

Photon Group Limited
And its controlled entities
ABN 97 091 524 515

Annual Financial Report
For the year ended 30 June 2005

Photon Group Limited
ABN 97 091 524 515

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Directors' Report

The directors present their report together with the financial report of Photon Group Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 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:

Tim Hughes- Executive chairman

Tim is the Executive Chairman of Macquarie Media Group Limited and is also Chairman of Carinya Investment Management and a Director of the Sporting Chance Cancer Foundation. Tim Hughes has had a 20 year business career in television production and distribution, television broadcasting, radio, investment management and marketing services. Tim has a Bachelor of Business from UTS. He was appointed a director of the Company on 2 June 2000 and is a member of the Remuneration Committee.

Matthew Bailey- Chief executive officer & director

Matthew joined Photon as CEO in 2004. In addition to this role he is responsible for the Photon subsidiary, The Bailey Group. Matthew has 16 years experience as CEO of The Bailey Group with extensive experience in retail selling, sales force strategy and brand development. Matthew has a Bachelor of Business from Swinburne University. He was appointed as a Director of the Company on 25 March 2004.

Siimon Reynolds- Executive director

Siimon is Executive Chairman and Creative Director of Love Communications and is one of Australia's best known advertising experts. Siimon has over 20 years of experience in the marketing services sector. He has won many major global awards for creativity and has won 'Agency of the Year' twice. Siimon has lectured on marketing to over 50,000 business people and was previously a director of John Singleton Advertising Group Limited (now part of STW Communications Group Limited). He was appointed as a Director of the Company on 9 February 2000.

Susan McIntosh- Non-executive director

Susan is a Chartered Accountant with over 20 years experience in Media. Susan is currently Managing Director of RG Capital Holdings Limited. She was appointed as a Director of the company on 2 June 2000 and is a member of the Audit Committee.

Brian Bickmore- Independent non-executive director

Brian joined Austereo Limited in 1980 as a founding executive and recently resigned from Austereo Limited after 24 years. Brian served initially as Austereo's Finance Director and from 1997 was Group General Manager. In 2003 Brian was appointed as Managing Director Corporate Development and International Media. Brian was instrumental in the merger of the Triple M and Austereo businesses, a core element of Austereo's success. He also directed Austereo's international expansion. He was appointed as a Director of the Company on 25 March 2004 and is Chairman of the Audit Committee and a Chairman of the Remuneration Committee.

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Directors Report

Directors (*continued*)

Paul Gregory – Independent non-executive director

Paul is currently providing a number of Australian and International retail groups with management and strategic advice. Previously Paul has led a diversity of medium sized private retail companies, including Australian Geographic Pty Ltd and Red Earth Australia Pty Ltd, and has overseen the expansion of these companies at both a domestic and international level. He was appointed as a director on 25 March 2004 and is a member of the Audit Committee.

Tim Tighe resigned as a director on 1 July 2005.

Anthony Armstrong resigned as a director on 28 April 2005.

Company Secretary

Geoff Nesbitt was appointed to the position of Company secretary on 31 July 2000. He is also Chief Financial Officer (CFO) of the Company and the consolidated group responsible for group wide financial management and reporting requirements. Prior to joining Photon, Geoff was Financial Controller for advertising agency, Saatchi & Saatchi Australia. He has a Bachelor of Business degree in accounting and is a member of CPA Australia and an affiliate member of the Institute of Chartered Secretaries of Australia.

Principal activities

The principal activities of the consolidated entity during the course of the financial year was specialist integrated marketing services, specialising in retail marketing and merchandising, advertising, public relations, graphic design, digital printing, production sales of promotion material and Point of Sales (POS), Point of Production (POP), media planning and communications, e-mail marketing, events management, direct marketing, research based consultancy and interactive promotional marketing services.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Review and result of operations

On 1 May 2005 the company issued 1,699,556 ordinary shares as part payment of the purchase price to the vendors of Legion Interactive. These shares rank equally with existing ordinary shares on issue with the exception of 313,406 of the shares issued which are subject to voluntary escrow restrictions.

On 6 June 2005 the Company issued 5,655,939 ordinary shares to institutional and sophisticated investors pursuant to a placement announced to the ASX on 27 May 2005. The purpose of the placement was to retire bank debt and for general working capital purposes. These shares rank equally with existing ordinary shares on issue.

The consolidated net profit from ordinary activities after income tax attributable to the parent company amounted to \$4,572,000 (2004: \$1,287,000). Annual growth was attributable from a combination of acquisitions and organic growth in existing companies.

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Directors Report

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Type	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
<i>Declared and paid during the year</i>				
Final 2004 – Ordinary shares	2.0c	981	11 October 2004	Franked
Interim 2005 – Ordinary shares	3.0c	1,471	4 March 2005	Franked
<i>Declared after year end</i>				
Final 2005 – Ordinary shares	5.0c	2,820	4 October 2005	Franked
Note				
<i>Dealt with in the financial report as:</i>				
-Dividends	23	2,452		
-Noted as a subsequent event	23	2,820		

All the franked dividends paid or declared by the Company since the end of the previous financial year were franked at 30%.

State of affairs

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

- acquired 100% of the issued capital of The Leading Edge Market Research Consultants Pty Limited (The Leading Edge) and its controlled entity,
- acquired 100% of the issued capital of ONAT Holdings Pty Limited (Orchard) and its controlled entities,
- acquired 100% of the issued capital of Legion Interactive Holdings Pty Limited (Legion Interactive) and its controlled entities, and
- acquired 100% of the issued capital of Kinetics Pty Limited

Refer note 27, Controlled Entities, for further details.

Directors Report

Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year:

Director	Board meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Tim Hughes	12	12	-	-	2	2
Matthew Bailey	12	12	-	-	-	-
Anthony Armstrong	10	10	-	-	-	-
Siimon Reynolds	11	12	-	-	-	-
Susan McIntosh	12	12	2	2	-	-
Brian Bickmore	10	12	2	2	-	-
Tim Tighe	12	12	-	-	2	2
Paul Gregory	11	12	1	2	2	2

A – Number of meetings attended

B -- Number of meetings held during the time the director held office during the year.

Directors' Interests

Director	Ordinary shares	Options over ordinary shares
Tim Hughes	1,953,444	790,000
Matthew Bailey	8,498,850	300,000
Anthony Armstrong	247,222	640,000
Siimon Reynolds	4,840,000	Nil
Susan McIntosh	164,444	80,000
Brian Bickmore	150,000	Nil
Tim Tighe	150,000	Nil
Paul Gregory	150,000	Nil
Total	16,153,960	1,810,000

Directors Report

Share Options

Options granted to directors' and officers of the Company

During the financial year, the company granted options for no consideration over unissued ordinary shares in Photon Group Limited to the following directors and to the following of the five most highly remunerated officers of the company as part of their remuneration:

	Number of options granted	Exercise price	Expiry date
Officer			
Anthony Rowlinson	1,000,000	\$2.87	31 May 2010

No options have been granted since the end of the year.

Unissued shares under option

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

Expiry date	Number of options	Exercise price
31 January 2007	700,000	\$1.25
28 November 2008	375,000	\$1.50
1 April 2009	1,000,000	\$1.80
31 May 2010	<u>1,000,000</u>	\$2.87
	3,075,000	

All options with the exercise price of \$1.25, 100,000 options with the exercise price of \$1.50 and 300,000 options with the exercise price of \$1.80 will expire on the above listed dates. Remaining options expire on the earlier of their expiry date or termination of the employee's contract. In addition, for options issued after 25 March 2004, the ability to exercise the options is conditional upon employment service conditions. Further details are included in the Remuneration report.

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

Directors Report

Events subsequent to balance date

Acquisition of wholly-owned entities

Subsequent to balance date, the Company acquired 100% of the issued share capital of:

- Kaleidoscope Marketing Communications Pty Limited (Kaleidoscope), a point of sale direct marketing company. The purchase price was \$120,000 cash plus additional deferred cash payments to be tied to the earnings of Kaleidoscope in the period through to 30 June 2007. The acquisition was funded using existing cash reserves.
- Republicorp International Pty Limited (Republicorp), a corporate investor and stakeholder communications company. The purchase price was \$200,000 cash plus additional deferred cash payments to be tied to the earnings of Republicorp in the period through to 30 June 2008.

Acquisition of partly-owned entities

Subsequent to balance date, the Company acquired 50.1% of the issued share capital of:

- Media Zoo Pty Limited, a new kind of interactive media company that assists major brands and leading traditional media groups to exploit the increasingly complex intersection of entertainment and information content, brand communication and technology. The purchase price was \$100,000 cash with further call options by Photon Group Limited and put options by Media Zoo Pty Limited in the period through to 30 September 2009.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2005.

Amended Fixed and Variable Cash Advance Facility Agreement with ANZ Banking Group Limited

Subsequent to balance date, the Company amended its fixed and variable cash advance facility with ANZ Banking Group to a facility amounting to \$50million comprising a general corporate funding facility, an acquisition finance facility and a working capital finance facility.

Dividends

For dividends declared after 30 June 2005, see note 23.

International Financial Reporting Standards

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 33 to the financial statements.

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

Likely Developments

Information about likely developments in the operations of the consolidated 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 consolidated entity.

Directors Report

Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the following current directors of the Company, Mr T J Hughes, Mr S Reynolds, Mr M W Bailey, Ms S T McIntosh, Mr B L Bickmore and Mr P Gregory and the secretary Mr G M Nesbitt against liabilities to another person (other than the Company or a related body corporate) that may arise from their positions as directors or secretaries of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any liabilities, including costs and expenses.

The company has also agreed to indemnify the current directors and secretaries of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

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.

The directors have not included details of the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Non-audit services

During the year KPMG, the company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is on page 16 of this annual report.

Directors Report

Non-audit services (continued)

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed in Note 4 to the financial statements.

	Consolidated		The Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
<i>Services other than statutory audit:</i>				
<i>Other services:</i>				
<i>Migration services work:</i>				
Auditors of the Company – KPMG Australia	56,678	-	-	-
<i>Workers compensation insurance reported wages review</i>				
Auditors of the Company – KPMG Australia	3,050	-	-	-
<i>Transaction and due diligence services:</i>				
Auditors of the Company – KPMG Australia	25,200	992,000	25,200	992,000
<i>Taxation services:</i>				
Auditors of the Company – KPMG Australia	-	27,000	-	10,000
Total services other than statutory audit	84,928	1,019,000	25,200	1,002,000

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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Directors Report

Remuneration Report

(a) Remuneration policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages contain a mix of fixed remuneration and equity-based remuneration.

(b) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost to company basis and includes FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

The remuneration packages of specified Executives and Officers of Photon Group Limited and its controlled entities have been determined in accordance with three year service agreements signed in March 2004 or, for specified Executives related to companies acquired in the 2005 year, on the date of acquisition of the company. The service agreements signed specify the remuneration package to which Executives and Officers will be entitled over this specified period and do not include incentives based on performance hurdles or bonus arrangements. The remuneration packages are subject to annual review by the Remuneration Committee.

