other				
Non-current				
Clients' deposits	-	10,346	-	-
19 Contributed equity				
Share capital				
21,149,722 (2002: 15,005,000) ordinary shares, fully paid	17,927,500	12,005,000	17,927,500	12,005,000

Ordinary shares
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
19 Contributed equity (continued)				
Ordinary shares				
Movements during the year				
Balance at the beginning of the year 12,005,000 (2002: 3,000,000) shares	12,005,000	3,000,000	12,005,000	3,000,000
Shares issued during the year				
- 3,922,500 (2002:9,005,000) issued for cash for $1 per share	3,922,500	9,005,000	3,922,500	9,005,000
- 2,222,222 issued for debt to equity conversion for $0.90 per share	2,000,000	-	2,000,000	-
Balance at the end of the year	17,927,500	12,005,000	17,927,500	12,005,000
20 Reserves				
Foreign currency translation				
Balance at the beginning of the year	-	-	-	-
Exchange difference on net investment in foreign operations net of tax	(3,073)	-	-	-
Balance at the end of the year	(3,073)	-	-	-
21 Accumulated Losses				
Accumulated losses at the beginning of year	(4,957,109)	(4,454,272)	(4,298,943)	(2,972,787)
Net profit/(loss) attributable to members of the parent entity	(638,156)	(502,837)	(1,269,561)	(1,326,156)
Accumulated losses at end of year	(5,595,265)	(4,957,109)	(5,568,504)	(4,298,943)

	Consolidated 2003 $	Consolidated 2002 $
22 Outside equity interests		
Outside equity interests in controlled entities comprise:		
Interest in retained profits/accumulated losses at the end of the financial year	1,172,775	316,705
Interest in share capital	2,556,126	2,239,878
Total outside equity interests	3,728,901	2,556,583

23 Additional financial instruments disclosure

(a) Interest rate risk exposure

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Weighted average interest rate	Floating interest rate $	Fixed rate maturing in 1 year or less $	Fixed rate maturing in 1 to 5 years $	Non-interest bearing	Total $
2003							
Financial assets							
Cash assets		3.81%	3,921,019	1,611,380	-	9,384	5,541,783
Receivables		-	-	-	-	9,241,851	9,241,851
Other financial assets		3.88%	-	56,648	-	3,728	60,376
			3,921,019	1,668,028	-	9,254,963	14,844,010
Financial liabilities							
Payables		-		-		9,635,699	9,635,699
Lease liabilities		-		136,514	70,824	-	207,338
Employee benefits		5.00%	1,034,211	-	-	-	1,034,211
			1,034,211	136,514	70,824	9,635,699	10,877,248

(b) Credit risk exposure

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

Recognised financial instruments

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

The consolidated entity minimises concentration of credit risk by undertaking transactions with a large number of customers.

(c) Net fair values of assets and liabilities

The carrying value of all financial assets and liabilities of the consolidated entity approximate their net fair value.

Notes to the financial statements
For the year ended 30 June 2003

24 Commitments

	Note	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Non cancellable operating lease expense commitments					
Future operating lease not provided for in the financial statements and payable:					
Within one year		1,552,768	986,433	-	-
One year or later and no later than five years		1,580,587	1,246,398	-	-
Later than five years		203,649	-	-	-
		3,337,004	2,232,831	-	-

The consolidated entity leases property under non-cancellable operating leases expiring from two to ten years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on movements in the Consumer Price Index.

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Finance lease payable commitments				
Finance lease commitments are payable:				
Within one year	37,192	35,128	-	-
One year or later and no later than five years	7,056	39,946	-	-
	44,248	75,074	-	-
Less: Future lease finance charges	(2,777)	(7,031)	-	-
	41,471	68,043	-	-
Lease liabilities provided for in the financial statements				
Current	34,648	30,206	-	-
Non-current	6,823	37,837	-	-
Finance lease commitments are payable:	41,471	68,043	-	-

25 Contingent liabilities

The details and estimated maximum amounts of contingent liabilities that may become payable are set out below. The directors are not aware of any circumstance or information which would lead them to believe that these liabilities will crystallise and consequently no provisions are included in the financial statements in respect of these matters.

Indemnities

Indemnities have been provided to directors, auditors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations still outstanding at 30 June 2003.

25 Contingent liabilities (continued)

The Company has indemnified the outside equity holder of the Ad Partners Group Partnership to the extent of 51% of any claims relating to the bank overdraft and other credit facility of the Ad Partners Group Partnership.

