

Photon Group Limited
ABN 97 091 524 515
Appendix 4E
Preliminary final report
Year ended 30 June 2009

Results for Announcement to the Market

Rule 4.3A

The current reporting period is 1 July 2008 to 30 June 2009.
The previous corresponding reporting period is 1 July 2007 to 30 June 2008.

Key information

Australian dollar '000's

Revenues from ordinary activities	up	13.77%	to 653,455
Profit after tax attributable to members	down	1.30%	to 21,408
Net profit for the period attributable to members	down	1.30%	to 21,408

Dividends

	Amount per security	Franked amount per security
Interim dividend – paid 7 April 2009	6.0 cents	6.0 cents
Final dividend – payable 11 September 2009	6.5 cents	6.5 cents

Total amount per share	12.5 cents	12.5 cents
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The record date for determining entitlements to the final dividend is 2 September 2009

At the date of this report, there are no dividend reinvestment plans in place.

The remainder of the information requiring disclosure to comply with listing rule 4.3A is contained in the attached audited 2009 Annual Report and the additional information set out below.

Additional Information

NTA backing	2009	2008
Net tangible asset backing per ordinary share	(3.11)	(4.12)

Explanation of results

Please refer to the attached 2009 Annual Report and Market Presentation for commentary and further information with respect to the results.

**Photon Group Limited
and its controlled entities
ABN 97 091 524 515**

**Annual report
30 June 2009**

Photon Group Limited
ABN 97 091 524 515

Directors' report

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Directors' report

Corporate Governance Statement

This statement outlines the corporate governance policies and practices of Photon, in the context of the Corporate Governance Principles and Recommendations that have been set by the ASX Corporate Governance Council (**ASX Guidelines**). Since the listing of Photon on 30 April 2004, the Board has continually considered and reviewed the corporate governance practices and policies of Photon.

The table below sets down each of the recommendations made in the ASX Guidelines and indicates where the relevant disclosure can be found in this report. Photon considers that its governance practices are consistent with all but three of the Recommendations contained in the ASX Guidelines. The Chair of Photon is not an independent director (Recommendation 2.2) and a majority of the Board members are not independent directors (Recommendation 2.1). Photon also has not established a formal Nomination Committee at this time (Recommendation 2.4). An explanation for the departure from these ASX Recommendations is provided in the Corporate Governance Statement.

A copy of the ASX Guidelines can be obtained from the ASX website www.asx.com.au

Recommendation		Section
Recommendation 1.1	Functions of the Board and Senior Executives	1.1
Recommendation 1.2	Evaluation of Senior Executives	1.2 and Remuneration Report
Recommendation 1.3	Reporting on Principle 1	1.1, 1.2 and Remuneration Report
Recommendation 2.1	Independent Directors	2.1 and Director's Report
Recommendation 2.2	Independent Chair	2.2
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Recommendation 2.4	Establishment of Nomination Committee	2.4
Recommendation 2.5	Performance evaluation of the Board, Committees and Directors	2.5 and Remuneration Report
Recommendation 2.6	Reporting on Principle 2	2.1, 2.2, 2.3, 2.4, 2.5, Director's Report and Remuneration Report
Recommendation 3.1	Company Code of Conduct	3.1
Recommendation 3.2	Company Security Trading Policy	3.2
Recommendation 3.3	Reporting on Principle 3	3.1, 3.2
Recommendation 4.1	Establishment of Audit Committee	4.1
Recommendation 4.2	Structure of Audit Committee	4.2, Director's Report and Director Profiles
Recommendation 4.3	Audit Committee Charter	4.3
Recommendation 4.4	Reporting on Principle 4	4.1, 4.2, 4.3, Director's Report and Director Profiles
Recommendation 5.1	Policy for compliance with continuous disclosure	5.1
Recommendation 5.2	Reporting on Principle 5	5.1
Recommendation 6.1	Communications strategy	6.1
Recommendation 6.2	Reporting on Principle 6	6.1
Recommendation 7.1	Policies on risk oversight and management	7.1
Recommendation 7.2	Risk management roles and responsibilities	7.1 and 7.2
Recommendation 7.3	Statement of CEO and CFO in relation to systems	7.3
Recommendation 7.4	Reporting on Principle 7	7.1, 7.2 and 7.3
Recommendation 8.1	Establishment of remuneration committee	8.1 and Director Profiles
Recommendation 8.2	Executive and Non-Executive Director remuneration	8.2, Director's Report and Financial Statements
Recommendation 8.3	Reporting on Principle 8	8.1, 8.2, Director Profiles, Director's Report and Financial Statements

Directors's report (continued)
Corporate Governance (continued)

Corporate Governance Statement

Principle 1: Lay solid foundations for management and oversight

1.1 Functions of the Board and management

1.1.1 Role of the Board and management

The Board has approved a formal Board Charter which details the Board's role, powers, duties and functions. A copy of the Board Charter is available on the Photon website.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the consolidated entity. It is required to do all things that may be necessary to be done in order to carry out the objectives of the consolidated entity.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1. Leadership of the Organisation: overseeing the consolidated entity and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. Strategy Formulation: working with senior management to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
3. Overseeing Planning Activities: overseeing the development of the consolidated entity's strategic plan and approving that plan as well as the annual and long term budgets.
4. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
5. Monitoring, Compliance and Risk Management: overseeing the Company's management of material business risks, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
6. Company Finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources: appointing, and, where appropriate, removing the Chief Executive Officer (CEO) and executives as well as reviewing the performance of the CEO and monitoring the performance of senior executives in their implementation of the Company's strategy.
8. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority: other than as specifically reserved to the Board in the Board Charter, responsibility for the management of Photon's business activities is delegated to the CEO who is accountable to the Board. The Board has also delegated specific authorities to various Board Committees.

1.1.2 Conflicts of interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the consolidated entity; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a director cannot or is unwilling to remove a conflict of interest then the director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

Directors's report (continued)
Corporate Governance (continued)

1.1.3 Related party transactions

Related party transactions include any financial transaction between a director and the consolidated entity and will be reported in writing to each Board meeting. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.2 Evaluation of Senior Executives

1.2.1 Induction of senior executives

New executives undertake an induction program upon joining Photon, including comprehensive briefings on the Company's businesses, and its policies and procedures. The program includes meetings with people in key internal and external roles in order to start developing the relationships necessary to meet the requirements of their role.

As discussed further below and in the Remuneration Report, key performance indicators are agreed with each executive to ensure goals and performance measures are fully understood and disclosed.

1.2.2 Performance evaluation of senior executives

The performance evaluation of key executives is undertaken by the Board, in conjunction with the CEO on both a formal regular and informal ongoing basis.

Photon's performance management framework requires the setting for all senior executives key performance indicators (including financial and non-financial measures). Each senior executive's performance is reviewed, at least annually, against the relevant performance indicators. Performance evaluation of senior executives has taken place during the reporting period in accordance with the process disclosed.

The process for evaluating the performance of senior executives and the remuneration policy for senior executives is further discussed in the Remuneration Report.

Principle 2: Structure the Board to add value

2.1 Independent directors

The constitution of the Company provides that the number of directors must not be less than 3 and not more than 13. The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report on page 13 of this report, including the period of office held by each director as at the date of this report. There are currently 5 directors each of whose skills, experience and expertise is described in their director profiles on page 13. There are 2 executive directors (Tim Hughes and Matthew Bailey) and 3 non-executive directors (Susan McIntosh, Brian Bickmore and Paul Gregory).

Only two members of the Board, Brian Bickmore and Paul Gregory, are independent according to the definition in the ASX Guidelines. Matthew Bailey and Time Hughes are not considered independent because they are executive directors. Susan McIntosh is not considered independent because she is an officer of the RG Capital group of companies, which have a substantial holding in Photon. This means that the Board does not currently meet the ASX Corporate Governance Council's recommendation that a majority of the Board should be independent. The Board, however, believes that its current composition has the required skills and independence of thought and judgement to ensure that decisions are made by the Board in the best interests of the Company. Further, to facilitate all directors bringing an independent judgement to bear on all Board decisions, each director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities

The Board regularly assesses whether each non-executive director is independent, based on the criteria specified in the Board Charter (which is consistent with the criteria set out in Recommendation 2.1 of the ASX Guidelines).

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Directors's report (continued)
Corporate Governance (continued)

2.2 Independent Chair

The Chair of Photon, Tim Hughes, is an executive director and not an independent director. Notwithstanding the ASX Recommendation that the Chairman should be an independent director, the Directors believe that the Chair can and does bring independent thought and judgement in his capacity as Chair. In addition, the Board believes that Mr Hughes is an appropriate person to be Chair due to his extensive knowledge of the activities of the Company and its business and the industry sector in which the Company operates.

2.3 Role of the Chair and CEO

The roles of Chair and CEO are not exercised by the same individual and the division of responsibilities between the Chair and the CEO have been agreed by the Board.

2.4 Establishment of Nomination Committee

The Board has determined that due to the relative size of Photon it is not necessary or appropriate for a Nomination Committee to be established at this time. The Board will continue to revisit this question on an ongoing basis as the Company continues to grow. In addition, a number of the responsibilities identified by the ASX Guidelines as being within the ambit of a Nomination Committee have been delegated to the Remuneration Committee.

2.5 Performance evaluation of the Board, Committees and Directors

2.5.1 Induction and education

New directors undergo an induction process in which they are given a full briefing on the consolidated entity. This includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- formal policies on director appointments as well as conduct and contribution expectations;
- details of all relevant legal requirements;
- a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- an analysis of the consolidated entity;
- a synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- a copy of the Constitution of the Company.

2.5.2 Performance review

The Chair is responsible, in the first instance, for monitoring the contribution of individual directors and providing guidance on any areas of improvement.

The Board undertakes an annual self assessment of both its collective performance and that of individual directors and seeks specific feedback from the senior management team on particular aspects of its performance. The Remuneration Committee establishes procedures and oversees this annual performance assessment program. The results and any action plans flowing from this annual assessment are documented, together with specific performance goals that are agreed for the coming year.

In addition, each Board Committee undertakes an annual self assessment on the performance of the committee and achievement of committee objectives. The performance of the CEO is reviewed annually by the Remuneration Committee and the Board. The performance of the CEO is reviewed annually against set performance goals and competencies. Performance evaluation of the Board, its committees and directors has taken place during the reporting period in accordance with the process disclosed.