(c) Long term incentive

Options issued on or after 25 March 2004 are issued under the Executive Share Option Plan (ESOP). The plan allows for the Board to determine who is entitled to participate in the ESOP and may grant options accordingly. Photon's remuneration committee may determine whether or not the grant or exercise of options is conditional on the achievement of performance hurdle, and if so, the nature of such performance hurdles. The exercise of an option will entitle the option holder to subscribe for one share. All options will be granted at an exercise price being the average of the daily volume weighted average sale price (VWAP) of Photon Group Limited shares on each of the 30 business days prior to the issue date. As at 30 June 2005, two million options have been issued under the ESOP.

During the year ended 30 June 2005, the conditions attached to the options granted to Anthony Armstrong changed as the Board of Directors approved his request to transfer options held in his name to a personally-related trust in which he has a controlling interest. Additionally, the board approved his request to retain his options upon cessation of his employment with the company.

The ability to exercise options is conditional upon service conditions as follows:

- no options may be exercised in the period which is two years from the issue date
- between the date which is two years from the issued date and the date which is three years from the issue date, the optionholder is only entitled to exercise up to one third of the total number of options granted to the option holder
- between the date which is three years from the issued date and the date which is four years from the issue date, the optionholder is only entitled to exercise up to two third of the total number of options granted to the option holder
- between the date which is four years from the issued date and the expiry date, the optionholder is entitled to exercise all of the options granted to the option holder

(d) Service contracts

It is the consolidated entity's policy that service contracts for executive directors and senior executives be in force for a fixed period with an extension period negotiable after completion of the initial term. The agreements are capable of termination, acknowledging appropriate notice periods, and the consolidated entity retains the right to terminate the contract immediately through contractual breach on the part of the executive or by making payment in lieu of notice. The executive directors and senior executives are also entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

The service agreements outline the components of remuneration paid to the executive directors and senior executives and prescribes that the remuneration levels are modified based on inflation or performance criteria individually agreed. Remuneration levels are reviewed annually by the remuneration committee.

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Directors Report

Remuneration Report

Remuneration policies (*continued*)

(e) Non-executive directors

The Company Constitution provides that the non-executive Directors are each entitled to be paid such remuneration from the company as the Directors decide for their services as Director, but the total amount provided to all non-executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. This amount has been fixed by the Company at \$450,000 for the financial year ended 30 June 2005. The remuneration of non-executive Directors must not include a commission on, or percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending to the Company's affairs. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes special exertions for the benefit of the Company.

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Directors Report

Remuneration Report

(f) Directors' and senior executives' remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named officers of the company and the consolidated entity receiving the highest remuneration are:

		Primary		Post-employment		Equity compensation		Other compensation		Not audited		Not audited	
		Salary and fees	Cash bonus	Non-cash benefits	Super contributions	Value of options(v)	Termination benefits	TOTAL	Audited Yes/No	Proportion of remuneration related %	Value of options proportion of remuneration %	Proportion of remuneration related %	Value of options proportion of remuneration %
		\$	\$	\$	\$	\$	\$	\$					
Directors													
Non executive													
Susan McIntosh	2005	40,000	-	-	3600	-	-	43,600	Y	-	-	-	-
	2004	25,000	-	-	2,250	-	-	27,250	Y	-	-	-	-
Brian Bickmore	2005	40,000	-	-	3,600	-	-	43,600	Y	-	-	-	-
	2004	10,000	-	-	900	-	-	10,900	Y	-	-	-	-
Paul Gregory	2005	40,000	-	-	-	-	-	40,000	Y	-	-	-	-
	2004	10,000	-	-	900	-	-	10,900	Y	-	-	-	-
Tim Tighe	2005	40,000	-	-	3,600	-	-	43,600	Y	-	-	-	-
	2004	10,000	-	-	900	-	-	10,900	Y	-	-	-	-
Executive													
Tim Hughes	2005	150,000	-	-	11,585	38,122	-	199,707	Y	-	17.39%	-	17.39%
	2004	75,000	-	-	6,125	14,605	-	95,730	Y	-	15.26%	-	15.26%
Matthew Bailey	2005	339,460	-	78,708	38,702	23,108	-	479,978	Y	-	4.80%	-	4.80%
	2004	69,838	-	26,636	11,438	5,761	-	113,673	Y	-	5.07%	-	5.07%
Anthony Armstrong (ii)	2005	63,078	-	12,920	1,834	144,945	240,330	463,107	Y	-	31.30%	-	31.30%
	2004	288,592	-	50,406	11,002	9,299	-	359,299	Y	-	2.59%	-	2.59%
Siimon Reynolds	2005	382,400	-	-	24,000	-	-	406,400	Y	-	-	-	-
	2004	345,872	-	-	28,128	-	-	374,000	Y	-	-	-	-
Total, all specified directors		1,094,938	-	91,628	86,921	206,175	240,330	1,719,992	Y	-	-	-	-
		834,302	-	77,042	61,643	29,665	-	1,002,652	Y	-	-	-	-

Refer notes on following page

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Directors Report
Remuneration Report

(f) Directors' and senior executives' remuneration (continued)

		Primary				Post-employment Super contributions	Equity compensation		Other Termination benefits	TOTAL	Audited Yes/No	Not audited	
		Cash bonus	Non-cash benefits	Salary and fees			Value of options(v)					Proportion of remuneration related %	Value of options proportion of remuneration %
		\$	\$	\$	\$	\$	\$	\$		\$			
Executive officers													
The Company													
Geoff Nesbitt Company Secretary/ CFO, Photon Group Limited	2005	148,520	-	20,478	11,002	9,204	-	-	-	189,204	Y	-	4.86%
	2004	120,000	-	16,498	11,002	2,805	-	-	-	150,305	Y	-	1.87%
Anthony Rowlinson (iii) COO, Photon Group Limited	2005	61,608	-	5,919	6,868	7,996	-	-	-	82,391	Y	-	9.70%
Consolidated													
Stewart Bailey CEO, The Bailey Group Pty Limited	2005	145,575	-	40,545	13,940	-	-	-	-	200,060	Y	-	-
(i) Derek Leddie CEO, The Leading Edge Marketing Research Consultants Pty Limited	2004	27,798	-	13,140	3,016	-	-	-	-	43,954	Y	-	-
	2005	225,313	-	39,300	38,702	-	-	-	-	303,315	Y	-	-
David Burden (iv) CEO, Legion Interactive Pty Limited	2005	73,032	-	-	79,605	-	-	-	-	152,637	Y	-	-
Total, specified executives	2005	654,048	-	106,242	150,117	17,200	-	-	-	927,607	Y		
	2004	147,798	-	29,638	14,018	2,805	-	-	-	194,259	Y		

(i) For the period 25 March 2004 to 30 June 2004

(ii) Anthony Armstrong was an Executive Director for the period 1 July 2004 to 17 September 2004 when he resigned as an executive of the Company. He resigned as director of the Company on 28 April 2005.

(iii) For the period 26 April 2005 to 30 June 2005

(iv) For the period 15 March 2005 to 30 June 2005

(v) The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

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Directors Report
Remuneration Report

(g) Directors' and senior executives' remuneration

The following factors and assumptions were used in determining the fair value of the options on the grant date:

Grant date	Expiry date	Fair value per option	Exercise price (i)	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
28 Nov 03	27 Nov 08	\$0.23	\$1.50	Not listed	7.5 – 9.0%	5.92%	4.5%
1 April 04	1 April 09	\$0.295	\$1.80	Not listed	7.5 – 9.0%	5.27%	4.5%
31 May 2005	31 May 2010	\$0.49	\$2.87	\$3.10	20 – 25.8%	5.4%	2.45%

(i) As set out in the Company's ESOP, the exercise price of options granted after 25 March 2004 is calculated with reference to the volume weighted average price (VWAP) of Photon Group Limited ordinary shares for 30 business days prior to the issue date.

Each option entitles the holder to purchase one ordinary share in the Company. All options expire on the earlier of their expiry date or termination of the individual's employment.

The options issued on 28 November 2003 are exercisable any time from 31 January 2004 to 27 November 2008.

The options issued on 1 April 2004, under the Executive Share Option Plan, "ESOP", are exercisable by the option holder as follows:

From 1 April 2006 – 33 1 %

From 1 April 2007 – 66 " %

From 1 April 2008 the option holder is entitled to exercise all options until expiry date 1 April 2009.

The options issued on 31 May 2005, under the Executive Share Option Plan, "ESOP", are exercisable by the option holder as follows:

From 31 May 2007 – 33 1 %

From 31 May 2009 – 66 " %

From 31 May 2009 the option holder is entitled to exercise all options until expiry date 31 May 2010.

(h) Options granted as remuneration to directors' and senior executives

During the financial year, the company granted options for no consideration over unissued ordinary shares in Photon Group Limited to the following executives:

	Number of options granted	Exercise price	Expiry date
Officers			
Anthony Rowlinson	1,000,000	\$2.87	31 May 2010

No options have been granted since the end of the financial year.

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Directors Report

Remuneration Report

(i) Analysis of share-based payments granted as remuneration

Details of the vesting profile of the options granted as remuneration to each director of the Company and each of the five named Company executives and relevant group of executives is detailed below.

	Options Granted		% vested in year	% forfeited in year	Financial year in which grant vests
	Number	Date			
Directors					
Tim Hughes	250,000	28 November 2003	-	-	30 June 2009
	300,000	1 April 2004	-	-	30 June 2009
Matthew Bailey	300,000	1 April 2004	-	-	30 June 2009
Anthony Armstrong	240,000	28 June 2001	100%	-	Vested
	100,000	28 November 2003	100%	-	Vested
	300,000	1 April 2004	100%	-	Vested
Company executives			-	-	
Anthony Rowlinson	1,000,000	31 May 2005	-	-	30 June 2010
Geoff Nesbitt	25,000	28 November 2003	-	-	30 June 2009
	100,000	1 April 2004	-	-	30 June 2009

(j) Analysis of share-based payments granted as remuneration

The movement during the reporting period by value, of options over ordinary shares in Photon Group Limited held by each Company director and each of the five named Company executives and relevant group executives is detailed below.

	Granted in year	Value of Options		Total option value in year
		Exercised in year	Forfeited in year	
	\$(A)	\$	\$	
Anthony Rowlinson	486,667	-	-	486,667

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (ie on a straight line basis to the from the issue date, being 31 May 2005, to the expiry date, being 31 May 2010).

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Directors Report
Remuneration Report

(k) Options and rights over equity instruments granted as remuneration

The movement during the reporting period in the number of options over ordinary shares in Photon Group Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2004	Granted as remuneration	Exercised	Held at 30 June 2005	Vested during the year	Vested and exercisable at 30 June 2005
Specified Directors						
Tim Hughes	550,000	-	-	550,000	-	-
Matthew Bailey	300,000	-	-	300,000	-	-
Anthony Armstrong	640,000	-	-	640,000	640,000	640,000
Specified executives						
Anthony Rowlinson	-	1,000,000	-	1,000,000	-	-
Geoff Nesbitt	125,000	-	-	125,000	-	-

The terms of Anthony Armstrong's options were altered on 17 September 2004. The underlying market price at this date was \$3.00. The terms were altered to allow Anthony to retain options upon cessation of his employment with the company. The difference between the fair value of the options before the alteration and the fair value of the options after the alteration was \$57,624.