Photon Group Pty Limited has further agreed, on and subject to the terms of the 'Deed of Indemnity – Personal Guarantees' with two controlled entities, Ad Partners Group Partnership and The Precinct Group Pty Limited, to indemnify each of the indemnified individuals for 51% of all claims, losses, damages and expenses which such individuals may sustain or incur out of or in connection with any personal guarantees in respect of equipment leases and other agreements.

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
Guarantees				
The Company has guaranteed rental facilities of certain controlled or associated entities:				
Ideassociates Pty Limited	48,965	77,281	48,965	77,281
Returnity Pty Limited	20,211	179,797	20,211	179,297
	69,176	257,078	69,176	256,578

26 Controlled entities

(a) Particulars in relation to controlled entities:

Name	Ordinary Share Consolidated Entity Interest 2003 %	2002 %
Parent entity		
Photon Group Pty Limited		
Controlled entities		
Brass Tacks Pty Limited	51	51
Ideassociates Pty Limited	51	51
Love Pty Limited	75	75
CPR Communications and Public Relations Pty Limited	51	51
Photon APG Pty Limited	100	100
Adpartners Group (Partnership)	51	51
The Precinct Group Pty Limited	51	-
Precinct Ltd	51	-
Australian Business Theatre Group Pty Limited	51	-
Robbins Brandt Richter Limited (New Zealand)	51	-
Australian Research Group Pty Limited	26.52	-

Robbins Brandt Richter Limited was incorporated in and carries on business in New Zealand and Precinct Ltd was incorporated and carries on business in Hong Kong.

All other controlled entities were incorporated in Australia

26 Controlled entities (continued)

(b) Acquisition/disposal of controlled entities

The following controlled entities were acquired or disposed of during the financial year.

Acquisition of entities
During the financial year the consolidated entity purchased the following entities:

	Acquisition date	% voting shares acquired	Business activities
Precinct Pty Limited	1 July 2002	51%	Corporate design and client brand management
Precinct Ltd [100% owned by Precinct Pty Ltd]	1 July 2002	51%	Client development services for Precinct Pty Limited
Australian Business Theatre Pty Limited	6 January 2003	51%	Creation, production and management of corporate events
Robbins Brant Richter Ltd	1 April 2003	51%	Direct marketing services for clients
Australian Business Research Group Pty Limited	1 September 2002	26.52%	Market research services for clients

The operating results of the above entities have been included in the consolidated operating profit from the date of acquisition.

(b) Acquisition/disposal of controlled entities

Disposal of entities

During the previous financial year the consolidated entity disposed of, subsequent to acquiring 11.77% (Photon's equity holding at the date of disposal was 100%), 50% of the ordinary shares of Returnity Pty Limited.

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
Loss on disposal	-	32,814	-	-
Interest held after disposal	-	50%	-	50%

27 Investments accounted for using the equity method

Interest in joint venture entities

Name	Principal Activity	Ownership Interest 2003 %	Ownership Interest 2002 %	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Bellamyhayden Pty Limited	Media Strategy	50	50	534,727	442,272	442,272	442,272
Returnity Pty Limited	Email Marketing	50	50	6,024	-	4,695	-
				540,751	442,272	446,967	442,272

	Consolidated 2003 $	Consolidated 2002 $
Movements in carry amount of joint venture entities		
Carrying amount at the beginning of the year	442,272	370,588
Investment in joint venture entity during the year	4,695	-
Share of joint venture gain (loss)	93,784	71,684
Carrying amount at the end of the year	540,751	442,272
Results of joint venture entities		
The Company's and the consolidated entity's share of the joint venture entities' results consists of:		
Revenue from ordinary activities	843,535	728,579
Expenses from ordinary activities	(639,002)	(681,007)
Profit/(loss) from ordinary activities before income tax expense	204,533	47,572
Share of accumulated losses	(66,124)	-
Income tax expense relating to ordinary activities	(44,625)	24,112
Net profit – accounted for using the equity method	93,784	71,684
Statement of financial position		
The consolidated entity's share of the joint venture entities' results consists of:		
Current assets	759,081	416,769
Non-current assets	126,211	114,808
Total assets	885,292	531,577
Current liabilities	242,157	89,305
Non-current liabilities	102,384	-
Total liabilities	344,541	89,305
Net assets – accounted for using the equity method	540,751	442,272
Share of post-acquisition retained profits attributable to joint venture entities		
Share of joint venture entity's retained profits/(losses) at beginning of year	(57,829)	(129,513)
Share of joint venture entities' net profit	93,784	71,684
Share of joint venture entities' retained profits/(losses) at end of year	35,955	(57,829)