Directors's report (continued)
Corporate Governance (continued)

2.6 Retirement and re-election

As required under Photon's Constitution and the ASX Listing Rules, and excluding any managing director or director newly appointed during the relevant year, at each Annual General Meeting one-third of the Directors must retire from office. Retiring directors are eligible for re-election by shareholders.

No Director (other than the Managing Director) may hold office for more than three years without standing for re-election and any Director appointed by the Board since the previous Annual General Meeting must stand for election by no later than the next Annual General Meeting.

2.7 Appointment of new directors

When a vacancy exists for a Board position, through whatever cause, or where the Board considers that it would benefit from the services of a new member with particular skills, the Board will consider candidates having regard to:

- what may be appropriate for the Company;
- the skills, expertise and experience of the candidates;
- the desirability of those skills, expertise and experience when combined with those of the existing Directors; and
- the perceived compatibility of the candidates with the Company and with the existing Directors.

Potential candidates to be appointed as Directors will be considered by the Board. The Board will appoint the most suitable candidates who (assuming that they consent to act as Directors) continue in office only until the next annual general meeting and are then eligible for election.

The terms and conditions of the appointment of all new members of the Board must be specified in a letter of appointment to be signed by the Chair with the authority of the Board.

Principle 3: Promote ethical and responsible decision-making

3.1 Company Code of Conduct

To assist the Board in carrying out its functions, Photon has developed a Code of Conduct to guide the Directors, the CEO and other key executives in the performance of their roles. The Company Code of Conduct was adopted by resolution of the Board on 27 May 2004. This Code includes the following:

Responsibilities to shareholders and the financial community generally

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to clients, customers and consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's suppliers and customers.

Employment practices

The Company endeavours to ensure that its employees maintain the highest standard of conduct at all times and to provide an environment in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations relative to fair trading and dealing

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

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Directors's report (continued)

Corporate Governance (continued)

Conflicts of interest

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

Compliance with legislation affecting its operations

Directors, officers and senior executives of the Company and all operating entities are responsible for setting up and maintaining a system of internal controls, financial and otherwise, in order to provide reasonable assurance of effective and efficient operations, reliable financial information and reporting, and compliance with laws and regulations.

How the Company monitors and ensures compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

A copy of the Code is available on the Photon website.

3.2 Company Securities Trading Policy

Photon has a Securities Trading Policy under which directors, senior executives and other employees likely to be in possession of unpublished price-sensitive information and their associates may not trade in Photon securities during the following "blackout periods" commencing:

- 31 December each year until the release by Photon of its half-yearly results to the ASX in February; and
- 30 June each year until the release by Photon of its annual results to the ASX in August.

In addition, consistent with the law, designated officers are prohibited from trading in Photon's securities while in the possession of unpublished price-sensitive information concerning the consolidated entity. Unpublished price-sensitive information is information regarding the consolidated entity, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of Photon's securities.

Notice of an intention to trade must be given to the Company Secretary prior to trading in the Company's securities. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

A copy of the Securities Trading Policy is available on the Photon website.

Principle 4: Safeguard integrity in financial reporting

4.1 Establishment of Audit Committee

The Audit Committee monitors and reviews the effectiveness of the consolidated entity's controls in the areas of operational and balance sheet risk, legal, compliance and financial reporting. The committee discharges these responsibilities by:

- overseeing the adequacy of the controls established by senior management to identify and manage areas of potential risk and to safeguard the assets of Photon;
- overseeing Photon's relationship with the external auditor and the external audit function generally; and
- evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements and financial information provided to investors and the Board is accurate and reliable.

The Audit Committee has also adopted a policy on the provision of non-audit services and complies with the statutory requirements regarding the rotation of external audit personnel. 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 do not undermine the general principals relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they 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.

Members of management and the external auditors attend meetings of the committee by invitation. The committee may also have access to financial and legal advisors, in accordance with the Board's general policy.

Directors's report (continued)
Corporate Governance (continued)

4.2 Structure of Audit Committee

The Audit Committee consists only of non-executive directors, including a majority of independent directors. The current members of the Audit Committee are Mr Brian Bickmore, Ms Susan McIntosh and Mr Paul Gregory. Brian Bickmore is the independent Chair of this committee. All members can read and understand financial statements and are otherwise financially literate. The details of the member's qualifications can be found in their director profiles on page 13.

Details of the number of meetings of the Audit Committee and the names of attendees can be found in the Directors' Report on page 16. The Audit Committee meets with an external auditor at least twice a year.

4.3 Audit Committee Charter

The Audit Committee Charter sets out the Committee's role and responsibilities, structure, membership requirements and procedures. The committee meets at least four times each year and reports to the Board on all matters within its role and responsibilities.

The Audit Committee reviews the audited annual and half yearly financial statements and other reports which accompany published financial statement before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor each year, reviews the appointment of the external auditor, their independence, the audit fee, and any question of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

A copy of the Charter is available on the Photon website.

Principle 5: Make timely and balanced disclosure

5.1 Policy for compliance with continuous disclosure

Photon has established a Continuous Disclosure Plan to ensure compliance with the ASX Listing Rule disclosure requirements.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules* the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

A copy of the Company's Continuous Disclosure Plan is available on the Photon website.

Principle 6: Respect the rights of shareholders

6.1 Communications strategy

To facilitate the effective exercise of the rights of shareholders the Company is committed to ensuring that all external communications with shareholders will:

- be factual;
- not omit material information; and
- be timely and expressed in a clear and concise manner.

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Directors's report (continued)

Corporate Governance (continued)

Photon's website, www.photongroup.com contains recent announcements, presentations, analyst reports, past and current reports to shareholders, answers to frequently asked questions and a summary of key financial data. Where practicable, Photon uses the latest widely available electronic technology to communicate openly and continually with shareholders and the market in general. Announcements to the ASX and notices of meetings are promptly posted on the Company's website and retained there for at least three years.

The Company also regularly mails information to shareholders and encourages shareholders to participate in general meetings of the consolidated entity. The Company seeks to choose a date, venue and time for the Annual General Meeting that is convenient to the greatest number of its shareholders, and takes reasonable measures to ensure the attendance of the external auditor to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the consolidated entity.

Principle 7: Recognise and manage risk

7.1 Policies on risk oversight and management

Photon recognises that identification and effective management of risk is viewed as an essential part of good corporate governance and the company's approach to creating long term shareholder value.

Photon has therefore established and implemented the Risk Management Policy designed to identify and respond to risks in a way that creates value for Photon shareholders and to allow the Company to meet its long term growth objectives. The Risk Management Policy includes specific risk management activities in core areas of risk for the consolidated entity, including: operational, financial reporting and compliance risks.

The Risk Management Policy, adopted by the company includes:

- Process for identification of the material business risks faced by the company;
- Prioritisation of material business risks;
- Where the level of risk is greater than the risk tolerance, identification of controls to manage the risk; and
- Ongoing reporting and discussion of material business risks throughout the year.

Risk management is a key element of Photon's strategic planning and decision making. Photon strives to balance the risks and rewards in conducting business to optimise returns, in accordance with its goals of delivering shareholder value and its commitments to stakeholders, customers and the broader community.

7.2 Risk management roles and responsibilities

Management through the CEO is responsible for designing, implementing and reporting on the adequacy of the company's risk management and internal control system. Management reports to the Audit Committee on the company's key risks and the extent to which it believes these risks are being managed. This is performed on an annual basis or more frequently as required by the board.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound risk management and internal control system. Detailed work on this task is delegated to the Audit Committee and reviewed by the board. The Audit Committee also oversees the adequacy of the company's risk reporting from management.

Strategic and operational risks are reviewed at least annually by all operating divisions as part of the annual strategic planning and budgeting process. Division risk profiles are also reviewed quarterly as part of the regular reporting to the Board. The CEOs of the company's subsidiaries and managing directors of the company's divisions are required to report to the Board each month on operational risks. These are then reviewed by the CEO, CFO and General Counsel each month and external auditors as part of the half-yearly reporting to the market.

Directors's report (continued)

Corporate Governance (continued)

The General Counsel monitors the company's compliance with its legal and regulatory obligations. Senior management meet regularly to deal with specific areas of risk such as treasury risk, exposure to interest rates and foreign exchange rates and provides reporting to the board on these areas at least annually.

The company will provide updates to any changes in its circumstances in press releases on the investor section of the company's website.

7.3 Statement of CEO and CFO in relation to systems

The Board has received assurance from the CEO and the CFO that the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that, in their opinion, the Company's Risk Management System is operating effectively in all material respects in relation to financial reporting risks.

The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

Principle 8: Remunerate fairly and responsibly

8.1 Establishment of Remuneration Committee

The Remuneration Committee was formed by resolution of the Board on 25 March 2004. The Remuneration Committee has established a Charter, a copy of which is available on the company's website.

8.1.1 Role

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies including but not limited to succession planning, recruitment and the appointment of the Chief Executive Officer, senior executives and directors themselves and overseeing succession planning, selection and appointment practices and remuneration packages for management and employees of Photon.

The objectives of the Committee include to:

- review, assess and make recommendations to the Board on the desirable competencies of the Board;
- assess the performance of the members of the Board;
- oversee the selection and appointment practices for non-executive directors and senior management of Photon;
- develop succession plans for the Board and oversee the development of succession planning in relation to senior executives; and
- assist the Board in determining appropriate remuneration policies.

8.1.2 Composition

Mr Brian Bickmore, Mr Tim Hughes and Mr Paul Gregory are the current members of the Remuneration Committee the majority of whom are independent directors. Mr Brian Bickmore, the Chair of the Remuneration Committee, is an Independent Director.

Details of the number of meetings of the Remuneration Committee and the names of the attendees can be found in the Directors' Report on page 15.

8.1.3 Responsibilities

The responsibilities of the Remuneration Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, making recommendations to the Board on any proposed changes to the Board and undertaking an annual review of the CEO's performance, including, setting with the CEO goals for the coming year and reviewing progress in achieving these goals.

Directors's report (continued)
Corporate Governance (continued)

8.2 Executive and non-executive director's remuneration

The Senior Executive Remuneration Policy was approved by resolution of the Board in September 2004 and the Non-Executive Director Remuneration Policy was approved by resolution of the Board on 25 March 2004.