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

Dated at Sydney this 24th day of August 2005.



Tim Hughes
Director



Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001

To: the directors of Photon Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

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

KPMG

KPMG

P J Done

Partner

Sydney

24th August 2005



**Statements of financial performance
for the year ended 30 June 2005**

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from rendering of services	2	80,394	33,356	162	489
Other revenues from ordinary activities	2	561	979	378	1,215
Total revenue from ordinary activities		80,955	34,335	540	1,704
Employee expenses		(49,512)	(22,145)	(852)	(881)
Borrowing costs	3	(3,219)	(506)	(3,037)	(468)
Occupancy costs		(3,558)	(1,956)	(59)	(18)
Depreciation and amortisation expenses	3	(7,088)	(1,953)	(19)	(9)
Insurance expense		(489)	(245)	(9)	(31)
Consultancy fees		(1,915)	(1,241)	(569)	(84)
Equipment hire charges		(582)	(407)	-	(8)
Travel expense		(1,188)	(546)	(104)	(55)
Communication expense		(1,529)	(827)	(22)	(15)
Reversal/(provision) for diminution of investments		-	-	-	1,075
Other expenses from ordinary activities		(3,801)	(1,462)	(513)	(161)
Share of net profit of associates and joint ventures accounted for using the equity method	28	171	315	-	-
Profit/(loss) from ordinary activities before related income tax expense		8,245	3,362	(4,644)	1,049
Income tax expense relating to ordinary activities	5	3,910	1,318	(1,895)	(275)
Net profit/(loss)		4,335	2,044	(2,749)	1,324
Net profit/(loss) attributable to outside equity interests		(237)	757	-	-
Net profit/(loss) attributable to members of the parent entity	21	4,572	1,287	(2,749)	1,324
Non-owner transaction changes in equity					
Net exchange difference relating to self-sustaining foreign operations	20	(1)	13	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity recognised directly in equity		4,571	1,300	(2,749)	1,324
Basic earnings per share (cents):					
Ordinary shares	7	9.16	4.45		
Diluted earnings per share (cents):					
Ordinary shares	7	9.00	4.40		

The statements of financial performance are to be read in conjunction with the notes to the financial statements as set out on pages 20 to 66.

Statements of financial position
as at 30 June 2005

	Note	Consolidated		The Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash assets	9	9,788	5,994	2,046	867
Receivables	10	24,841	13,866	131	686
Other	11	4,586	1,571	71	71
Total current assets		39,215	21,431	2,248	1,624
Non-current assets					
Receivables	10	19	-	4,756	4,704
Investments accounted for using the equity method	12	421	485	-	-
Other financial assets	13	95	179	128,067	69,513
Intangible assets	14	116,202	67,733	-	-
Property, plant and equipment	15	6,145	2,772	43	19
Deferred tax assets	5(d)	2,210	888	2,244	681
Other	11	527	236	291	113
Total non-current assets		125,619	72,293	135,401	75,030
Total assets		164,834	93,724	137,649	76,654
Current liabilities					
Payables	16	32,977	12,450	25,787	4,281
Interest bearing liabilities	17	824	2,498	-	2,000
Current tax liabilities	5(b)	2,844	3,059	2,654	280
Provisions	18	3,163	1,741	16	14
Total current liabilities		39,808	19,748	28,457	6,575
Non-current liabilities					
Payables	16	9,676	-	7,128	-
Interest bearing liabilities	17	30,165	12,468	28,500	12,000
Deferred tax liabilities	5(c)	803	113	764	126
Provisions	18	1,012	246	6	8
Total non-current liabilities		41,656	12,827	36,398	12,134
Total liabilities		81,464	32,575	64,855	18,709
Net assets		83,370	61,149	72,794	57,945
Equity					
Contributed equity	19	82,240	62,190	82,240	62,190
Accumulated losses	21	(2,188)	(4,308)	(9,446)	(4,245)
Reserves	20	9	10	-	-
Total parent entity interest		80,061	57,892	72,794	57,945
Outside equity interests	22	3,309	3,257	-	-
Total equity		83,370	61,149	72,794	57,945

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 20 to 66.

Statements of cash flows
for the year ended 30 June 2005

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities				
Cash receipts in the course of operations	87,082	32,273	1,568	702
Cash payments in the course of operations	(67,042)	(26,711)	(290)	(1,809)
Dividends received	235	-	273	984
Interest received	244	227	105	110
Borrowing costs paid	(2,295)	(506)	(2,203)	(468)
Income taxes paid	(5,127)	(1,659)	-	-
Net cash provided by/(used in) operating activities	29	13,097	3,624	(547)
Cash flows from investing activities				
Proceeds from the sale of investments	-	517	-	517
Payments for property, plant & equipment	(2,031)	(2,487)	(44)	(15)
Payments for controlled entities (consolidated - net of cash acquired)	(29,561)	(33,743)	(33,193)	(34,782)
Payments for investments	(958)	-	(550)	-
Proceeds from disposal of non-current assets	86	285	-	-
Loans from related parties	-	-	8,258	-
Net cash used in investing activities	(32,464)	(35,428)	(25,529)	(34,280)
Cash flows from financing activities				
Proceeds from issue of shares	15,838	21,265	15,838	21,265
Transaction costs from issue of shares	(631)	(1,973)	(631)	-
Proceeds from borrowings	32,000	25,000	32,000	(1,973)
Repayment of borrowings	(17,927)	(11,274)	(17,500)	25,000
Dividends paid to outside equity interest in controlled entities	(2,685)	(762)	-	(11,000)
Lease payments	(982)	-	-	-
Dividends paid to shareholders	(2,452)	-	(2,452)	-
Net cash provided by financing activities	23,161	32,256	27,255	33,292
Net increase/ (decrease) in cash held	3,794	452	1,179	(1,469)
Cash at the beginning of the financial year	29	5,994	5,542	867
Cash at the end of the financial year	29	9,788	5,994	2,046

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 20 to 66.

Notes to the financial statements
for the year ended 30 June 2005

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

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

It has been prepared on the basis of historical costs and except where stated does not take into account changing money values or fair values of 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, are consistent with those of the previous year.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements 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.

Associates

Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount or the recoverable amount. The consolidated entity's equity accounted share of the associates net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases.

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 principles. 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 associates and joint ventures are eliminated to the extent of the consolidated 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.

Notes to the financial statements
for the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(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 expensed 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.

Revenue from the rendering of services is recorded as the amount billed to clients net of external production costs.

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

Dividend revenue is recognised net of any franking credits.

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.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(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.

Notes to the financial statements
for the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at 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 taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

(f) Borrowing costs

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

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Where interest rates are hedged or swapped, the borrowing costs are recognised net of any effect of the hedge or the swap.

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

AASB 1015, Acquisition of Assets requires that the fair value of the deferred consideration be included in the cost of the acquisition when the amount(s) of same can be reliably measured and that they must be discounted back to their present value at the date of acquisition. Such accounting treatment prescribed by AASB 1015 results in the difference between the present value and the nominal value of deferred consideration being amortised to the statement of financial performance on a straight line basis over the settlement term up to the settlement date.

The effect of the profit and loss of the consolidated entity is a \$924,000 charge (refer note 3) resulting from the amount of the difference between the present value and the nominal value of deferred consideration being amortised for the period from acquisition to 30 June 2005. This treatment does not impact the cashflow of the consolidated entity.

(g) 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.

Notes to the financial statements
for the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(g) Taxation (continued)

Tax consolidation

The company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 27. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax consolidated group has resolved to enter a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

Under the tax funding agreement, the contributions are made on a "separate tax payer" basis so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entities obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/ revenue.

(h) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(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.

When equity instruments are issued for consideration their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising from the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted to the rate applicable to the consolidated entity if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated interest expense.

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, the costs expensed as incurred.

(j) Receivables

The collectability 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.

Notes to the financial statements
for the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(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.

Associates

In the Company's financial statements, investments in unlisted shares of associates are carried 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.

(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.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

(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.

Notes to the financial statements
for the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(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 been discounted to their present value.

(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.

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:

	2005		2004	
	Straight line	Diminishing Value	Straight line	Diminishing Value
<i>Property, plant and equipment</i>				
Computer equipment	25% - 40%	20% - 40%	25% - 40%	20% - 40%
Office furniture and equipment	5% - 25%	5% - 40%	5% - 25%	5% - 40%
Plant and equipment	10% - 25%	-	10% - 25%	-
Leasehold improvements	10% - 33.33%	-	10% - 33.33%	-
Equipment under finance lease	25%	-	25%	-
<i>Intangibles</i>				
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".

Notes to the financial statements
for the year ended 30 June 2005

(s) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave 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 such as payroll tax and superannuation.

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.

(t) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and the recovery is measured on a basis consistent with the measurement of the related provision.

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.

Make good provision

The consolidated entity has made a provision in relation to operating leases for premises that will expire in the next financial year and will not be renewed. The provision represents the estimated cost for the asset to be returned to the lessor in its original condition.

**Notes to the financial statements
for the year ended 30 June 2005**

2 Revenue from ordinary activities

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Rendering services from operating activities	80,394	33,356	162	489
Other revenues:				
<i>From operating activities</i>				
Interest:				
Related parties	-	-	53	8
Other parties	244	227	52	101
Dividends:				
Related parties	-	-	273	887
<i>From outside operating activities</i>				
Gross proceeds on sale of non-current assets	86	285	-	-
Profit on sale of investments	-	264	-	183
Trade Grants	37	124	-	-
Other	194	79	-	36
Total other revenues	561	979	378	1,215
Total revenue from ordinary activities	80,955	34,335	540	1,704

3 Profit from ordinary activities before income tax expense

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

Borrowing costs:				
Related parties	-	-	2	2
Present value interest charges with respect to the deferred consideration of acquisitions	924	-	832	-
Other parties	2,295	506	2,203	466
	3,219	506	3,037	468
Depreciation of:				
Plant and equipment	1,299	543	19	9
Amortisation of:				
Goodwill	5,345	1,376	-	-
Leased Assets	444	34	-	-
Total depreciation and amortisation	7,088	1,953	19	9
Net bad and doubtful debt expense including movements in provision for doubtful debts	101	53	-	-
Net expense for movements in provision for:				
Employee entitlements	485	190	2	(40)
(Reversal)/provision for diminution in value of investments	-	-	-	(1,075)
Lease incentive	(3)	117	-	-
Operating lease rental expense:				
Minimum lease rental payments	3,536	1,940	43	17
Net (gain)/loss on disposal of non-current assets	(23)	99	-	-
Foreign exchange (gain)/loss	(2)	7	-	-

Notes to the financial statements
for the year ended 30 June 2005

4 Auditors' Remuneration

Audit services:

Auditors of the Company – KPMG Australia

Auditors of the Company – overseas KPMG firm

Other auditors:

Audit and review of financial reports

Other services:

Migration services work:

Auditors of the Company – KPMG Australia

Workers compensation insurance reported wages review

Auditors of the Company – KPMG Australia

Transaction and due diligence services:

Auditors of the Company – KPMG Australia

Taxation services:

Auditors of the Company – KPMG Australia

Consolidated		The Company	
2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000
333	130	117	44
12	10	-	-
8	15	-	-
353	155	117	44
56,678	-	-	-
3,050	-	-	-
25,200	992,000	25,200	992,000
-	27,000	-	10,000
84,928	1,019,000	25,200	1,002,000

Notes to the financial statements
for the year ended 30 June 2005

5 Taxation

(a) Income tax expense

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Prima facie income tax expense calculated at 30% on the profit from ordinary activities	2,474	1,008	(1,393)	315
<i>Increase in income tax expense due to:</i>				
Amortisation of goodwill	1,604	413	-	-
Other non-deductible expenses	442	81	265	27
Effect of higher tax rate on overseas incomes	11	8	-	-
<i>Decrease in income tax expense due to:</i>				
Share of joint venture entities' net profit	(51)	(95)	-	-
Franking credits on dividends received	-	-	(82)	(266)
Other deductible expenses	(307)	(1)	(307)	(298)
Other non-assessable income	(9)			
Under/(over) provision for tax in previous year	(5)	(8)	-	-
Realisation of tax losses not previously brought to account	(378)	(364)	(378)	-
Net tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of tax consolidation	-	-	-	(275)
Tax losses not brought to account	129	276	-	222
Income tax expense attributable to profit from ordinary activities	3,910	1,318	(1,895)	(275)

(b) Current tax liabilities

Provision for current income tax	2,808	3,017	2,654	280
Provision for deferred tax instalments	36	42	-	-
	2,844	3,059	2,654	280

(c) Deferred tax liabilities

Provision for deferred instalments	3	37	-	-
Provision for deferred income tax	800	76	764	126
	803	113	764	126

Notes to the financial statements
for the year ended 30 June 2005

5 Taxation (continued)

(d) Deferred tax assets

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Tax losses carried forward	134	111	134	111
Other timing differences	2,076	777	2,110	570
	2,210	888	2,244	681

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	1,025	1,577	-	1,379
Capital losses	1,894	1,894	1,894	1,894
Tax losses carried forward	2,919	3,471	1,894	3,273

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
- (1) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law
- (2) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

6 Dividends

Dividend franking account

	The Company	
	2005	2004
	\$'000	\$'000
30% franking credits available to shareholders of Photon Group Limited for subsequent financial years	10,572	5,521

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.

Notes to the financial statements
for the year ended 30 June 2005

7 Earnings per share

Classification of securities as ordinary shares

The securities classified as ordinary shares included in basic earnings per share, are ordinary shares on issue.

Classification of securities as potential ordinary shares

The following securities have been classified as potential ordinary shares and included in diluted earnings per share for ordinary shares only:

- (a) options outstanding under the Executive Share Option Plan
- (b) unissued shares under option for options issued prior to Company listing

Further details of these securities are contained in notes 19, 30 and the Remuneration report.

	Consolidated 2005 \$'000	Consolidated 2004 \$'000
<i>Earnings reconciliation</i>		
Net profit	4,332	2,044
Net (profit)/ loss attributable to outside equity interests	237	(757)
Basic earnings	4,572	1,287
<i>Allocation of earnings to category of ordinary share:</i>		
Basic		
Ordinary shares	4,572	1,287
Diluted		
Ordinary shares	4,572	1,287
<i>Weighted average number of shares used as the denominator</i>		
Number for basic earnings per share		
Ordinary shares	49,907	28,896
Number for diluted earnings per share		
Ordinary shares	49,907	28,896
Effect of executive share options on issue	349	21
Effect of unissued shares under option for options issued prior to Company listing	553	333
	50,809	29,250

Notes to the financial statements
for the year ended 30 June 2005

8 Segment reporting

Business segments

The consolidated entity has one business segment, being specialist marketing services.

Geographical segments

The consolidated entity's divisions are divided into two main geographical areas as follows:

Australia: The consolidated entity is predominately located in Australia, and generates the majority of its operating activities from Australian sources

Other: The consolidated entity has a direct marketing company, Robbins Brandt Richter Ltd in New Zealand. The Precinct Group Pty Limited has a subsidiary based in Hong Kong who services the Asia Pacific region.

Secondary reporting - Geographical segments	Australia		Other		Consolidated	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External segment revenue by location of assets	77,864	31,456	3,091	2,879	80,955	34,335
Segment assets by location of assets	163,910	92,703	924	1,021	164,834	93,724
Acquisition of non-current assets	57,352	58,192	93	1,093	57,445	59,285

**Notes to the financial statements
for the year ended 30 June 2005**

9 Cash Assets

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	9,473	5,867	2,046	867
Bank short term deposits	315	127	-	-
	9,788	5,994	2,046	867

The bank short term deposits mature within 30 days and pay interest at a weighted average interest rate of 4.50% at 30 June 2005 (2004: 5.10%).

10 Receivables

Current				
Trade debtors	23,218	11,413	109	229
<u>Less:</u> Provision for doubtful trade debtors	(229)	(113)	-	-
	22,989	11,300	109	229
Other debtors	1,852	2,566	22	452
Dividends receivable	-	-	-	5
	1,852	2,566	22	457
	24,841	13,866	131	686
Non-current				
Loans to related parties	-	-	4,756	4,704
Other non-current receivables	19	-	-	-
	19	-	4,756	4,704

No interest is charged on trade debtors.

Other debtors includes a current tax indemnity for an amount of \$1,613,130 representing an indemnity granted to the group by the former shareholders of The Bailey Group. A corresponding provision for current income tax expense is recorded as a potential liability to the Australian Taxation Office. Refer Note 26, Contingent Liabilities and Contingent Assets, for additional details.

11 Other Assets

Current				
Work in progress	3,729	1,175	-	-
Prepayments	681	326	27	6
Other	176	70	44	65
	4,586	1,571	71	71
Non-current				
Deposits	149	106	-	-
Other	378	130	291	113
	527	236	291	113

12 Investments accounted for using the equity method

Associated entities	28	421	485	-	-
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**Notes to the financial statements
for the year ended 30 June 2005**

13 Other financial assets

Non-current

Deposits – interest bearing

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 5.25% at 30 June 2005 (30 June 2004: 5.24%)

Investments in controlled entities – at cost

Less: Provision for diminution in value

Investments in associated entities – at cost

Shares in listed entity – at cost

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
	95	175	-	-
27	-	-	128,668	70,114
	-	-	(1,268)	(1,268)
	-	-	127,400	68,846
28	-	-	667	667
	-	4	-	-
	95	179	128,067	69,513

14 Intangibles

Goodwill

Less: accumulated amortisation

125,364	70,909	-	-
(9,162)	(3,176)	-	-
116,202	67,733	-	-

15 Property, plant and equipment

Computer equipment

At cost

Accumulated depreciation

Office furniture & equipment

At cost

Accumulated depreciation

Plant and equipment

At cost

Accumulated depreciation

Leasehold Improvements

At cost

Accumulated depreciation

Plant & equipment under finance lease

At cost

Accumulated amortisation

Total property plant and equipment, net book value

2,772	2,099	72	30
(1,859)	(1,395)	(32)	(15)
913	704	40	15
2,738	2,074	10	9
(1,677)	(1,191)	(7)	(5)
1,061	883	3	4
4,473	1,674	-	-
(2,638)	(867)	-	-
1,835	807	-	-
966	315	-	-
(409)	(97)	-	-
557	218	-	-
3,814	258	-	-
(2,035)	(98)	-	-
1,779	160	-	-
6,145	2,772	43	19

Notes to the financial statements
for the year ended 30 June 2005

15 Property, plant and equipment (continued)

Reconciliations

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

Computer equipment

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Carrying amount at the beginning of the year	704	433	15	9
Acquisitions through entity acquired	12	110	-	-
Additions	665	394	42	13
Depreciation	(463)	(227)	(17)	(7)
Net foreign currency differences on translation of self-sustaining operations	-	1	-	-
Disposals	(5)	(7)	-	-
Carrying amount at the end of the year	913	704	40	15

Office furniture & equipment

Carrying amount at the beginning of the year	883	550	4	3
Acquisitions through entity acquired	293	374	-	-
Additions	183	219	1	3
Depreciation	(200)	(180)	(2)	(2)
Net foreign currency differences on translation of self-sustaining operations	-	3	-	-
Disposals	(98)	(83)	-	-
Carrying amount at the end of the year	1,061	883	3	4

Plant & equipment

Carrying amount at the beginning of the year	807	-	-	-
Acquisitions through entity acquired	620	1,185	-	-
Additions	956			
Depreciation	(484)	(84)	-	-
Disposals	(64)	(294)	-	-
Carrying amount at the end of the year	1,835	807	-	-

Leasehold improvements

Carrying amount at the beginning of the year	218	61	-	-
Acquisitions through entity acquired	264	114	-	-
Additions	227	93	-	-
Depreciation	(152)	(51)	-	-
Net foreign currency differences on translation of self-sustaining operations	-	1	-	-
Carrying amount at the end of the year	557	218	-	-

**Notes to the financial statements
for the year ended 30 June 2005**

15 Property, plant and equipment (continued)

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<i>Leased plant & equipment</i>				
Carrying amount at the beginning of the year	160	47	-	-
Acquisitions through entity acquired	1,104	147	-	-
Additions	960	-	-	-
Amortisation	(444)	(34)	-	-
Disposals	(1)	-	-	-
Carrying amount at the end of the year	1,779	160	-	-

16 Payables

Current

Trade Creditors	9,614	6,801	371	449
Other creditors and accruals	9,580	3,132	137	532
Unearned income	3,351	900	-	-
Deferred consideration payable	10,432	1,358	9,229	832
Payable to related parties	-	-	16,050	2,468
Loans from directors	-	259	-	-
	32,977	12,450	25,787	4,281

Non current

Deferred consideration payable	9,676	-	7,128	-
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17 Interest bearing liabilities

Current

Bank loans – secured	-	2,035	-	2,000
Lease liabilities - hire purchase	306	425	-	-
- finance lease	518	38	-	-
	824	2,498	-	2,000

Non-current

Bank loans – secured	28,500	12,132	28,500	12,000
Lease liabilities - hire purchase	363	230	-	-
- finance lease	1,302	106	-	-
	30,165	12,468	28,500	12,000

Notes to the financial statements
for the year ended 30 June 2005

17 Interest bearing liabilities (continued)

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Financing arrangements				
The consolidated entity has access to the following lines of credit:				
<i>Total facilities available:</i>				
Bank overdrafts	630	400	-	-
Fixed/ variable rate cash advance facility	40,000	25,000	40,000	25,000
Mortgage loan facility	-	167	-	-
Interest rate swap facility	1,400	280	1,400	280
Lease finance facility	2,500	500	2,500	500
Indemnity guarantee facility	3,700	-	3,700	-
	<u>48,230</u>	<u>26,347</u>	<u>47,600</u>	<u>25,780</u>
<i>Facilities used at reporting date:</i>				
Bank overdrafts	-	-	-	-
Fixed/ variable rate cash advance facility	28,500	14,000	28,500	14,000
Mortgage loan facility	-	167	-	-
Interest rate swap facility	-	-	-	-
Lease finance facility	806	-	806	-
Indemnity guarantee facility	3,377	-	3,377	-
	<u>32,683</u>	<u>14,167</u>	<u>32,683</u>	<u>14,000</u>
<i>Facilities not utilised at reporting date:</i>				
Bank overdraft	630	400	-	-
Fixed/ variable rate cash advance facility	11,500	11,000	11,500	11,000
Interest rate swap facility	1,400	280	1,400	280
Lease finance facility	1,694	500	1,694	500
Indemnity guarantee facility	323	-	323	-
	<u>15,547</u>	<u>12,180</u>	<u>14,917</u>	<u>11,780</u>

Financing arrangements

All finance facilities, with the exception of the bank overdraft and mortgage loan facility, are negotiated and held by the company on behalf of the consolidated group.