28 Employee benefits

	Consolidated		The Company	
	2003	2002	2003	2002
	$	$	$	$
Aggregate liability for employee benefits, including on-costs				
Current				
Employee benefits provision	931,807	318,552	61,131	18,302
Non-current				
Employee benefits provision	103,124	178,895	-	-

	Consolidated		The Company	
The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:	2003	2002	2003	2002
Assumed rate increase in salary and wage rates	3%	3%	3%	3%
Discount rate	5%	5%	5%	5%
Settlement term (years)	10	10	10	10
Number of employees				
Number of employees at year end	176	98	3	3

29 Notes to the statement of cash flows

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $

(i) Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and at bank and short term deposits 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 statement of financial position as follows:

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Cash assets	5,541,783	3,451,532	2,335,935	1,324,003
Bank overdraft	-	(19,236)	-	-
	5,541,783	3,432,296	2,335,935	1,324,003

(ii) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

	Consolidated 2003 $	Consolidated 2002 $	The Company 2003 $	The Company 2002 $
Profit/(loss) from ordinary activities after income tax	384,294	242,811	(1,269,561)	(1,326,156)
Add/(less) items classified as investing/financing:				
Profit on sale of non-current assets	240	-	240	-
Add/(less) non-cash items:				
Depreciation and amortisation	1,833,266	326,263	8,055	5,703
Loss where a subsidiary becomes a joint revenue entity	-	32,435	-	-
Write-down/(back) of investment to recoverable amount	-	-	1,268,378	428,316
Loan forgiven	-	-	-	593,821
Share of profits/(losses) of joint venture entities	(93,784)	(71,684)	-	-
Net cash provided by operating activities before change in assets and liabilities	2,124,016	529,825	7,112	(298,316)
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year::				
(Increase)/ decrease in receivable	(2,281,299)	(795,543)	(187,850)	(163,619)
(Increase)/ decrease in work in progress	(352,566)	(25,853)	-	-
(Increase)/ decrease in prepayments	(59,889)	42,226	(13,406)	33,842
(Increase)/ decrease in deferred tax assets	(73,308)	-	-	-
(Increase)/ decrease in other assets	(18,498)	-	-	-
(Increase)/ decrease in investments	-	(794)	-	-
Increase/ (decrease) in payables	2,630,086	1,171,610	(52,752)	31,656
Increase / (decrease) in deferred income	558,283	-	-	-
Increase/ (decrease) in borrowings	128,910	200,128	(185,199)	154,116
Increase/ (decrease) in provisions	334,884	(300,573)	42,829	(308,130)
Increase/ (decrease) in income taxes payable	210,374	(160,770)	-	-
	3,200,993	660,256	(389,266)	(550,451)

30 Directors remuneration

Directors' income

	The Company 2003 $
The number of directors of the Company whose income from the company or any related party falls within the following bands are as follows:-	
$ 0-$9,999	4
$260,000-$269,999	1
$320,000-$329,999	1

	Consolidated 2003 $	The Company 2003 $
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company or any related party	3,492,741	323,584

Directors' income includes amounts paid by the Company during the year to indemnify directors, and an allocation of insurance premiums paid by the Company or related parties in respect of directors' and officers' liabilities and legal expenses' insurance contracts, in accordance with common commercial practice.

31 Related parties

Directors

The names of each person holding the position of director of Photon Group Pty Limited during the financial year are Messrs T Hughes, S Reynolds, A Armstrong, J Falconer and Ms S McIntosh. Mr G Bundy and Mr J Falconer resigned as directors subsequent to year end.

Details of directors remuneration are set out in note 31.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors interests subsisting at year-end.

	Consolidated 2003	The Company 2003
Loans to directors		
Mr R Withers	10,000	-

Mr R Withers is a director of Ideassociates Pty Limited. The amount of $10,000 loaned to Mr R Withers was outstanding at 30 June 2002. No further amounts have been loaned and no repayments have been made on this loan during the year. The interest is payable at 6.3% and the principal amount is repayable at any time before 30 June 2004.

Directors' holdings of shares and share options

The interests of directors of the Company and their director related entities in shares and share options of entities within the consolidated entity at year end are set out below:

	Consolidated 2003 Number held
Photon Group Pty Limited	
Ordinary shares	7,882,777
Options over ordinary shares	2,164,000

Director transactions in shares and options

During the year, Photon Group Pty Limited issued 800,000 ordinary shares at $1 per share to directors and their director-related entities. During the year, Photon Group Pty Limited converted $376,000 in interest bearing debt owing to directors and their director related entities to 417,777 ordinary shares, issued at $0.90 per share.