8.2.1 Senior Executive Remuneration Policy

The consolidated entity is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in the option scheme with thresholds approved by shareholders; and
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

Details of the amount of remuneration, including both monetary and non-monetary components, for each of the five highest paid (non-director) executives during the year (discounting accumulated entitlements) is detailed in the Director's Report and Note 20 of the notes to the financial statements.

8.2.2 Non-Executive Director Remuneration Policy

The 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 a director, but the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting. This amount is currently fixed at \$750,000. The remuneration of non-executive directors must not include a commission on, or a 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 exertions for the benefit of the Company.

Non-executive directors are entitled to statutory superannuation, but do not otherwise receive retirement benefits.

Details of the amount of remuneration, including both monetary and non-monetary components, for each of the Directors paid during the year (discounting accumulated entitlements) is detailed in the Director's Report and Note 20 to the notes to the accounts.

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Directors' report (continued)
For the year ended 30 June 2009

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 and the Company's interest in associates, for the year ended 30 June 2009 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 has been the Executive Chairman of Photon Group since 2000 and was appointed a director of the Company on 2 June 2000. Tim is also the Chairman of Carinya Investment Management and a Director of the Sporting Chance Cancer Foundation. Tim has had a 20-year business career in television production and distribution, television broadcasting, radio, investment management and marketing services. Tim earned a Bachelor of Business from the University of Technology, Sydney. Tim is also a member of the Remuneration Committee.

Matthew Bailey – Chief executive officer / Executive director

Matthew has been Chief Executive Officer of the Company since 2004 and was appointed a director of the Company on 25 March 2004. Before joining Photon Group, Matthew was the CEO of The Bailey Group, a sales, marketing and merchandising company, for 16 years. Matthew has extensive experience in retail selling, sales force strategy and brand development. Matthew has a Bachelor of Business from Swinburne University.

Susan McIntosh – Non-executive director

Susan was appointed as a non-executive director of the Company on 2 June 2000. A Chartered Accountant, Susan has more than 25 years' business experience in media (radio and television production and distribution) and asset management, and is also the Managing Director of RG Capital Holdings (Australia) Pty Ltd. Susan is a member of the Audit Committee.

Brian Bickmore – Independent non-executive director

Brian was appointed as a non-executive director of the Company on 25 March 2004. In 1980, Brian was a founding executive of Austereo and served as a director of the company for almost 25 years until 2004. Brian was initially Austereo's Finance Director and from 1997, was the Group General Manager. Brian is a director of oOH! Media Group Limited and was previously a director of RG Capital Radio Limited. Brian is the Chairman of both the Audit Committee and the Remuneration Committee.

Paul Gregory – Independent non-executive director

Paul was appointed as a director of the Company on 25 March 2004. Paul has led a diverse range of medium-sized private retail companies, including Australian Geographic Pty Ltd, and Red Earth Australia Pty Ltd, and has overseen the expansion of both companies in Australia and overseas. Currently, Paul is a business consultant providing management and strategic advice to several Australian and international retail groups. Paul is a member of the Audit Committee and the Remuneration Committee.

Company secretary

Eleni North was appointed Company Secretary on 11 February 2009, replacing Clare Battellino who resigned from the position on the 11 February 2009. She is also the General Counsel of the Company and the consolidated entity. Prior to joining Photon, Eleni was Vice President, Legal at Travelport. Eleni has a Bachelor of Economics and a Bachelor of Laws(Hon) from the Australian National University. She is admitted to practice as a lawyer in Australia and the United Kingdom.

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Directors' report (continued)
For the year ended 30 June 2009

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 of sales of promotion material and Point of Sales (POS), Point of Production (POP), communications planning, e-mail marketing, events management, direct marketing, market research services and online marketing.

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

Review and result of operations

The consolidated earnings before interest, tax, depreciation amortisation and impairment charges (EBITDA) grew 14% to \$89,303,865 (2008: \$78,244,031). This included one off redundancy charges of \$3,670,567. The consolidated net profit from ordinary activities after income tax attributable to the members of the parent entity amounted to \$ 21,407,728 (2008: \$21,690,838). Annual growth was attributable from a combination of acquisitions and organic growth in existing companies.

Acquisitions

During the year ended 30 June 2009, there were no individually material or significant acquisitions.

Further detail in relation to the above is provided in note 27 of the notes to the consolidated financial statements.

Issue of shares and share options

On 15 July 2008, the Company issued 25,529,790 ordinary shares following the completion of rights issue announced on 4th June 2008. These shares rank equally with existing shareholders.

On 29 September 2008, the Company issued 100,000 ordinary shares to Mr. Tim Hughes and 111,000 ordinary shares to a former executive of the Company exercising options under the Company's Executive Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise prices of these options were \$1.60 per share.

On 30 September 2008, the Company issued 434,650 ordinary shares to the vendors of Found Agency, as part payment of the purchase price. These shares rank equally with existing shareholders.

On 1 October 2008, the Company issued 1,730,000 options to employees under the Company's Executive Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise price of these options is \$2.73, being the VWAP for the 30 days prior to 28 August 2008.

On 1 October 2008, the Company issued 250,000 options subject to performance hurdles based on earnings per share growth and employment conditions for no consideration to Mr Matthew Bailey, under a scheme approved by shareholders at the Company's Annual General Meeting on 17 October 2006. The exercise price of the options is \$3.16, being the VWAP for the 30 days prior to 30 June 2008.

On 30 October 2008, the Company issued 18,044 ordinary shares and on 8 April 2009, the Company issued 57,562 ordinary shares for no consideration to certain executives of Photon and its subsidiaries pursuant to an incentive based bonus scheme. These shares rank equally with existing shareholders.

On 17 November 2008, the Company issued 50,000 options and on 11 February 2009, the Company issued 255,000 options under the Company's Executive Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise prices of the options, \$1.80 per share being the lowest exercise price in accordance with the ESOS as approved by shareholders at the Company's Annual General Meeting in 2004.

On 30 June 2009, the Company issued 400,000 options to senior executives under the Company's Executive Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise price of these options is \$1.51, being the VWAP for the 30 days prior to 30 June 2009.

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Directors' report (continued)
For the year ended 30 June 2009

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 2008 – Ordinary shares	17.0c	17,396	7 th October 2008	Franked
Interim 2009 – Ordinary shares	6.0c	6,167	7 ^h April 2009	Franked
<i>Declared after year end</i>				
Final 2009 – Ordinary shares	6.5c	6,685	11 th September 2009	Franked
Note				
<i>Dealt with in the financial report as:</i>				
-Dividends	22			
-Noted as a subsequent event	22			

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

State of affairs

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

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 are:

Director	Board meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Tim Hughes	12	12	-	-	3	3
Matthew Bailey	12	12	-	-	-	-
Susan McIntosh	10	12	4	4	-	-
Brian Bickmore	12	12	4	4	3	3
Paul Gregory	10	12	3	4	2	3

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

Directors' interests

The relevant interest of each director in the shares or options issued by the consolidated entity, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary shares	Options over ordinary shares
Tim Hughes	4,565,216	2,000,000
Matthew Bailey	3,731,724	750,000
Susan McIntosh	325,926	Nil
Brian Bickmore	208,234	Nil
Paul Gregory	160,000	Nil
Total	8,991,100	2,750,000

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Directors' report (continued)
For the year ended 30 June 2009

Share Options

Unissued shares under option

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

Expiry date	Number of options	Exercise price
31 May 2010 (i)	666,667	\$2.67
29 July 2010	380,868	\$2.79
29 July 2010	1,000,000	\$2.79
30 August 2011	997,000	\$4.71
30 September 2011	250,000	\$4.71
1 July 2012	1,141,500	\$5.74
26 August 2012	100,000	\$6.05
30 September 2012	250,000	\$5.74
31 March 2012 (ii)	6,522,950	\$6.00
20 December 2012	1,000,000	\$5.80
28 February 2013	250,000	\$5.38
31 March 2013	55,000	\$4.01
1 April 2013 (ii)	450,000	\$6.00
31 May 2013	100,000	\$3.28
2 June 2013 (ii)	400,000	\$6.00
30 September 2013	250,000	\$3.16
30 September 2013	1,650,000	\$2.73
31 August 2012 (ii)	800,000	\$2.24
16 November 2013	50,000	\$1.80
31 August 2013 (ii)	1,180,000	\$1.51
31 January 2014	255,000	\$1.80
30 June 2014	400,000	\$ 1.51
Total	18,148,985	
SEOP/ECOS options (ii)	(9,352,950)	
Total unissued shares	8,796,035	

(i) Represents options held by former executive

(ii) Represents options granted under the SEOP / ECOS as at 30 June 2009 but subject to vesting conditions. SEOP/ECOS options are not issued as at 30 June 2009.

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

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Directors' report (continued)
For the year ended 30 June 2009

Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Number of shares	Amount paid per share
211,000	\$1.60

Events subsequent to balance date

Dividends

For dividends declared after 30 June 2009, see note 22.

Capital Raising

On 17 August 2009, the Company announced an underwritten capital raising of \$114.5 million to be completed via a placement of 14.4 million shares to investors at \$1.85 per share and an non-renounceable entitlement offer allowing existing shareholders (including shareholders following completion of the placement) to subscribe for one new share for every two shares held on the record date of 25 August 2009 at \$1.50 per share. Existing shareholders associated with RG Capital Multimedia Limited and Tim Hughes have committed to participating in the entitlement offer for their pro rata share. The capital raising is expected to be completed around 18 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 2009.

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.

Indemnification and insurance of officers

Indemnification

The Company has agreed to indemnify the following current directors of the Company, Mr T J Hughes, Mr M W Bailey, Ms S T McIntosh, Mr B L Bickmore, Mr P Gregory and the secretary Ms E North 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 stipulate 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.

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Directors' report (continued)
For the year ended 30 June 2009

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; and
- The non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they 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 114 of this annual report.

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 5 to the financial statements.

<i>Services other than statutory audit:</i>	Consolidated		The Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Other services:</i>				
<i>Migration services work:</i>				
Auditors of the Company – KPMG Australia	17,150	62,138	-	-
<i>Taxation compliance services</i>				
Auditors of the Company – KPMG Australia	47,500	195,750	47,500	195,750
Auditors of the Company – Overseas KPMG firms	265,662	42,232	-	-
<i>Transaction and due diligence services:</i>				
Auditors of the Company – KPMG Australia	535,600	2,248,111	535,600	2,248,111
Auditors of the Company – Overseas KPMG firms	179,281	701,156	179,281	701,156
Total services other than statutory audit	1,045,193	3,249,387	762,381	3,145,017

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 (continued)
For the year ended 30 June 2009

Remuneration report - Audited

1. Principles of remuneration

Compensation is referred to as remuneration throughout this report.