Bank overdrafts

The bank overdraft of the Ad Partners Group Pty Limited is under the same security requirements as the Fixed/ Variable Rate Cash Advance Facility. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates. The overdraft was not being utilised at 30 June 2005.

Notes to the financial statements
for the year ended 30 June 2005

17 Interest bearing liabilities (continued)

Financing arrangements (continued)

Fixed/ Variable Rate Cash Advance Facility

The fixed/ variable rate cash advance facility is subject to annual review. The facility bears interest based on the following:

- \$30million acquisition finance facility: the bank bill swap reference rate - average bid for 30 days plus a fixed margin.
- \$10million general working capital facility: the bank bill swap reference rate - average bid for 30 days plus a fixed margin.

The bank bill swap rate is fixed on a quarterly basis through the use of interest rate swap arrangements (as detailed below).

The bill acceptance facility is secured by:

- a First Registered Company Charge (Mortgage Debenture) over all the assets and undertakings of Photon Group Limited and each of its wholly owned subsidiaries with the exception of AdPartners Group Pty Limited
- Cross Guarantee and Indemnity between all wholly-owned subsidiaries with the exception of AdPartners Group Pty Limited, and
- Standard Shares and Securities Mortgage over all shares held by Photon Group Limited in its controlled and associated entities.

Repayment terms relating to the Fixed/ Variable Rate Cash Advance Facility require the amount to be repaid by bullet at maturity, being 17 June 2008.

Interest rate swap facility

The interest rate swap facility is in place to assist with hedging in interest rate exposures. The facility was not utilised as at balance date. As at 30 June 2005 interest rate swap transactions swapping fixed for floating interest rates were in place under the following arrangements:

- Fixed rate of 5.70% for a notional amount of \$AUD7,000,000 for a three year term ending 30 September 2007
- Fixed rate of 5.74% for a notional amount of \$AUD12,500,000 for a two year term ending 10 May 2007

Lease finance facility

The lease finance facility is subject to annual review and is in place to assist with capital expenditure requirements.

Indemnity guarantee facility

The indemnity guarantee facility is in place to support financial guarantees outstanding at any one time. Specific guarantee amounts are as follows:

- \$3,000,000 supporting the deferred consideration payments to the vendors of The Leading Edge Market Research Consultants Pty Limited
- \$700,000 supporting property rental obligations

Notes to the financial statements
for the year ended 30 June 2005

18 Provisions

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current				
Employee benefits	3,049	1,624	16	14
Lease incentive	114	117	-	-
	<u>3,163</u>	<u>1,741</u>	<u>16</u>	<u>14</u>
Non-current				
Employee benefits	636	246	6	8
Lease incentive	376	-	-	-
	<u>1,012</u>	<u>246</u>	<u>6</u>	<u>8</u>

Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:

Lease incentive – current

Carrying amount at beginning of year	117	-	-	-
Provisions made during the year	-	56	-	-
Increase through acquisition of entity	75	80	-	-
Payments made during year	(78)	(19)	-	-
Carrying amount at end of year	<u>114</u>	<u>117</u>	<u>-</u>	<u>-</u>

Lease incentive – non-current

Carrying amount at beginning of year	-	-	-	-
Provisions made during the year	54	-	-	-
Increase through acquisition of entity	322	-	-	-
Carrying amount at end of year	<u>376</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the financial statements
for the year ended 30 June 2005

19 Contributed equity

Share capital

56,392,127 (2004: 49,036,632) ordinary shares, fully paid

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. Note 30 provides details of shares issued on exercise of options by directors and specified executives.

Ordinary shares

Movements during the year

Balance at beginning of year

49,036,632 (2004: 21,149,722) shares

Shares issued:

-1,699,556 shares issued pursuant to acquisition of Legion Interactive Holdings Pty Limited ("Legion") for \$2.85 per share

-5,655,939 shares issued pursuant to a share placement for \$2.80 per share

-4,000,000 issued from the exercise of options:

January 2006 options at \$0.75

January 2006 options at \$1.00

-8,498,850 shares issued pursuant to acquisition of Barimos ("the Bailey Group") for \$1.80 per share

-5,373,060 shares issued pursuant to acquisition agreements for the minority interests in controlled entities for \$1.80 per share

-10,000,000 shares issued for cash pursuant to prospectus for \$1.80 per share

-15,000 issued for cash

for \$1 per share

Transaction costs arising from share issue under placement and shares issued for acquisition of interest in controlled entities

Balance at end of year

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Share capital				
56,392,127 (2004: 49,036,632) ordinary shares, fully paid	82,240	62,190	82,240	62,190
Ordinary shares				
Balance at beginning of year				
49,036,632 (2004: 21,149,722) shares	62,190	17,928	62,190	17,928
Shares issued:				
-1,699,556 shares issued pursuant to acquisition of Legion Interactive Holdings Pty Limited ("Legion") for \$2.85 per share	4,844	-	4,844	-
-5,655,939 shares issued pursuant to a share placement for \$2.80 per share	15,837	-	15,837	-
-4,000,000 issued from the exercise of options:				
January 2006 options at \$0.75	-	2,250	-	2,250
January 2006 options at \$1.00	-	1,000	-	1,000
-8,498,850 shares issued pursuant to acquisition of Barimos ("the Bailey Group") for \$1.80 per share	-	15,298	-	15,298
-5,373,060 shares issued pursuant to acquisition agreements for the minority interests in controlled entities for \$1.80 per share	-	9,671	-	9,671
-10,000,000 shares issued for cash pursuant to prospectus for \$1.80 per share	-	18,000	-	18,000
-15,000 issued for cash for \$1 per share	-	15	-	15
Transaction costs arising from share issue under placement and shares issued for acquisition of interest in controlled entities	(631)	(1,972)	(631)	(1,972)
Balance at end of year	82,240	62,190	82,240	62,190

Notes to the financial statements
for the year ended 30 June 2005

20 Reserves

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Foreign currency translation				
Balance at beginning of year	10	(3)	-	-
Exchange difference on net investment in foreign operations net of tax	(1)	13	-	-
Balance at end of year	9	10	-	-

Nature and purpose of reserves

Foreign Currency Translation Reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, or the translation of foreign currency monetary items forming part of the net investment in a self sustaining operation. Refer to accounting policy Note 1 (c).

21 Accumulated Losses

Accumulated losses at beginning of year	(4,308)	(5,595)	(4,245)	(5,569)
Net profit/(loss) attributable to members of the parent entity	4,572	1,287	(2,749)	1,324
Dividends recognised during the year	(2,452)	-	(2,452)	-
Accumulated losses at end of year	(2,188)	(4,308)	(9,446)	(4,245)

22 Outside equity interests

	Consolidated	
	2005 \$'000	2004 \$'000
Outside equity interests in controlled entities comprise:		
Interest in accumulated losses at the end of the financial year	(94)	(403)
Interest in share capital	3,403	3,660
Total outside equity interests	3,309	3,257

Notes to the financial statements
for the year ended 30 June 2005

23 Dividends

	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
2005				
Final 2004 – Ordinary shares	2.0c	981	11 October 2004	Franked
Interim 2005 – Ordinary shares	3.0c	1,472	4 March 2005	Franked

Franked dividends declared and paid during the year were franked at the tax rate of 30%

Subsequent events

Since the end of the financial year, the directors declared the following dividend:

Final – Ordinary shares	5.0c	2,820	4 October 2005	Franked
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The financial effect of the dividend declared after the end of the financial year has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

Notes to the financial statements
for the year ended 30 June 2005

24 Additional financial instruments disclosure

(a) Interest rate risk exposure

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swap agreement allows the consolidated entity to swap floating rate borrowings to fixed rates. Maturity of the swap contracts occurs every three months with reset dates continuing for the duration of the swap contract. The contracts involve quarterly payment or receipt of the net amount of interest. Refer Note 17 for further information concerning interest rate swap agreements entered into by the consolidated group.

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 \$'000	Fixed rate maturing in 1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000	Total \$'000
2005								
Financial assets								
Cash assets	9	3.87%	9,432	315	-	-	41	9,788
Receivables	10	-	-	-	-	-	24,860	24,860
Other financial assets	13	5.25%	-	-	95	-	-	95
			9,432	315	95	-	24,901	34,743
Financial liabilities								
Payables	16	7.22%	-	10,432	9,676	-	22,545	42,653
Bank loans	17	7.33%	9,000	-	19,500	-	-	28,500
Lease liabilities	17	7.41%	-	824	1,535	130	-	2,489
Employee benefits	18	5.11%	3,685	-	-	-	-	3,685
			12,685	11,256	30,711	130	22,545	77,327
2004								
Financial assets								
Cash assets	9	3.45%	5,836	127	-	-	31	5,994
Receivables	10	-	-	-	-	-	13,866	13,866
Other financial assets	13	5.24 %	-	175	-	-	4	179
			5,836	302	-	-	13,901	20,039
Financial liabilities								
Payables	16	-	-	-	-	-	12,450	12,450
Bank loans	17	5.65%	7,000	7,167	-	-	-	14,167
Lease liabilities	17	8.91%	-	463	336	-	-	799
Employee benefits	18	5.87%	1,870	-	-	-	-	1,870
			8,870	7,630	336	-	12,450	29,286

(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 2005

25 Commitments

Note	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Non cancellable operating lease expense commitments				
Future operating lease not provided for in the financial statements and payable:				
Within one year	3,042	2,065	-	-
One year or later and no later than five years	6,402	3,224	-	-
Later than five years	908	693	-	-
	10,352	5,982	-	-
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.				
Finance lease payable commitments				
<i>Finance lease commitments are payable:</i>				
Within one year	622	51	-	-
One year or later and no later than five years	1,301	120	-	-
Later than five years	131	-	-	-
	2,054	171	-	-
Less: Future lease finance charges	(234)	(27)	-	-
	1,820	144	-	-
Lease liabilities provided for in the financial statements				
<i>Current</i>	518	38	-	-
<i>Non-current</i>	1,302	106	-	-
<i>Finance lease commitments are payable:</i>	1,820	144	-	-

Notes to the financial statements
for the year ended 30 June 2005

26 Contingent liabilities and contingent assets

The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent liabilities – not considered remote

Indemnities

Indemnities have been provided to directors 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 2005.