Directors' transactions with the Company or its controlled entities

A number of the directors of the Company, or their director-related entities, hold positions in other entities that result in them having significant influence over the financial or operating policies of these entities.

The terms and conditions of the transactions with the directors and their director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to directors and their director-related entities were as follows:

Director	Transaction	Note	Consolidated 2003 $	Company 2003 $
S Reynolds	Consultancy		50,000	50,000
TJ Hughes& ST McIntosh	Sales: Design services	(i)	33,503	-

(i) Sales-design services relate to work provided to RG Capital Radio Limited by Ideassociates Pty Limited. Both TJ Hughes and ST McIntosh are associated with RG Capital Radio Limited in their capacity as Executive Chairman and Non-Executive Director respectively.

Notes to the financial statements
For the year ended 30 June 2003

31 Related parties (continued)

Non-director related parties

The classes of non-director related parties are:

- Wholly-owned controlled entities
- Partly-owned controlled entities
- Joint venture entities
- Directors of related parties and their director-related entities

Transactions

All transactions with non-director related parties are on normal terms and conditions.

	The Company	
	2003	**2002**
	$	**$**
The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions with non-director related parties are:		
Interest revenue		
Partly-owned controlled entities	32,327	34,179
Dividend revenue		
Partly-owned controlled entities	561,000	210,120
Management fees		
Wholly-owned controlled entities	60,000	5,000
Partly-owned controlled entities	277,793	157,779
Commonly controlled entities	37,000	64,187
Loans advanced to:		
Partly-owned controlled entities	2,161,156	2,746,733
Partly-owned controlled entities – provision for non-recovery	-	(62,000)
Commonly controlled entities	100,000	171,793
Total amounts payable		
Partly-owned controlled entities	1,665,358	52,147

Details of equity interests held in classes of related parties are set out as follows:

Controlled entities	Note 26(a)
Joint venture entities	Note 27

32 Events subsequent to balance date

Subsequent to balance date the company has been in the process of planning an initial public offering which includes the acquisition of additional subsidiary companies that will form a material part of the group. At the date of this report details of the said initial public offering have not been finalised.

Photon Group Pty Limited

ABN 97 091 524 515

Directors' Declaration

For the year ended 30 June 2003

In the opinion of the directors of Photon Group Pty Limited ("the Company"):

(a) the company is not a reporting entity

(b) the financial statements and notes, set out on pages 4 to 34, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows for the financial year ended on that date in accordance with the basis of accounting described in Note 1(a); and

(ii) complying with Accounting Standards to the extent described in Note 1(a) and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(c) there are reasonable grounds to believe that the Company and its subsidiaries will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 20th day of January 2004

Signed in accordance with a resolution of the directors:

A.J. Armstrong
Director

S.T. McIntosh
Director

PHOTON GROUP PTY LIMITED
A.B.N. 97 091 524 515

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHOTON GROUP PTY LIMITED

Scope

We have audited the financial report of Photon Group Pty Limited for the year ended 30 June 2003, being a special purpose financial report consisting of the statement of financial performances, statement of financial positions, statement of cash flows, accompanying notes 1 to 32 and the directors' declaration, set out on pages 4 to 35. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at year end or from time to time during the financial year. The Company's directors are responsible for the financial report. The directors have determined that the accounting policies used and described in Note 1(a) to the financial statements are appropriate to meet the requirements of the Corporations Act 2001 and the needs of the members. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. No opinion is expressed whether the accounting policies used, and described in Note 1(a) are appropriate to the needs of the members.

The financial report has been prepared for distribution to members for the purpose of fulfilling the requirements of the Corporations Act 2001. We disclaim any assumption of responsibility for any reliance on this report, or on the financial report to which it relates, to any person other than the members, or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Note 1(a) to the financial statements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance, as represented by the results of its operations and its cash flows. These policies do not require the application of all Accounting Standards nor other mandatory professional reporting requirements in Australia.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Photon Group Pty Limited is in accordance with:

(a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2003 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1(a) to the financial statements; and

   (ii) complying with AASB1025 "Application of the Reporting Entity Concept and Other Amendments", AASB 1018 "Statement of Financial Performance", AASB1040 "Statement of Financial Position", AASB 1034 "Financial Report Presentation and Disclosures" and other Accounting Standards in Australia to the extent described in Note 1(a), and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia to the extent described in Note 1(a) to the financial statements.

KPMG

P J Done
Partner
Sydney, 20th January 2004