(a) Remuneration policies

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, comprise the directors of the Company and executives of the Company and the consolidated entity, including the five most highly remunerated Company and consolidated entity executives.

The remuneration levels for key management personnel of the Company, and relevant management personnel of the consolidated entities are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The compensation structures explained below are designed for suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of key management personnel;
- the key management personnel's ability to control the relevant company's performance;
- the consolidated entities' performance including:
 - the consolidated entities earnings;
 - the growth in share price and delivering constant returns on shareholder wealth; and
 - the level of incentives within each key management person's compensation.

Remuneration packages contain a mix of fixed and variable 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.

Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual, division and overall performance of the consolidated entity. A senior executive's remuneration is also reviewed on promotion.

(c) Performance-linked remuneration

Performance linked remuneration includes both short term and long term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short term incentive (STI) is an "at risk" bonus provided in the form of cash and shares whilst the long term incentive (LTI) provided as options over ordinary shares in the Company under the rules of the Executive Share Option Scheme (ESOS) (see note 19), the Senior Executive Option Plan (SEOP) (see note 19) and the Executive Committee Option Scheme (ECOS) (see note 19). In addition, options were issued to Matthew Bailey and Tim Hughes which sit outside the ESOS, SEOP and ECOS (see note 19).

Short-term incentive

Short term incentives for Division Managing Directors are assessed based on the financial performance of their respective division and paid in cash based on 1-2% of the divisional EBITDA achieved, capped at a level stipulated in their individual service agreement. Short term incentives for individual company chief executive officers and senior staff are linked to financial achievements compared to individual company budgets and are payable in cash or payable 50% in cash and 50% in shares. The share component of the STI is issued over two years from the end of the financial year to which the STI relates.

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

1 Principles of Remuneration (continued)

(c) Performance-linked remuneration (continued)

Long term incentive

Long term incentives are designed to link executive remuneration with long term shareholder wealth and the performance of the business.

Options issued on or after 25 March 2004 are issued under the ESOS. The plan allows for the Board to determine who is entitled to participate in the ESOS 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 the Company shares on each of the 30 business days prior to the issue date. As at 30 June 2009, 6,046,035 options over unissued shares are outstanding which have been issued under the ESOS.

In addition to the ESOS options, one million options, were granted to Tim Hughes in 2005, which are on terms materially the same as the ESOS conditions except that the Board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date all options may be exercised without percentage restrictions subject to service conditions being met. As at 30 June 2009 these one million options remain outstanding.

A further one million options, granted to Tim Hughes on 20 November 2007, also are on terms materially the same as the ESOS conditions except that the Board has issued them under the basis that no options may be exercised until 1 July 2010, which is 3 years from the grant date, and after that date all options may be exercised without percentage restrictions subject to service conditions being met. As at 30 June 2009 these one million options remain outstanding.

One million options, being those granted to Matthew Bailey in 2006, are on terms materially the same as the ESOS conditions except that the Board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date, all options may be exercised without percentage restrictions subject to service conditions being met. The options are to be issued in four tranches of 250,000 options granted in 2006. No performance hurdle applies to the initial tranche. In respect of each subsequent tranche, the number of options to be issued to Matthew Bailey is determined by the reported EPS growth of the consolidated entity for the relevant year. As at 30 June 2009, 750,000 options have been issued to Matthew Bailey under the conditions and remain outstanding.

In July 2007, the Company introduced a Senior Executive Option Plan (SEOP), designed to incentivise the Company's Executive Directors, Division Managing Directors and other senior management. The plan allows for the Board to determine who is entitled to participate in the SEOP and may grant options accordingly. The exercise of the options will entitle the option holder to subscribe for one share. The options were granted at the date of the shareholder approval, being the Company's AGM on the 20 November 2007, or, if later, when the employee commenced employment, with an exercise price of \$6.00. The granted options have both a service condition and a performance hurdle. Options are only issued if both performance hurdles and service conditions are satisfied. As at 30 June 2009 no SEOP options had been issued as performance hurdles required to be achieved relate to the year ended 30 Jun 2009 and year ending 30 June 2010.

In October 2008, the Company introduced an Executive Committee Option Scheme (ECOS), designed to incentivise the Company's Executive Directors, Division Managing Directors and other senior management. This scheme was approved at the Company's 2008 AGM on the 28 October 2008. On 28 October 2008, the Company granted Tim Hughes 500,000 options and Matthew Bailey 300,000 options under ECOS with an exercise price of \$2.24 per option. The granted options have both a service condition being continued employment and a performance hurdle requiring greater than 10% growth in the Photon's Earning Per Share (EPS) for the year ending 30 June 2009 compared to Photon's EPS for the year ending 30 June 2008.

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

1 Principles of Remuneration (continued)

(c) Performance-linked remuneration (continued)

In June 2009, the Company granted a further 280,000 options to its senior executives under ECOS with an exercise price of \$1.51 per option. The granted options have both a service condition and a performance hurdle requiring greater than 10% growth in the Photon's EPS for the year ending 30 June 2010 compared to Photon's EPS for the year ending 30 June 2009.

In June 2009, the Company granted a further 900,000 options to Division Managing Directors under ECOS with an exercise price of \$1.51 per option. The granted options have both a service condition and two performance hurdles. For half of the granted options to vest, growth greater than 10% in Photon's EPS for the year ending 30 June 2010 compared to Photon's EPS for the year ending 30 June 2009 is required. For the balance of the granted options to vest, growth of greater than 10% in the Divisional Managing Director's relevant division EBITDA for the year ending 30 June 2010 compared to EBITDA for the year ending 30 June 2009 is required.

As at 30 June 2009, no ECOS options had been issued.

Refer Director's report section 2(d) for further information regarding the ESOS, SEOP and ECOS.

The board has requested Directors disclose any interests in shares or other share based payments that allow borrowing against share interests or limit exposures to the losses that would result from share price decreases.

(d) Service contracts

It is the consolidated entity's policy that service contracts for key management personnel are 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 for contractual breach by the executive or by making payment in lieu of notice. The key management personnel 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 key management personnel and prescribe that the remuneration levels are modified based on inflation or performance criteria individually agreed. Remuneration levels are reviewed annually by the Remuneration Committee.

(e) Non-executive directors

The Company's 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 a general meeting. This amount has been fixed by the Company at \$750,000 for the financial year ended 30 June 2009. 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.

(f) Consequences of performance on shareholder wealth

In considering the consolidated entity's performance and benefits of shareholder wealth, the Remuneration Committee has regard to the performance of the consolidated entity. The achievement of division budgets and individual company budgets are considered as the financial performance target in setting the short term incentives, profitability, growth in EPS, dividends, changes in share price and return of capital are factors the Remuneration Committee takes into account in assessing the long term incentives.

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(a) Directors' and executive officers' cash and post employment and other long term remuneration – (Company and Consolidated)

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 Company executives and relevant Group executives, who are all key management personnel and receive the highest remuneration.

				Post-employment	Other long term	Other compensation			
		Salary and fees	Cash bonus (i)	Non-cash benefits	Super contributions	Termination benefits	TOTAL Cash and other compensation	Proportion of total remuneration performance related (vii)	
		\$	\$	\$	\$	\$	\$	%	
Directors									
Non executive									
Susan McIntosh	2009	125,000	-	-	11,250	-	-	136,250	-
	2008	75,000	-	-	6,750	-	-	81,750	-
Brian Bickmore	2009	125,000	-	-	11,250	-	-	136,250	-
	2008	75,000	-	-	6,750	-	-	81,750	-
Paul Gregory	2009	125,000	-	-	-	-	-	125,000	-
	2008	75,000	-	-	-	-	-	75,000	-
Executive									
Tim Hughes	2009	1,065,000	-	-	13,745	-	-	1,078,745	-
	2008	565,000	-	-	13,129	-	-	578,129	-
Matthew Bailey	2009	822,259	224,060	-	50,616	13,872	-	1,110,807	20.17%
	2008	613,479	233,800	-	50,000	1,972	-	899,251	26.00%

Refer to page 26 for footnote details

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(a) Directors' and executive officers' cash and post employment and other long term remuneration – (Company and Consolidated) (continued)

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 Company executives and relevant Group executives, who are all key management personnel and receive the highest remuneration.

		Salary and fees	Cash bonus (i)	Non-cash benefits	Post-employment Super contributions	Other long term	Other compensation Termination benefits	TOTAL Cash and other compensation	Proportion of total remuneration related (vii)
		\$	\$	\$	\$	\$	\$	\$	%
Relevant group and company executives									
Nigel Long, Managing Director Strategic Intelligence									
Division (iv)	2009	498,342	78,451	-	65,366	-	-	642,159	12.22 %
	2008	95,288	22,988	504	-	-	-	118,780	19.35%
Andrew Davie, Managing Director Integrated									
Communications & Digital Division (v)	2009	311,316	-	-	11,455	490	-	323,261	-
	2008	26,372	-	-	1,094	16	-	27,482	-
Stewart Bailey, Managing Director									
Experiential & Field Marketing Division	2009	362,504	366,959	-	50,000	2,733	-	782,196	46.91%
	2008	410,777	-	-	24,574	3,007	-	438,358	-
Caitlin Millar Jack, Managing Director Internet									
Marketing & Communications Division (iii)	2009	334,194	-	-	13,745	667	-	348,606	-
	2008	188,033	-	-	7,659	126	-	195,818	-
Adam Kilgour, Managing Director Specialised									
Communications Division	2009	327,279	122,000	-	13,745	6,773	-	469,797	25.97%
	2008	398,785	-	-	13,129	4,020	-	415,934	-

Refer page 26 for footnote details

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2 (a) Directors' and executive officers' equity based remuneration – (Company and Consolidated)

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 Company executives and relevant Group executives, who are all key management personnel and receive the highest remuneration.