The Bailey Group have received income tax assessments relating to disallowed deductions with respect to amounts claimed for income tax purposes. The Bailey Group has objected to such income tax assessments. As part of the 'Bailey Share Purchase Agreement', the Bailey interests have indemnified The Bailey Group against any claim by the Australian Taxation Office (ATO) and to this end have placed cash funds amounting to \$4,500,000 in escrow pending settlement of this outstanding income tax matter. It is estimated that should The Bailey Group be unsuccessful in its objections the amount payable to the ATO as at 30 June 2005 is \$1,613,130. This amount is included in the statement of financial position as 'tax indemnity' included within other current assets with a corresponding amount recorded as a current tax liability in the statement of financial position.

Contingent liabilities – considered remote

Litigation

A subsidiary company entered into an agreement to lease business premises in Melbourne and subsequently withdrew its offer under the terms referred to in the offer document. The prospective lessor claims the withdrawal from the agreement to lease was performed outside the special timing condition imposed and consequently the lessor is claiming that the notification of withdrawal did not constitute an effective withdrawal from such agreement. It is not possible to estimate the financial effect of this claim should it be successful, however the period to which the agreement to lease relates to is no greater than six months.

Photon Group Limited
ABN 97 091 524 515

Notes to the financial statements
for the year ended 30 June 2005

27 Controlled entities

(a) Particulars in relation to controlled entities:

Name

Ordinary Share Consolidated Entity Interest	
2005	2004
%	%

Parent entity

Photon Group Limited

Controlled entities

AdPartners Group Partnership	-	100
AdPartners Group Pty Limited	100	100
Australian Business Theatre Group Pty Limited	100	100
The Artel Group Pty Limited	60	60
Brass Tacks Pty Limited	100	100
Barimos Pty Limited	100	100
CPR Communications and Public Relations Pty Limited ("CPR")	100	100
IDEAssociates Pty Limited	100	100
ImageBox Group Pty Limited	51	51
Love Pty Limited	100	100
The Precinct Group Pty Limited	95.75	51
Returnity Pty Limited	100	100
Robbins Brandt Richter Limited (i)	100	100
Australian Research Group Pty Limited	100	100
Bay Street Mediaworks Partnership	-	100
Precinct Ltd (ii)	95.75	51
The Artel Group Marketing Services Pty Limited	60	60
Kolorart Graphics Pty Limited	60	60
POP Productions Pty Limited	60	60
The Bailey Group Pty Limited	100	100
Powerforce Total Merchandising Pty Limited	100	100
Retail * Facts Pty Limited	100	100
The Leading Edge Market Research Consultants Pty Limited	100	-
The Leading Edge Market Research Consultants Limited (iii)	100	-
The Leading Edge Market Research Consultants Pte Limited (iv)	100	-
ONAT Holdings Pty Limited	100	-
Orchard National Pty Limited	100	-
Orchard National (Southern) Pty Limited	100	-
Brand Impact Pty Limited	100	-
Legion Interactive Holdings Pty Limited	100	-
Legion Interactive Pty Limited	100	-
Blue Sky Frog Pty Limited	100	-
Legion Interactive (NZ) Pty Limited (v)	100	-
Capital Policies and Trade Pty Limited	58	-
Kinetics Pty Limited	100	-

Notes to the financial statements
for the year ended 30 June 2005

27 Controlled entities (continued)

(a) Particulars in relation to controlled entities:

- (i) Robbins Brandt Richter Limited was incorporated in and carries on business in New Zealand.
 - (ii) Precinct Ltd was incorporated in and carries on business in Hong Kong
 - (iii) The Leading Edge Market Research Consultants Limited was incorporated in the United Kingdom and is a dormant company
 - (iv) The Leading Edge Market Research Consultants Pte Limited was incorporated in Singapore on 3 May 2005 and has not yet commenced operations
 - (v) Legion Interactive (NZ) Pty Limited was incorporated in New Zealand and is a dormant company
- All other controlled entities were incorporated in Australia

(b) Acquisition 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 percentage voting shares in the following entities:

	Acquisition date	% voting shares acquired	Business activities
The Leading Edge Market Research Consultants Pty Limited (i)	1 July 2004	100	Market research consultancy
The Leading Edge Market Research Consultants Limited (i)	1 July 2004	100	Market research consultancy
The Leading Edge Market Research Consultants Pte Limited (i)	3 May 2005	100	Market research consultancy
Orchard National Pty Limited (ii)	27 January 2005	100	Sales, marketing and merchandising in retail
Orchard National (Southern) Pty Limited (ii)	27 January 2005	100	Sales, marketing and merchandising in retail
Capital Policies and Trade Pty Limited (iii)	1 March 2005	58	Public policy and trade lobbying
Legion Interactive Holdings Pty Limited (iv)	15 March 2005	100	Interactive promotional marketing services
Legion Interactive Pty Limited (iv)	15 March 2005	100	Interactive promotional marketing services
Blue Sky Frog Pty Limited (iv)	15 March 2005	100	Interactive promotional marketing services
Legion Interactive (NZ) Pty Limited (iv)	15 March 2005	100	Interactive promotional marketing services
Kinetics Pty Limited (v)	20 June 2005	100	Public relations
Precinct Group Pty Limited	1 May 2005	44.75	Graphic design
Precinct Group Limited	1 May 2005	44.75	Graphic design

Notes to the financial statements
for the year ended 30 June 2005

27 Controlled entities (continued)

(b) Acquisition of controlled entities (continued)

- (i) All the issued capital of The Leading Edge Market Research Consultants Pty Limited and its controlled entity, The Leading Edge Market Research Consultants Limited were acquired by Photon Group Limited on 1 July 2004, for an initial cash payment of \$15,000,000. Additional consideration is payable based on the EBITDA of the acquired entities in the years ending 30 June 2005, 2006 and 2007. A reasonable estimate has been made of such deferred payments and these have been discounted to present value as at acquisition date and included as current and non-current payables in the statement of financial position of the consolidated entity at 30 June 2005. The Leading Edge Market Research Consultants Pte Limited was incorporated on 3 May 2005.
- (ii) All the issued capital of Orchard National Pty Limited and Orchard National (Southern) Pty Limited were acquired by Photon Group Limited on 27 January 2005 through ONAT Holdings Pty Limited, an entity established at this date wholly owned by Photon Group Limited, for an initial cash payment of \$700,000. Additional consideration is payable based on the EBITDA of the acquired entities in the years ending 30 June 2005 and 2006. A reasonable estimate has been made of such deferred payments and these have been discounted to present value as at acquisition date and included as current and non-current payables in the statement of financial position of the consolidated entity at 30 June 2005.
- (iii) CPR Communications and Public Relations Pty Limited acquired 58% of the issued capital of Capital Policies and Trade Pty Limited on incorporation of the company for \$58 on 1 March 2005
- (iv) All the issued capital of Legion Interactive Holdings Pty Limited and its controlled entities, Legion Interactive Pty Limited, Blue Sky Frog Pty Limited and Legion Interactive (NZ) Pty Limited, were acquired by Photon Group Limited on 15 March 2005 for an initial cash payment of \$17,451,048 together with equity consideration of 1,699,556 Photon Group Limited shares issued at \$2.85 (this price approximated fair value at this date). Of these shares issued, 313,406 shares remain in escrow for deferred consideration payments in the years ending 30 June 2005, 2006 and 2007. Additional consideration is payable based on the EBITDA of the acquired entities in the years ending 30 June 2005, 2006 and 2007. A reasonable estimate has been made of such deferred payments and these have been discounted to present value as at acquisition date and included as current and non-current payables in the statement of financial position of the consolidated entity at 30 June 2005.
- (v) A further 44.75% of the issued capital of Precinct Group Pty Limited and its controlled entity, Precinct Group Limited, were acquired by Photon Group Limited on 1 May 2005 for consideration of \$3 together with removal of personal guarantees for leased assets given by minority shareholders whose interests were acquired.
- (vi) AdPartners Group Pty Limited acquired all the issued capital of Kinetics Pty Limited on 20 June 2005 for an initial cash payment of \$300,000 (net of cash acquired). Additional consideration is payable based on the EBITDA of the acquired entities in the years ending 30 June 2006 and 2007. A reasonable estimate has been made of such deferred payments and these have been discounted to present value as at acquisition date and included as current and non-current payables in the statement of financial position of the consolidated entity at 30 June 2005.

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

Notes to the financial statements
for the year ended 30 June 2005

27 Controlled entities (continued)

Details of the acquisitions are as follows:

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Total consideration	58,115	64,283	53,347	59,751
Consideration (scrip)	(4,844)	(24,969)	(4,844)	24,969
Consideration (deferred)	(18,967)	-	(15,309)	-
Cash acquired	(4,743)	(5,571)	(4,203)	-
Outflow of cash	29,561	33,743	28,991	34,782
Fair value of net assets of entity acquired:				
Cash assets	4,743	5,571	4,203	5,576
Receivables	11,327	19,501	10,691	17,391
Work in progress	882	1,951	882	132
Deferred tax asset	528	688	458	624
Property, plant & equip	2,347	3,177	2,108	2,955
Other assets	532	-	521	-
Bank loans	-	(141)	-	(141)
Interest bearing liabilities	(1,826)	-	(1,074)	-
Payables	(5,721)	(14,653)	(5,169)	(11,074)
Provisions	(5,137)	(6,488)	(4,717)	(5,985)
Other liabilities	(3,021)	-	(2,971)	-
	4,654	9,606	4,932	9,478
Interests acquired in prior years	371	(5,512)	-	(3,576)
Outside equity interests at acquisition	31	(3,495)	-	(3,495)
	5,056	599	4,932	2,407
Goodwill on acquisition	48,316	58,113	44,212	57,344
Consideration (cash)	29,561	33,744	28,991	34,782
Consideration (scrip)	4,844	24,969	4,844	24,969
Consideration (deferred)	18,967	-	15,309	-

28 Investments accounted for using the equity method

Interest in associated entities

Name	Principal Activity	Ownership Interest		Consolidated		Company	
		2005	2004	2005	2004	2005	2004
		%	%	\$'000	\$'000	\$'000	\$'000
Bellamyhayden Pty Limited	Media Strategy	40	40	421	485	667	667

Notes to the financial statements
for the year ended 30 June 2005

28 Investments accounted for using the equity method (continued)

	Consolidated	
	2005	2004
	\$'000	\$'000
<i>Movements in carrying amount of joint venture/ associated entities</i>		
Carrying amount at the beginning of the year	485	541
Share of associate entity gain – Bellamyhayden Pty Limited	171	202
Dividends received from associates	(235)	-
Share of joint venture gain – Returnity Pty Limited	-	113
Disposal of joint venture entity that became a wholly-owned subsidiary	-	(119)
Sale of part interest in joint venture entity during year through selective company buyback	-	(252)
Carrying amount at the end of the year	421	485
<i>Results of joint venture entities/ associated entities</i>		
The Company's and the consolidated entity's share of the associate entity results consists of:		
Revenue from ordinary activities	1,186	1,733
Expenses from ordinary activities	(942)	(1,336)
Profit from ordinary activities before income tax expense	244	397
Income tax expense relating to ordinary activities	73	82
Net profit – accounted for using the equity method	171	315
<i>Share of post-acquisition retained profits attributable to joint venture entities/ associated entities</i>		
Share of associate entity's retained profits at beginning of year	178	36
Share of associate entity's net profit	171	315
Adjustment resulting from prior year company buy-back	7	-
Dividends from associate	(234)	-
Disposal of joint venture entity on acquisition of remaining 50% share of company	-	(113)
Disposal of part interest in joint venture entity	-	(60)
Share of associate entity's retained profits at end of year	122	178
<i>Commitments</i>		
Share of associate entities operating lease commitments payable:	-	29
Within one year	-	-
One year or later and no later than five years	-	-
	-	29

**Notes to the financial statements
for the year ended 30 June 2005**

29 Notes to the statement of cash flows

(i) Reconciliation of cash

For the purpose of the statements 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		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

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

Profit/(loss) from ordinary activities after income tax	4,334	2,044	(2,749)	1,324
Add/(less) items classified as investing/financing:				
(Profit)/ loss on sale of non-current assets	(23)	99	-	-
Add/(less) non-cash items:				
Depreciation and amortisation	7,088	1,953	19	9
Write-down/(back) of investment to recoverable amount	-	-	-	(1,075)
Share of (profits)/losses of associated entities	(171)	(315)	-	-
Present value interest charges with respect to the deferred consideration of acquisitions	924	-	832	-
Increase/ (decrease) in income taxes payable	(1,060)	2,690	2,374	280
Profit on part disposal of joint venture entities	-	(264)	-	(183)
Increase/ (decrease) in deferred tax liabilities	690	(38)	638	126
(Increase)/ decrease in deferred tax assets	(794)	(694)	(1,564)	(681)
Net cash provided by operating activities before change in assets and liabilities	10,988	5,475	450	(200)
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year::				
(Increase)/ decrease in receivables	243	(4,769)	511	(163)
(Increase)/ decrease in work in progress	(1,671)	(663)	-	-
(Increase)/ decrease in prepayments	(355)	(206)	(21)	59
(Increase)/ decrease in other assets	207	(385)	(113)	(178)
Increase/ (decrease) in payables	684	2,187	(474)	2,484
Increase / (decrease) in deferred income	2,450	341	-	-
Increase/ (decrease) in borrowings	-	592	-	-
Increase/ (decrease) in provisions	551	952	-	(40)
Increase/ (decrease) in related party accounts	-	100	-	(2,443)
	13,097	3,624	(547)	(481)

Notes to the financial statements
for the year ended 30 June 2005

30 Employee benefits

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Aggregate liability for employee benefits, including on-costs				
<i>Current</i>				
Employee benefits provision	3,049	1,624	16	14
<i>Non-current</i>				
Employee benefits provision	636	246	6	8
	Consolidated		The Company	
	2005	2004	2005	2004
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:				
Assumed rate increase in salary and wage rates	0-5%	3%	0-5%	3%
Discount rate	5.1%	6%	5.1%	6%
Settlement term (years)	10	10	10	10
Number of employees				
Number of employees at year end	491	300	5	4

Superannuation

The Company and certain controlled entities contribute to various defined contribution superannuation funds for the benefit of employees.

Equity-based plans

Executive share option plan (ESOP)

The Company has an executive share option plan.

The plan allows for the Board to determine who is entitled to participate in the ESOP and may grant options accordingly. Photon's remuneration committee may determine whether or not the grant or exercise of options is conditional on the achievement of performance hurdle, and if so, the nature of such performance hurdles.

The exercise of an option will entitle the option holder to subscribe for one share. The one million options granted in the 2005 year were granted at an exercise price of \$2.87, being the average of the daily volume weighted average sale price of Photon shares on each of the 30 business days prior to the issue date. As at 30 June 2005, two million options have been issued under the ESOP.

Details of options over unissued ordinary shares held by executives of the consolidated entity are set out in the Remuneration Report.

Notes to the financial statements
for the year ended 30 June 2005

30 Employee benefits (Continued)

Equity-based plan (continued)

Executive share option plan (ESOP) (continued)

Summary of options over unissued ordinary shares

Grant date	Exercise date on or after	Expiry date	Exercise Price	Numbers of options at beginning of year	Options granted	Options exercised	Number of options at year end	On issue	Vested	Proceeds received	Date issued	No. of shares issued	Fair value per share
Consolidated and company													
2005													
28 Nov 03	31 Jan 04	27 Nov 08	\$1.50	25,000	-	-	25,000	-	-	-	-	-	-
1 April 04	1 April 05	1 April 09	\$1.80	100,000	-	-	100,000	-	-	-	-	-	-
31 May 05	31 May 07	31 May 10	\$2.87	-	1,000,000	-	1,000,000	-	-	-	-	-	-
				125,000	1,000,000		1,125,000	-	-	-	-	-	-
2004													
28 Nov 03	31 Jan 04	27 Nov 08	\$1.50	-	25,000	-	25,000	-	-	-	-	-	-
1 April 04	1 April 05	1 April 09	\$1.80	-	100,000	-	100,000	-	-	-	-	-	-
				-	125,000		125,000	-	-	-	-	-	-

Notes to the financial statements
for the year ended 30 June 2005

31 Director and Executive disclosures

Disclosures of remuneration policies, service contracts and details of remuneration are included in the Remuneration report on pages 10 to 15.

Loans and other transaction with specified directors and specified executives

Loans

No loans were outstanding at the reporting date to specified directors and specified executives, where the individual's aggregate loan balance exceeded \$100,000.

Other transactions with the Company or its controlled entities

A number of the specified directors and specified executives, or their personally related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to specified directors, specified executives and their personally-related entities, total revenues of \$295,000 and total expenses of \$50,000. Details of the transactions are as follows:

Specified directors	Transaction	Note	Consolidated	Consolidated
			2005	2004
			\$'000	\$'000
S Reynolds	Consultancy		50	50
T Hughes	Public relations	(i)	8	-
S McIntosh	Public relations & project management and production	(ii)	142	-
S Reynolds	Marketing services	(iii)	-	28
T Hughes, S McIntosh &				
B Bickmore	Sales: Design services	(iv)	-	34
P Gregory		(v)	145	11

- (i) Public relations services are provided to Macquarie Regional Radioworks by CPR Communications and Public Relations Pty Limited and Bay Street Media Works (a division of AdPartners Group Pty Limited)
- (ii) Public relations services are provided to RG Properties Pty Limited by Bay Street Media Works (a division of AdPartners Group Pty Limited) in addition to project management and production services provided by Australian Business Theatre Pty Limited. S McIntosh is director of RG Properties Pty Limited
- (iii) During 2004 sales: marketing and public relations services are provided by Love Pty Limited to Creatable Media Pty Limited. S Reynolds holds the position of director of Creatable Media Pty Limited.
- (iv) During 2004 sales: corporate design services were provided to RG Capital Radio Limited by IDEAssociates Pty Limited. T Hughes, S McIntosh and B Bickmore were associated with RG Capital Radio Limited in their capacity as Executive Chairman (resigned on 3 June 2004) and Non-Executive Directors respectively.
- (v) Digital graphics production services are provided to Beach Culture Australia Pty Limited by Image Box Pty Limited. Paul Gregory provides management services to Beach Culture Australia Pty Limited.

Notes to the financial statements
for the year ended 30 June 2005

31 Director and Executive disclosures (continued)

Specified executives identified for disclosure in financial report

Specified executive	Position	Period of service (if less than full 2005 financial year)
Anthony Rowlinson	COO, Photon Group Limited	26 April – 30 June 2005
Geoff Nesbitt	CFO/ Company Secretary, Photon Group Limited	-
Stewart Bailey	CEO, The Bailey Group Pty Limited	-
Derek Leddie	CEO, The Leading Edge Market Research Consultants Pty Limited	-
David Burden	CEO, Legion Interactive Pty Limited	15 March – 30 June 2005

32 Non-director related parties

The classes of non-director related parties are:

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

Transactions

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

	Consolidated		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
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				
Wholly-owned controlled entities	-	-	-	5
Partly-owned controlled entities	-	-	53	3
Dividend revenue				
Wholly-owned controlled entities	-	-	-	887
Partly-owned controlled entities	-	-	273	-
Management fees				
Wholly-owned controlled entities	-	-	-	348
Partly-owned controlled entities	-	-	150	75
Profit on disposal of joint venture entity	-	264	-	264

Photon Group Limited
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Notes to the financial statements
for the year ended 30 June 2005

32 Non-director related parties (continued)

	Consolidated		The Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Loans advanced to				
Partly-owned controlled entities	-	-	141	323
Wholly owned entities	-	-	4,615	4,381
Receivables				
Aggregate amounts receivable from non-director				
related parties including trade debtors				
Wholly-owned controlled entities	-	-	11	79
Partly-owned controlled	-	-	97	-
Payables				
Aggregate amounts payable to non-director				
related parties other than trade creditors				
Wholly-owned controlled entities	-	-	16,050	3,826

Percentage of equity interests

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

Controlled entities	Note 27(a)
Associated entities	Note 28

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The consolidated entity has put a project plan in place to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed as at 30 June 2005.

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

The design phase incorporated:

- formulation of revised accounting policies and procedures for compliance with AIFRS requirements;
- identification of potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
- development of revised AIFRS disclosures;
- formulation of accounting and business processes to support AIFRS reporting obligations;
- identification of required changes to financial reporting and business source systems; and
- development training programs for staff.

The design phase is completed as at 30 June 2005.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (*continued*)

Implementation phase (continued)

This phase is substantially complete as at 30 June 2005 in respect of the effect of AIFRS on the transitional statement of financial position as at 1 July 2004. Further work is currently being undertaken by management to quantify the impact of AIFRS on the statement of financial position as at 30 June 2005 and on the result for the year ended 30 June 2005. Further discussion on the impact of AIFRS on the 2005 financial year is disclosed in paragraph (i) of this note.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transition adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS for opening balances as at 1 July 2004, and the selection and application of AIFRS accounting policies on future reporting, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half year ended 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in the financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for the first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (*continued*)

(a) Leased assets

Make good provisions

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/ overhauls.

Under current Australian GAAP the cost of the refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

At July 1 2004, a provision for makegood costs associated with these operating leases of \$393,949 is expected to be recognised in the consolidated entity as an asset and corresponding liability. The amount of this asset amortised to the profit and loss to 1 July 2004 is expected to be \$67,715, representing the amount that corresponds to the expired portion of the leases at this date. No makegood provisions are expected for the Company.