		Share based payments – Accounting value at Grant Date						
		Value of options under ESOS(ii)	Value of options under SEOP (ii) (vi)	Value of options under ECOS (ii)	Value of shares	Total Equity based remuneration	Proportion of equity remuneration performance related	Value of options proportion of total remuneration (vii)
		\$	\$	\$	\$	\$	%	%
Directors								
Non executive								
Susan McIntosh	2009	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-
Brian Bickmore	2009	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-
Paul Gregory	2009	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-
Executive								
Tim Hughes	2009	614,429	1,127,500	-	-	1,741,929	100%	61.76%
	2008	685,206	1,127,500	-	-	1,812,706	100%	75.82%
Matthew Bailey	2009	244,570	338,250	-	-	582,820	100%	34.41%
	2008	445,370	338,250	-	-	783,620	100%	46.56%

Refer page 26 for footnote details

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(a) Directors' and executive officers' equity based remuneration– (Company and Consolidated) (continued)

		Share based payments – Accounting value at Grant Date						
		Value of options under ESOS(ii)	Value of options under SEOP (ii) (vi)	Value of options under ECOS (ii)	Value of shares	Total Equity based remuneration	Proportion of equity remuneration performance related	Value of options proportion of total remuneration (vii)
		\$	\$	\$	\$	\$	%	%
Relevant group and company executives								
Nigel Long, Managing Director Strategic Intelligence								
Division (iv)	2009	38,046	11,367	89	-	49,502	100%	7.16%
	2008	2,191	2,066	-	-	4,257	100%	3.46%
Andrew Davie, Managing Director Integrated								
Communications & Digital Division (v)	2009	17,842	9,751	-	-	27,593	100%	7.86%
	2008	4,399	641	-	-	5,040	100%	15.50%
Stewart Bailey, Managing Director								
Experiential & Field Marketing Division	2009	80,436	131,000	89	-	211,525	100%	21.29%
	2008	75,627	131,000	-	417,502	624,129	100%	19.45%
Caitlin Millar Jack, Managing Director Internet Marketing								
& Communications Division (iii)	2009	18,146	184,418	-	-	202,564	100%	36.75%
	2008	-	183,918	-	-	183,918	100%	48.43%
Adam Kilgour, Managing Director Specialised								
Communications Division	2009	95,391	131,000	89	-	226,480	100%	32.53%
	2008	83,088	131,000	-	-	214,088	100%	33.98%

Refer page 26 for footnote details

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(a) Directors' and executive officers' remuneration– (Company and Consolidated) (continued)

- (i) The short-term, incentive bonus is for performance during the 30 June 2009 financial year using the criteria set out on page 19.
- (ii) The fair value of the ESOS options are calculated at the date of grant using either the Black Scholes model or Binomial option pricing model. The fair value of the SEOP options are calculated at the date of grant using a Monte Carlo Simulation Model. The fair value of the ECOS options are calculated at the date of the grant using either the Black Scholes model or the Binomial option pricing model. The fair value is allocated to each reporting period on a straight line basis 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. In valuing options, market conditions have been taken into account. The factors and assumptions used in determining the fair value of options on grant date are discussed in note 19 Employee Benefits.
- (iii) Appointed Managing Director of Internet Marketing & Communications Division in November 2007
- (iv) Appointed Managing Director of Strategic Intelligence Division in April 2008
- (v) Appointed Managing Director of Integrated Communications & Digital Division in June 2008
- (vi) Options granted under SEOP have minimal fair value to the option holders at 30 June 2009 due to the significant decline in the share price since the options were granted. The SEOP options granted have a strike price of \$6.00 and require year on year share price growth of 18% to vest in full. The options have been accounted for in accordance with AASB 2 *Share Based Payments* and valued based on share price of the date of approval by shareholders at the Company's AGM, being 20 November 2007 or the date agreed between the Company and the respective employee. There is no allowance made in the grant value for the movement of the share price before vesting conditions are met because SEOP options are based on market conditions (share price growth between 8-18% year on year for the three years ending 30 June 2010), in and accordance with AASB 2, the probability of vesting has been taken into account in determining the fair value of the granted option and therefore no adjustment is made in the event of those market conditions not being met, These SEOP options are ultimately expensed in the profit and loss of the consolidated group over the vesting period irrespective of other conditions. The subsequent significant fall in the share price of the Company results in the disclosed total remuneration value SEOP being significantly greater than the current underlying value of the granted options, which are "out of the money" options as at 30 June 2009. This analysis is deemed relevant to understanding the remuneration of Directors and Key Management Personnel relative to changes in shareholder wealth.
- (vii) Percentages are based on total remuneration including equity, cash, post employment and other long term remuneration.

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(b) Details of performance related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance based is discussed on page 19.

2(c) Analysis of bonuses included in remuneration

Details of the vesting profile of the short term incentive cash bonuses awarded as remuneration to each director of the Company of the five named Company executives and relevant group executives, who are key management personnel, are detailed below.

Short term incentive bonus(i)		
	Included in remuneration \$	% vested in year
Company executive		
Matthew Bailey	224,060	100%
Relevant group executives		
Nigel Long	78,451	100%
Stewart Bailey	366,959	100%
Adam Kilgour	122,000	100%

Other key management personnel did not receive an STI.

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of satisfaction of specified performance criteria being financial performance in excess of budget.

2(d) 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	Value per option	Exercise price (i)	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield	Expected life (years)
1 October 2008	30 September 2013	\$0.378 - \$0.423	\$2.73	\$2.59	25% - 30%	5.7%	7.2%	2 - 5
28 October 2008	31 August 2012	\$0.0558	\$2.24	\$1.50	30%	4.76%	7.2%	1 - 4
17 November 2008	16 November 2013	\$0.140 - \$0.280	\$1.80	\$1.38	25% - 30%	4.76%	7.2%	2 - 5
11 February 2009	31 January 2014	\$0.100 - \$0.220	\$1.80	\$1.28	25% - 30%	4.76%	7.2%	2 - 5
30 June 2009	30 June 2014	\$0.268 - \$0.299	\$ 1.51	\$ 1.64	35%	5.23%	8%	2-5
30 June 2009	31 August 2013	\$0.212	\$ 1.51	\$ 1.64	35%	5.23%	8%	1-4

Refer to footnotes on page 28

- (i) As set out in the Company's ESOS, the exercise price of options granted after 25 March 2004 is calculated with reference to the volume weighted average price (VWAP) of the Company's ordinary shares for 30 business days prior to the issue date.
- (ii) Options granted under ECOS have not been issued as at 30 June 2009, and will not be issued until certain performance hurdles are met.

Apart from the ECOS and ESOS issues of 30 June 2009, all issued options outstanding under all option plans in the Company, are 'out of the money' as at 30 June 2009.

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(d) Directors' and senior executives' remuneration (continued)

Each option issued under ESOS entitles the holder to subscribe to 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 or after 1 April 2004, under the ESOS, are exercisable by the option holder as follows:

- After 2 years from issue date - 33 ⅓%
- After 3 years from issue date - 66 ⅔%
- After 4 years from issue date the option holder is entitled to exercise all options until expiry date (being 5 years after the issue date)

One million of the options granted on the 29 July 2005, were granted to Tim Hughes are on terms materially the same as ESOS conditions except that the board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date all options may be exercised without percentage restrictions subject to service conditions being met. A further one million options, granted to Tim Hughes on 20 November 2007, also are on terms materially the same as the ESOS conditions except that the Board has issued them under the basis that no options may be exercised until 1 July 2010, which is 3 years from the grant date, and after that date all options may be exercised without percentage restrictions subject to service conditions being met. As at 30 June 2009 these one million options remain outstanding.

One million options, being those granted to Matthew Bailey in 2006, are on terms materially the same as the ESOS conditions except that the Board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date, all options may be exercised without percentage restrictions subject to service conditions being met. The options are to be issued in four tranches of 250,000 options granted in 2006. No performance hurdle applies to the initial tranche. In respect of each subsequent tranche, the number of options to be issued to Matthew Bailey is determined by the reported EPS growth of the consolidated entity for the relevant year. As at 30 June 2009, 750,000 options have been issued to Matthew Bailey under the conditions and remain outstanding.

In July 2007, the Company introduced a Senior Executive Option Plan (SEOP), designed to incentivise the Company's Executive Directors, Division Managing Directors and other senior management. The plan allows for the Board to determine who is entitled to participate in the SEOP and may grant options accordingly. The exercise of the options will entitle the option holder to subscribe for one share. The options were granted at the date of the shareholder approval, being the Company's AGM on the 20 November 2007, or, if later, when the employee commenced employment, with an exercise price of \$6.00. The granted options have both a service condition and a performance hurdle. Options are only issued if both performance hurdles and service conditions are satisfied. Subject to the service condition and performance hurdle, the options issued under the SEOP are exercisable by the option holder as follows:

- At 1 July 2010 (tranche 1) - 33 ⅓ %, and which expire on 31 March 2011
- At 1 July 2011 (tranche 2) - 33 ⅓ %, and which expire on 31 March 2012
- At 1 July 2011 (tranche 3) - 33 ⅓ %, and which expire on 31 March 2012

As at 30 June 2009, no SEOP options had been issued as performance hurdles required to be achieved relate to the year ended 30 Jun 2009 and years ending 30 June 2010.

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

2(e) Options granted during 2009 as remuneration to directors' and senior executives

The following options were granted under the terms of the ESOS for no consideration. The exercise price of the options is calculated on the VWAP for the 30 days prior to the date when the options were granted.

2009			
Executive	Number of options granted	Grant date	Exercise price
Adam Kilgour	200,000	1 October 2008	\$ 2.73
Stewart Bailey	100,000	1 October 2008	\$ 2.73
Nigel Long	100,000	1 October 2008	\$ 2.73
Caitlin Millar-Jack	150,000	1 October 2008	\$ 2.73
Stewart Bailey	100,000	30 June 2009	\$ 1.51

On 28 October 2008, the Company granted Mr. Tim Hughes 500,000 options and Mr. Matthew Bailey 300,000 options under ECOS, which was approved by shareholders at the Company's AGM on 28 October 2008. The exercise price of the options is \$2.24, being the VWAP for the 30 days prior to the AGM grant date. The options vest with the holders (and the holders may exercise the options) if the increase in Photon's EPS for the year ending 30 June 2009 compared to Photon's EPS for the year ending 30 June 2008 is greater than 10%. As the EPS vesting condition attached to this grant of ECOS options has not been satisfied, these ECOS options will not vest and therefore no share based payments expense will be accounted for in the profit and loss of the consolidated entity. Additionally, no remuneration will be attributable to each of Mr. Tim Hughes and Mr. Matthew Bailey in respect of this grant (see table page 24).