(b) Business Combinations

As permitted by the election under AASB1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to other requirements of AASB1, as discussed.

Comparative period

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS. All business combinations will be accounted for by applying the purchase method. The expected adjustments in the consolidated entity are discussed at paragraph (i) in this note. No adjustments are expected for the Company.

(c) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination and the net fair value of the identifiable assets liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. No reclassifications are expected.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment (refer (d) for further details on impairment testing).

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (*continued*)

(c) Intangible assets (*continued*)

Amortisation

Amortisation will be recognised on a straight line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested annually for impairment. Other intangible assets will be amortised from the date they are available for use. Changes in the useful life on transition to AIFRS will be accounted for prospectively.

(d) Impairment

Under current Australian GAAP, the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their current amount. If the carrying amount of non-current assets exceeds its recoverable amount, the asset is written down to the lower amount, with write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding deferred tax assets, goodwill, and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS (refer (c)), and intangible assets that have an indefinite useful life are tested for impairment annually. If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit (CGU) to which the asset belongs will be determined. A CGU will be the smallest identifiable group of assets that generate cash inflows largely independent of cash inflows of other assets or group of assets, each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its CGU exceeds its recoverable amount. Impairment losses will be recognised in the income statement.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

Goodwill has been tested for impairment at transition date. The recognition of impairment losses, if any, determined due to the more rigorous testing under AIFRS are not known at reporting date.

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (*continued*)

(d) Impairment (*continued*)

Calculation of recoverable amount

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using discounted cashflows. Under AIFRS the recoverable amount of the consolidated entity's goodwill and identifiable intangible assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or CGU. Cash flows will be estimated for the asset or CGU in its current condition and therefore will not include cash inflows and outflows improving or enhancing the assets performance or expected to arise from future restructuring not yet committed to at reporting date.

Reversal of impairment

Under current Australian GAAP impairment losses have not been reversed.

Under AIFRS an impairment loss in respect of goodwill must not be reversed. In respect of other assets, an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

There is no expected impact of this change in the treatment on transition.

(e) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets or liabilities that effect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

There is no expected material impact of this change in accounting for taxation on the consolidated entity or the company.

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (*continued*)

(e) Taxation (*continued*)

Tax consolidations

Under AIFRS, wholly owned subsidiaries in the tax consolidated group will be required to recognise their own tax balances directly, and the current tax liability or asset will be assumed by the head entity via a related party transaction. This adjustment has been reflected in the transition balance sheet.

As the interpretation is yet to be issued the impact of any change has not been quantified.

(f) Employee benefits

Under Australian GAAP no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options. The fair value of the options granted will be measured using the Black-Scholes method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002 which have vested before 1 January 2004. Options granted after 7 November 2002 remaining unvested at 1 January 2004 will be recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

At 1 July 2004, employee benefits expense is expected to increase, retained earnings is expected decrease and share capital is expected to increase by \$37,010. For the financial year ended 30 June 2005, employee benefits expense is expected to increase, retained earnings is expected decrease and share capital is expected to increase by \$214,282 in the consolidated entity and in the company representing the options expensed for the period.

(g) Foreign currency

Under current Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at the reporting date. Equity items and goodwill are translated at historical rates. The statement of financial performance is translated at weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

Under AIFRS each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the Company or its subsidiaries.

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(g) Foreign currency (continued)

All foreign operations are translated into Australian dollars using the method described above, the concept of a 'self sustaining' operation does not exist in the AIFRS framework.

The AASB 1 election to reset existing foreign currency translation reserve balance to nil is not expected to be adopted. Foreign currency translation differences that have arisen prior to the date of transition are expected to continue to be presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of foreign operations prior to transition date continue to be translated at historical rates as permitted by AASB 1, therefore there is no impact on transition in respect of this change.

(h) Summary of transitional adjustments

The following table sets out the expected adjustments to the statement of financial position of the Company and the consolidated entity at transition to AIFRS as at 1 July 2004.

	Consolidated 1 July 2004			Company 1 July 2004		
	AGAAP	Transition	AIFRS	AGAAP	Transition	AIFRS
	\$'000	impact \$'000	\$'000	\$'000	impact \$'000	\$'000
ASSETS						
Current assets						
Cash and cash equivalents	5,994	-	5,994	867	-	867
Trade receivables	13,866	-	13,866	686	-	686
Other current assets	1,571	-	1,571	71	-	71
Total current assets	21,431	-	21,431	1,624	-	1,624
Non-current assets						
Investments in associates	485	-	485	4,704	-	4,704
Other financial assets	179	326	505	69,513	-	69,513
Property plant and equipment	2,772	-	2,772	19	-	19
Goodwill	67,733	-	67,733	-	-	-
Deferred tax assets	888	-	888	681	(570)	111
Other non-current assets	236	-	236	113	-	113
Total Non-current assets	72,293	326	72,619	75,030	(570)	74,460
Total assets	93,724	326	94,050	76,654	(570)	76,084

Notes to the financial statements
for the year ended 30 June 2005

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(h) Summary of transitional adjustments (continued)

	Consolidated 1 July 2004			Company 1 July 2004		
	AGAAP	Transition	AIFRS	AGAAP	Transition	AIFRS
	\$'000	impact \$'000	\$'000	\$'000	impact \$'000	\$'000
LIABILITIES						
Current liabilities						
Trade and other payables	12,450	-	12,450	4,281	-	4,281
Short-term borrowings	463	-	463	-	-	-
Current tax payable	3,059	-	3,059	280	-	280
Short-term provisions	1,741	-	1,741	14	-	14
Current portion of long term borrowings	2,035	-	2,035	2,000	-	2,000
Total Current liabilities	19,748	-	19,748	6,575	-	6,575
Non-current liabilities						
Long term borrowings	12,468	-	12,468	12,000	-	12,000
Deferred tax liabilities	113	-	113	126	(126)	-
Long-term provisions	246	394	640	8	-	8
Total Non-current liabilities	12,827	394	13,221	12,134	(126)	12,008
Total liabilities	32,575	394	32,969	18,709	(126)	18,583
Net assets	61,149	(68)	61,081	57,945	(444)	57,501
EQUITY						
Share capital	62,190	37	62,227	62,190	37	62,227
Other reserves	10	-	10	-	-	-
Retained profits	(4,308)	(101)	(4,409)	(4,245)	(481)	(4,726)
Parent interest	57,892	(64)	57,828	57,945	(444)	57,501
Minority interest	3,257	(4)	3,253	-	-	-
Total Equity	61,149	(68)	61,081	57,945	(444)	57,501

33 Impact of adopting Australian equivalents to International Financial Reporting Standards (continued)

(i) Impact on the 2005 financial year

As noted earlier within this Note, management are currently quantifying the impact of the conversion from AGAAP to AIFRS in respect of the statement of financial position as at 30 June 2005 and the result for the year ended 30 June 2005.

All the changes in accounting policies outlined earlier within this Note relating to the AIFRS transitional balance sheet as at 1 July 2004 will apply as at 30 June 2005. In addition the following change in accounting policy will impact the statement of financial position as at 30 June 2005 and statement of financial performance for the year ended 30 June 2005 as compared to those disclosed under AGAAP earlier within the financial statements.

Notes to the financial statements
for the year ended 30 June 2005

Business combinations

In these financial statements for the year ended 30 June 2005 prepared under AGAAP the excess of purchase consideration over the fair value of net assets acquired is recorded as goodwill on consolidation.

Under AIFRS assets acquired in a business combination that meet the definition of an intangible asset must be recorded separately from goodwill. Such intangible assets either arising from contractual or legal rights or that are separable are to be amortised over the period of the expected future benefit.

During the financial year ended 30 June 2005, the consolidated entity has acquired a number of companies (refer Note 27). A valuer is required to determine the fair value of other intangible assets. Management are presently looking to appoint a valuer to complete this exercise. When this is completed, management will be able to determine the financial impact on the results of the company for the year ended 30 June 2005.

The impact of the above is that whilst goodwill will not be amortised under AIFRS, the goodwill balance will be lower than that calculated under current AGAAP as it is likely that certain identifiable intangible assets may exist. Such assets will be required to be amortised. This will reduce future earnings.

Notes to the financial statements
for the year ended 30 June 2005

34 Events subsequent to balance date

Acquisition of wholly-owned entities

Subsequent to balance date, the Company acquired 100% of the issued share capital of:

- Kaleidoscope Marketing Communications Pty Limited (Kaleidoscope), a point of sale direct marketing company. The purchase price was \$120,000 cash plus additional deferred cash payments to be tied to the earnings of Kaleidoscope in the period through to 30 June 2007. The acquisition was funded using existing cash reserves.
- Republicorp International Pty Limited (Republicorp), a corporate investor and stakeholder communications company. The purchase price was \$200,000 cash plus additional deferred cash payments to be tied to the earnings of Republicorp in the period through to 30 June 2008.

Acquisition of partly-owned entities

Subsequent to balance date, the Company acquired 50.1% of the issued share capital of:

- Media Zoo Pty Limited, a new kind of interactive media company that assists major brands and leading traditional media groups to exploit the increasingly complex intersection of entertainment and information content, brand communication and technology. The purchase price was \$100,000 cash with further put options by Photon Group Limited and call options by Media Zoo Pty Limited in the period through to 30 September 2009.

The financial effects of the transaction have not been brought to account in the financial statements for the year ended 30 June 2005.

Amended Fixed and Variable Cash Advance Facility Agreement with ANZ Banking Group Limited

Subsequent to balance date, the Company amended its fixed and variable cash advance facility with ANZ Banking Group to a facility amounting to \$50million comprising a general corporate funding facility, an acquisition finance facility and a working capital finance facility.

Dividends

For dividends declared after 30 June 2005, see note 23.

Photon Group Limited
ABN 97 091 524 515

Directors' Declaration

For the year ended 30 June 2005

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

- (a) the financial statements and notes, set out on pages 17 to 66, 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 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2005.

Dated at Sydney this 24th day of August 2005.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'T Hughes', with a stylized, flowing script.

Tim Hughes
Director

Independent audit report to the members of Photon Group Limited

Scope

We have audited the financial report of Photon Group Limited for the financial year ended 30 June 2005, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 34, the information disclosed by the Company in accordance with the *Corporations Regulations 2001* about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, in paragraph (f) (where noted) and paragraphs (h) to (k) under the heading "Remuneration report" in the directors report and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report and the Remuneration report. The remuneration report also contains information in paragraphs (a) to (e) and (g) not required by Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, which is not subject to our audit. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and 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 Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

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

Audit opinion

In our opinion, the financial report including the remuneration disclosures that are contained in paragraph (f) (where noted) and paragraphs (h) to (k) of the Remuneration report in the Directors' report of Photon Group Limited are in accordance with:

- a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the financial year ended on that date; and
 - ii. complying with Accounting Standards in Australia, including AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, and the *Corporations Regulations 2001*; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

P J Done
Partner

Sydney,
24th August 2005