On 30 June 2009, the Company granted the following executives options for no consideration under ECOS which was approved by shareholders at the Company's Annual General Meeting on 28 October 2008.

2009			
Executive	Number of options granted	Grant date	Exercise price
Adam Kilgour	180,000	30 June 2009	\$ 1.51
Stewart Bailey	180,000	30 June 2009	\$ 1.51
Nigel Long	180,000	30 June 2009	\$ 1.51

The exercise price of the options is calculated on the VWAP for the 30 days prior to the date when the options were granted.. The vesting profile is as follows:

- 50% of the options vest if the Executive's Division achieves EBITDA growth of greater than 10% for the year ended 30 June 2010 as compared to 30 June 2009.
- 50% of the options vest if the Photon's EPS achieves growth of greater than 10% for the year ended 30 June 2010 as compared to 30 June 2009.

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

3 (a) Options over equity instruments granted as remuneration

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details of options that vested during the reporting period are as follows:

	Type of option granted during 2009	Number of options granted during 2009	Grant Date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2009
Directors							
Matthew Bailey	ESOS	-	17 October 2006	\$1.61	\$4.71	30 September 2011	250,000
Tim Hughes	ECOS	500,000	28 October 2008	\$0.0558	\$2.24	31 August 2012	-
Matthew Bailey	ECOS	300,000	28 October 2008	\$0.0558	\$2.24	31 August 2012	-
Executives							
Stewart Bailey	ESOS	-	29 July 2005	\$0.51	\$2.79	2 September 2010	6,667
Stewart Bailey	ESOS	-	30 August 2006	\$1.0405	\$4.71	30 August 2010	26,667
Adam Kilgour	ESOS	-	29 July 2005	\$0.51	\$2.79	2 September 2010	1,667
Adam Kilgour	ESOS	-	30 August 2006	\$1.0405	\$4.71	30 August 2010	33,333
Adam Kilgour	ESOS	200,000	1 October 2008	\$0.378 - \$0.423	\$2.73	20 September 2013	-
Nigel Long	ESOS	100,000	1 October 2008	\$0.378 - \$0.423	\$2.73	20 September 2013	-
Stewart Bailey	ESOS	100,000	1 October 2008	\$0.378 - \$0.423	\$2.73	20 September 2013	-
Stewart Bailey	ESOS	100,000	30 June 2009	\$0.268 - \$0.299	\$1.51	30 June 2014	-
Caitlin Millar-Jack	ESOS	150,000	1 October 2008	\$0.378 - \$0.423	\$2.73	20 September 2013	-
Adam Kilgour	ECOS	180,000	30 June 2009	\$0.212	\$1.51	31 August 2013	-
Nigel Long	ECOS	180,000	30 June 2009	\$0.212	\$1.51	31 August 2013	-
Stewart Bailey	ECOS	180,000	30 June 2009	\$0.212	\$1.51	31 August 2013	-

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

3 (b) 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, who are all key management personnel, are detailed below:

		Options Granted			%	%	% remaining	Vesting Date(i)
		Number of options granted	Type of option granted	Grant Date	vested in year	forfeited in year	to vest	
Directors	Tim Hughes	1,000,000	ESOS	20 November 2007	-	-	100%	1 July 2010
		3,000,000	SEOP	20 November 2007	-	-	100%	1 July 2011
		500,000	ECOS	28 October 2008	-	-	100%	31 August 2012
	Matthew Bailey	1,000,000(ii)	ESOS	17 October 2006	25%	-	75%	30 September 2011
		900,000	SEOP	20 November 2007	-	-	100%	1 July 2011
		300,000	ECOS	28 October 2008	-	-	100%	31 August 2012

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

3 (b) Analysis of share-based payments granted as remuneration (continued)

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, who are all key management personnel, are detailed below:

		Options Granted						
		Number of options granted	Type of option granted	Grant Date	% vested in year	% forfeited in year	% remaining to vest	Vesting Date(i)
Company executives	Stewart Bailey	20,000	ESOS	29 July 2005	33⅓%	-	33⅓%	29 July 2009
		80,000	ESOS	30 August 2006	33⅓%	-	66⅔%	30 August 2010
		100,000	ESOS	1 July 2007	-	-	100%	1 July 2011
		600,000	SEOP	20 November 2007	-	-	100%	1 July 2011
		100,000	ESOS	1 October 2008	-	-	100%	1 October 2012
		100,000	ESOP	30 June 2009	-	-	100%	30 June 2013
	Adam Kilgour	180,000	ECOS	30 June 2009	-	-	100%	31 August 2010
		5,000	ESOS	29 July 2005	33⅓%	-	33⅓%	29 July 2009
		100,000	ESOS	30 August 2006	33⅓%	-	66⅔%	30 August 2010
		100,000	ESOS	1 July 2007	-	-	100%	1 July 2011
		600,000	SEOP	20 November 2007	-	-	100%	1 July 2011
		200,000	ESOS	1 October 2008	-	-	100%	1 October 2012
	Nigel Long	180,000	ECOS	30 June 2009	-	-	100%	31 August 2010
		55,000	ESOS	1 April 2008	-	-	100%	1 April 2012
		95,000	ESOS	5 February 2008	-	-	100%	28 February 2012
		450,000	SEOP	1 April 2008	-	-	100%	1 July 2011
		100,000	ESOS	1 October 2008	-	-	100%	1 October 2012
		180,000	ECOS	30 June 2009	-	-	100%	31 August 2010
	Andrew Davie	100,000	ESOS	2 June 2008	-	-	100%	2 June 2012
		400,000	SEOP	2 June 2008	-	-	100%	2 June 2012
Caitlin Millar-Jack	522,950	SEOP	20 November 2007	-	-	100%	1 July 2011	
	150,000	ESOS	1 October 2008	-	-	100%	1 October 2012	

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

3 (b) Analysis of share-based payments granted as remuneration (continued)

(i) The options granted vest over various periods based on the terms of the option agreements. The date reflected in the table above represents the final vesting date for the third tranche of options.

(ii) Matthew Bailey's options granted on 17 October 2006 vest over various periods based on the terms of the option agreement. The options are to be issued in four tranches of 250,000 options. The first tranche vests on 17 October 2008, the second tranche on 30 September 2009, the third tranche on 30 September 2010 and the fourth tranche on 30 September 2011. The date reflected above represents the final vesting date for the fourth tranche of options.

3 (c) Exercise of options granted as remuneration

During the year, the following shares were issued on the exercise of options previously granted and issued.

2009		
	Number of shares	Amount paid \$/ share
Directors		
Tim Hughes	100,000	1.60

There are no amounts unpaid on the shares issued as a result of the exercise of options in the 2009 financial year

3 (d) Analysis of movements in options

The movement during the reporting period by value, of options over ordinary shares in the Company held by each Company director and each of the named Company executives and relevant group executives, who are all key management personnel, is detailed below.

	Value of Options			
	Granted in year \$(A)	Type of option granted in year	Exercised in year \$(B)	Forfeited in year \$
Directors				
Tim Hughes (i)	-	ECOS	108,000	-
Matthew Bailey (i)	-	ECOS	-	-
Company executives				
Stewart Bailey	68,767	ESOS	-	-
Adam Kilgour	80,534	ESOS	-	-
Nigel Long	40,267	ESOS	-	-
Caitlin Millar-Jack	60,401	ESOS	-	-
Stewart Bailey	38,160	ECOS	-	-
Adam Kilgour	38,160	ECOS	-	-
Nigel Long	38,160	ECOS	-	-

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Directors' report (continued)
For the year ended 30 June 2009

Remuneration report - Audited (continued)

3 (d) Analysis of movements in options (continued)

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using a range of valuation models including the Black Scholes, Binomial and Monte Carlo Simulation. For further details on the valuation methodologies of these valuations see Note 19 Employee Benefits. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. on a straight line basis).
- (B) The value of options exercised during the year is calculated as the market price of shares of the company on the Australian Stock Exchange as at the close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (i) Tim Hughes and Matthew Bailey were granted ECOS options during the year (see page 31), however as these will not meet vesting conditions, no share based payment expense will be recognised for such options and therefore no value exists for options granted in current year.

3 (e) Modification of terms of equity –settled share-based payment transactions

No terms of equity settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 114, and forms part of the Directors' Report for the year ended 30 June 2009.

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

Dated at Sydney this 17th day of August 2009.



Tim Hughes
Director

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Income statements

For the year ended 30 June 2009

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2009	2008	2009	2008
Gross revenue	3	653,455	574,375	-	-
Directly attributable costs of sales	3	(212,816)	(197,546)	-	-
Net revenue	3	440,639	376,829	-	-
Other income	3	1,233	1,392	45,556	48,963
Total Revenue	2	441,872	378,221	45,556	48,963
Employee expenses		(281,110)	(235,896)	(8,547)	(7,711)
Occupancy costs		(19,133)	(14,932)	311	198
Depreciation and amortisation expense		(20,556)	(16,933)	(628)	(552)
Insurance expense		(1,384)	(1,377)	(88)	28
Consultancy fees		(15,210)	(17,886)	(402)	(822)
Equipment hire charges		(1,062)	(1,132)	-	(1)
Travel expenses		(8,964)	(6,868)	(471)	(219)
Communication expenses		(7,874)	(6,836)	(253)	(106)
Other operating expenses		(17,975)	(15,101)	100	(485)
Net finance expenses	4	(26,551)	(24,609)	(16,848)	(19,636)
Share of profit of associates	13	145	51	-	-
Impairment of Investment in equity accounted investee		(4,215)	-	-	-
Profit before tax		37,983	36,702	18,730	19,657
Income tax (expense)/ benefit	6	(15,582)	(14,056)	6,674	7,621
Profit for the period		22,401	22,646	25,404	27,278
Attributable to:					
Equity holders of the parent		21,408	21,691	25,404	27,278
Minority interest		993	955	-	-
Profit for the period		22,401	22,646	25,404	27,278
Basic earnings per share (AUD cents)	7	21.08	28.58		
Diluted earnings per share (AUD cents)	7	21.07	28.03		

The notes on pages 42 to 110 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Statements of changes of equity

As at 30 June 2009

In thousands of AUD

	Note	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Foreign currency translation reserve	Revaluation reserve	Total	Minority interest	Total equity
Consolidated										
Opening balance at 1 July 2008		180,371	10,850	5,914	697	(9,997)	-	187,835	1,815	189,650
Shares issued	22	77,042	-	-	-	-	-	77,042	-	77,042
Shares issued as part of business combinations	22	1,371	-	-	-	-	-	1,371	-	1,371
Tax effect of transaction costs	22	862	-	-	-	-	-	862	-	862
Share issue costs	22	(4,146)	-	-	-	-	-	(4,146)	-	(4,146)
Minority interests acquired		-	-	-	-	-	-	-	10	10
Dividends paid to equity holders	22	-	(23,563)	-	-	-	-	(23,563)	(998)	(24,561)
Share option expense		-	-	3,628	-	-	-	3,628	-	3,628
Net revaluation reserve movement		-	-	-	-	-	-	-	-	-
Net exchange difference on translation of foreign controlled entities		-	-	-	-	3,324	-	3,324	-	3,324
Net exchange translation difference in minorities		-	-	-	-	-	-	-	173	173
Effective portion of changes in fair value of cash flow hedges		-	-	-	(5,049)	-	-	(5,049)	-	(5,049)
Profit for the period		-	21,408	-	-	-	-	21,408	993	22,401
Closing balance at 30 June 2009		255,500	8,695	9,542	(4,352)	(6,673)	-	262,712	1,993	264,705

The notes on pages 42 to 110 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Statements of changes of equity

As at 30 June 2008

In thousands of AUD

	Note	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Foreign currency translation reserve	Revaluation reserve	Total	Minority interest	Total equity
Consolidated										
Opening balance at 1 July 2007		169,077	7,732	1,565	-	(1,208)	2,479	179,645	1,531	181,176
Shares issued	22	2,686	-	-	-	-	-	2,686	-	2,686
Shares issued as part of business combinations	22	8,974	-	-	-	-	-	8,974	-	8,974
Tax effect of transaction costs	22	(198)	-	-	-	-	-	(198)	-	(198)
Share issue costs	22	(168)	-	-	-	-	-	(168)	-	(168)
Minority interests acquired		-	-	-	-	-	-	-	418	418
Dividends paid to equity holders	22	-	(18,573)	-	-	-	-	(18,573)	(975)	(19,548)
Share option expense		-	-	4,349	-	-	-	4,349	-	4,349
Net revaluation reserve movement		-	-	-	-	-	(2,479)	(2,479)	-	(2,479)
Net Exchange difference on translation of foreign controlled entities		-	-	-	-	(8,789)	-	(8,789)	-	(8,789)
Net exchange translation difference in minorities		-	-	-	-	-	-	-	(114)	(114)
Effective portion of changes in fair value of cash flow hedges		-	-	-	697	-	-	697	-	697
Profit for the period		-	21,691	-	-	-	-	21,691	955	22,646
Closing balance at 30 June 2008		180,371	10,850	5,914	697	(9,997)	-	187,835	1,815	189,650

The notes on pages 42 to 110 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Statement of changes of equity (continued)

As at 30 June 2009

In thousands of AUD

	Note	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Revaluation reserve	Total equity
Company							
Opening balance at 1 July 2007		169,077	3,665	1,565	-	2,479	176,786
Shares issued	22	2,686	-	-	-	-	2,686
Shares issued as part of business combinations	22	8,974	-	-	-	-	8,974
Tax effect of transaction costs	22	(198)	-	-	-	-	(198)
Share issue costs	22	(168)	-	-	-	-	(168)
Dividends paid to equity holders	22	-	(18,573)	-	-	-	(18,573)
Share option expense		-	-	4,349	-	-	4,349
Net revaluation reserve movement		-	-	-	-	(2,479)	(2,479)
Net cash flow hedge reserve movement		-	-	-	697	-	697
Profit for the period		-	27,278	-	-	-	27,278
Closing balance at 30 June 2008		180,371	12,370	5,914	697	-	199,352
Company							
Opening balance at 1 July 2008		180,371	12,370	5,914	697	-	199,352
Shares issued	22	77,042	-	-	-	-	77,042
Shares issued as part of business combinations	22	1,371	-	-	-	-	1,371
Tax effect of transaction costs	22	862	-	-	-	-	862
Share issue costs	22	(4,146)	-	-	-	-	(4,146)
Dividends paid to equity holders	22	-	(23,563)	-	-	-	(23,563)
Share option expense		-	-	3,628	-	-	3,628
Net revaluation reserve movement		-	-	-	-	-	-
Net cash flow hedge reserve movement		-	-	-	(5,049)	-	(5,049)
Profit for the period		-	25,404	-	-	-	25,404
Closing balance at 30 June 2009		255,500	14,211	9,542	(4,352)	-	274,901

The notes on pages 42 to 110 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Balance sheets

As at 30 June 2009

In thousands of AUD	Note	Consolidated		The Company	
		2009	2008	2009	2008
Assets					
Cash and cash equivalents	8	23,559	38,823	719	7,463
Trade and other receivables	9	110,025	108,903	962	1,455
Other assets	10	18,707	22,458	2,348	2,626
Other financial assets	11	-	697	-	697
Total current assets		152,291	170,881	4,029	12,241
Receivables	9	991	801	121,541	112,273
Other financial assets	11	223	214	394,023	343,153
Investments in equity accounted investees	11	10,132	13,904	14,167	13,767
Deferred tax assets	14	9,117	10,086	1,839	931
Plant and equipment	15	20,691	22,437	1,652	2,350
Other assets	10	2,337	1,948	-	5
Intangible assets	16	580,781	502,257	-	-
Total non-current assets		624,272	551,647	533,222	472,479
Total assets	2	776,563	722,528	537,251	484,720
Liabilities					
Trade and other payables	17	148,609	108,056	45,023	19,567
Interest-bearing loans and borrowings	18	35,927	11,810	34,141	373
Employee benefits	19	8,286	7,853	204	143
Income tax payable	12	6,907	7,450	3,302	5,355
Provisions	21	2,265	2,136	1,011	836
Total current liabilities		201,994	137,305	83,681	26,274
Trade and other payables	17	44,747	57,668	31,695	37,016
Interest-bearing loans and borrowings	18	248,392	320,725	146,188	220,967
Deferred tax liabilities	14	11,851	12,162	-	2
Employee benefits	19	1,710	1,550	28	8
Provisions	21	3,164	3,468	758	1,101
Total non-current liabilities		309,864	395,573	178,669	259,094
Total liabilities	2	511,858	532,878	262,350	285,368
Net assets		264,705	189,650	274,901	199,352
Equity					
Issued capital	22	255,500	180,371	255,500	180,371
Reserves		(1,483)	(3,386)	5,190	6,611
Retained earnings		8,695	10,850	14,211	12,370
Total equity attributable to equity holders of the parent		262,712	187,835	274,901	199,352
Minority interest		1,993	1,815	-	-
Total equity		264,705	189,650	274,901	199,352

The notes on pages 42 to 110 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Statements of cash flows

For the year ended 30 June 2009

In thousands of AUD

	<i>Note</i>	Consolidated		The Company	
		2009	2008	2009	2008
Cash flows from operating activities					
Cash receipts from customers		721,070	518,848	-	-
Cash paid to suppliers and employees		(645,532)	(458,326)	(12,881)	(10,498)
Cash generated from operations		<u>75,538</u>	<u>60,522</u>	<u>(12,881)</u>	<u>(10,498)</u>
Interest received		724	1,261	345	479
Income taxes paid		(17,353)	(15,802)	(8,839)	(9,024)
Interest paid		(21,687)	(22,459)	(13,849)	(17,308)
Dividends received		102	841	45,556	48,704
Net cash from operating activities	28	<u>37,324</u>	<u>24,363</u>	<u>10,332</u>	<u>12,353</u>
Cash flows from investing activities					
Proceeds from disposal of non current assets		523	407	-	-
Payments for investments		(34,174)	(22,409)	(15,583)	(393)
Payments for equity accounted investments	13	(399)	-	(399)	-
Payments for available-for-sale financial assets		-	(1,137)	-	(2,314)
Acquisition of controlled entities, net of cash acquired	27	(5,443)	(178,193)	(4,729)	(61,884)
Acquisition of property, plant and equipment		(6,126)	(7,083)	(77)	(294)
Development expenditure		(6,155)	(2,577)	-	-
Net cash used in investing activities		<u>(51,774)</u>	<u>(210,992)</u>	<u>(20,788)</u>	<u>(64,885)</u>
Cash flows from financing activities					
Proceeds from the issue of share capital	22	76,589	-	76,589	-
Proceeds from the exercise of options		338	2,006	338	2,006
Transaction costs for the issue of share capital		(4,146)	(168)	(4,146)	(168)
Proceeds from borrowings		46,549	224,135	38,149	119,609
Repayment of borrowings		(90,041)	-	(83,140)	-
Finance lease payments		(2,550)	(2,109)	(514)	(342)
Advances to controlled entities		-	-	-	(46,166)
Dividends paid to shareholders of Photon Group Limited		(23,564)	(18,573)	(23,564)	(18,573)
Dividends paid to minority interest in controlled entities		(1,243)	(1,221)	-	-
Net cash from financing activities		<u>1,932</u>	<u>204,070</u>	<u>(3,712)</u>	<u>56,366</u>
Net increase in cash and cash equivalents		(12,518)	17,441	(6,744)	3,834
Effect of exchange rate fluctuations on cash held		1,032	-	-	-
Cash and cash equivalents at 1 July		<u>35,045</u>	<u>17,604</u>	<u>7,463</u>	<u>3,629</u>
Cash and cash equivalents at 30 June	8	<u>23,559</u>	<u>35,045</u>	<u>719</u>	<u>7,463</u>

The notes on pages 42 to 110 are an integral part of these consolidated financial statements

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Notes to the consolidated financial statements

1. Significant accounting policies

Photon Group Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is Level 9, 155 George St Sydney, NSW 2000. The consolidated financial report of the Company for the year ended 30 June 2009 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”) and the consolidated entity’s interest in associates.

The financial report for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 17th August 2009.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (“AASBs”) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001. The consolidated financial report complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the Company’s functional currency. The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available for sale assets.

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.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(w).

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

The consolidated entity has early adopted AASB 8 *Operating Segments* in preparing financial statements for the consolidated entity. AASB 8 *Operating Segments* introduces the “management approach” to segment reporting. The financial statements segment reporting information is now based on the internal reports regularly reviewed by the consolidated entity’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them.

Accounting for segments is discussed further in note 1(t).

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

Revised AASB 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the consolidated entity's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in the profit and loss
- Transaction costs, other than share and debt issue costs, will be expensed as incurred
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in the profit and loss
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction by transaction basis.

Revised AASB 3, which becomes mandatory for the consolidated entity for 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the entity's 2010 consolidated financial statements.

Amended AASB 127 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the entity loses control of a subsidiary, and interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the profit and loss. The amendments to AASB127, which become mandatory for the entity's 30 June 2010 financial statements are not expected to have a significant impact on the consolidated financial statements.

Revised AASB 101 *Presentation of Financial Statements* (2007) introduces the term comprehensive income, which represents changes to equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB101, which becomes mandatory for the entity's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The consolidated entity plans to provide an income statement and separate statement of comprehensive income.

Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset are part of the cost of that asset. The revised AASB 123 will become mandatory for the entity's 30 June 2010 financial statements and will constitute a change in accounting policy for the consolidated entity. In accordance with the transitional provisions the entity will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact in prior periods in the entity's 30 June 2010 financial statements.

AASB 2008-5 *Amendments to Australian Accounting Standards arising from Annual Improvements Process* and 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASB's resulting in minor changes for presentation, disclosure, recognition and measurement process. The amendments, which become mandatory for the entity's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.

AASB 2008-7 *Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* changes the recognition and measurement dividends receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the entity's 30 June 2010 financial statements. The entity has not yet determined the potential effect of the amendments.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated entity's investment includes goodwill identified on acquisition, net of any accumulated impairment losses.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The consolidated financial statements includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. The consolidated entity's share of movements in reserves is recognised directly in consolidated reserves. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

In the Company's financial statements investments in associates are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Where necessary, the cost is adjusted for any subsequent impairment (see accounting policy j)

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associate's net profit" accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are consumed or sold by the associates or, if not consumed or sold by the associate, when the consolidated entity's interest in such entities is disposed of.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of consolidated entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the respective functional currencies of the consolidated entities at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments and a financial liability designated as a hedge of the net investment in a foreign operation, which are recognised directly in equity (see (iii) below). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(d) Foreign currency (continued)

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates prevailing at the balance sheet date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Foreign currency differences are recognised directly in equity. Since 1 July 2004, the date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

(iii) Hedge of net investment in foreign operations

Exchange differences arising from the translation of a financial liability designated as a hedge of the net investment in foreign operations are taken to the FCTR to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of the cumulative account in equity is transferred to profit or loss as an adjustment to the profit or loss on disposal.

(e) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Accounting for finance income and expense is discussed in note 1(r).

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(e) Financial instruments (continued)

Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j)). The cost of plant and equipment at 1 July 2004, the date of transition to AASB's, was measured on the basis of deemed cost and was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral of the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Other leases are operating leases; the leased assets are not recognised on the consolidated entity's balance sheet.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(f) **Property, plant and equipment (continued)**

(iii) **Subsequent costs**

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other costs are recognised in the income statement as an expense as incurred.

(iv) **Depreciation**

Depreciation is charged to the income statement on both a straight-line and diminishing value basis, as indicated below, over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

	2009		2008	
	Straight line	Diminishing Value	Straight line	Diminishing Value
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	Life of lease	Life of lease	Life of lease	Life of lease
Plant and equipment under finance lease	Life of lease	Life of lease	Life of lease	Life of lease

The residual value, the useful life and depreciation method applied to an asset are reassessed at least annually.

(g) **Intangible assets**

(i) **Goodwill**

Business combinations

Goodwill arises on the acquisition of subsidiaries and associates.

Business combinations prior to 1 July 2004

As part of the transition to AASBs, the classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has been recognised under the consolidated entity's previous accounting framework, Australian GAAP.

Business combinations on or after 1 July 2004

All business combinations on or after the 1st July 2004 are accounted for by applying the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the time of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree, plus any costs attributable to the business combination. Goodwill represents the difference between the cost of the acquisition and the fair value of net assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units expected to benefit from synergies created by the business combination and is tested for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired.

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

In respect of associates, goodwill represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange. The carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(g) **Intangible assets (continued)**

Deferred consideration on acquisitions is provided based on management's best estimate of the liability at the balance sheet date. The liability is discounted using a market interest rate for the liability and a present value interest charge is included in the income statement as the discount unwinds. Changes to estimates of amounts payable are made by adjusting deferred consideration using the original interest rate, together with goodwill.

(ii) **Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes (including internally developed software), is capitalised only if development costs can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are probable and the consolidated entity intends to and has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy j).

(iii) **Other intangible assets**

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (j)). For each business combination, a review is completed to identify any intangible assets and a valuation of fair value is performed for all intangible assets identified.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(iv) **Subsequent expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) **Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- Identifiable intangible assets 3 – 8 years on average, but no greater than 10 years
- Capitalised development costs 1 – 3 years

(h) **Trade and other receivables**

(i) **Work in progress**

Work in progress represents accrued revenue recognised in accordance with accounting policy (p) together with rechargeable disbursements.

(ii) **Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses (see accounting policy (j)). The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts. Bad debts are written off as incurred.

(i) **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(j) **Impairment**

(i) **Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) **Non-financial assets**

The carrying amounts of the consolidated entity's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups (refer note 16). Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is 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.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(k) **Share capital**

(i) **Ordinary Shares**

Ordinary shares are classified as equity.

(ii) **Dividends**

Dividends are recognised as a liability in the period in which they are declared.

(iii) **Transaction costs**

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(l) **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) **Employee Benefits**

(i) **Long-term employee benefits**

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(ii) **Wages, salaries, annual leave, and non-monetary benefits**

Liabilities for employee benefits for wages, salaries, and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are 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 workers compensation insurance, statutory superannuation and payroll tax.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the consolidated entity has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be reliably estimated.

(iii) **Termination benefits**

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) **Share-based payment transactions**

The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes, Binomial or Monte Carlo models, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(n) **Provisions**

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(i) **Make good provision**

The consolidated entity has made provision for make good on all operating leases for premises which require make good expenditure at completion of the lease. The amount of the provision for make good is capitalised and then amortised over the remaining term of the individual leases.

The provision is the best estimate of the expenditure required to settle the make good obligation. Future make good costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period.

(ii) **Lease incentive provision**

The consolidated entity has made provision for lease incentives received. Lease incentives received are recognised in the income statement as an integral part of the total lease expense spread over the lease term.

(o) **Trade and other payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are settled within agreed terms.

Payables include deferred consideration relating to business combinations. The amount is estimated based on expected future earnings of the acquired business and discounted back to present value.

(p) **Revenue**

All operating revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably. Gross revenue represents billings to clients, inclusive of costs of sales, relating to Company subsidiaries where a principal relationship exists between the subsidiary and its client. Where Company subsidiaries act as an agent, revenue is recognised net of amounts collected/paid on behalf of clients. Net revenue is the amount that flows to the group net of directly attributable cost of sales.

(i) **Advertising, media and production revenue**

Advertising, media and production revenues are recognised net of directly attributable cost of sales.

(ii) **Retainer fees & commissions**

Retainer fees which arise as part of a contract to provide services to a client are recognised over the term of the contract on a straight line basis, unless there is some other method that better represents the stage of completion.

Commissions based client revenue is recognised as the service is performed.

(iii) **Licences and other intangible rights**

The consolidated entity allocates revenue to each element in software or other intangible right arrangements involving multiple elements based on the estimated relative fair value of each element. The typical elements in the multiple element arrangement are licence and maintenance fees. The company's determination of fair value is based on the price charged when the same element is sold separately or cost plus a reasonable margin in other cases.

Revenue from the sales of licences where the licence period is for the major part of the economic life of the software or other intangible right is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(p) Revenue (continued)

(iii) Licences and other intangible rights (continued)

In other cases, revenue from licences is recognised rateably over the term of the agreement.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(iii) Dividends

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

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

(iv) Interest

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(q) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(r) Finance Income and Expenses

Finance income comprises interest income on funds invested, dividend income, gains on disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the consolidated entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, present value interest charges with respect to the deferred consideration of acquisitions, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(s) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(s) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor 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 is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is 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 are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Photon Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity payable (receivable) equal in amount to the tax liability (asset) assumed. The inter-entity payable (receivable) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(t) **Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the entity's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expense, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment, and intangible assets other than goodwill.

(u) **Goods and services tax**

Revenue, 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 the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (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 components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) **Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible share options granted to employees.

(w) **Use of accounting estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant area of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 16 – Measurement of the recoverable amounts of cash generating units containing goodwill.

Note 19 – Measurement of share based payments.

Note 13 - Investments in equity associates.

Note 14 - Deferred tax assets.

Note 23 - Financial instruments.

Note 27 - Business combinations.

Note 3 – Revenue and other income

Notes to the consolidated financial statements (continued)

2. Segment reporting

Segment information is presented in respect of the consolidated entity's operating segments. The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer and the management team (the chief operating decision makers) in assessing performance and in determining allocation of resources.

The operating segments are defined by management based on the manner in which the services are provided. Financial information about each of the operating business segments is reported to the Chief Executive Officer and the management team on a monthly basis. Each operating segment is a reportable segment, and these are the sources of the consolidated entity's major risks and returns.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire assets that are expected to be used for more than one period.

Operating segments

In accordance with AASB 114 Segment Reporting, the consolidated entity has assessed a detailed analysis of risk, return and profitability by area of business, the consolidated entity considers that it operates in five segments, with each segment representing a distinct service within the marketing and communications group:

- Strategic Intelligence – strategic media planning, market research, brand insights, marketing spend effectiveness and new product ideas
- Internet & E Commerce – technology enabled marketing solutions in the interactive, digital and mobile sectors
- Field Marketing – point of sale execution plus experiential marketing allowing consumers to experience brands
- Integrated Communications & Digital – integrated brand strategies through traditional media, below the line, point of sale, and customer incentives
- Specialised Communications – public affairs, public relations, corporate communications, impactful design and event management

The operating segments are based on the current management structure as at 30 June 2009. During the current year, the management structure was adjusted with Sledge, Artel Group and MessageNet moving segments.

The 30 June 2008 comparative amounts have been restated to reflect the current business segment presentation.

The impact of the change in segments from the management structure change is detailed on page 58.

In relation to segment reporting the following definitions apply to operating segments:

EBITDA – earnings before interest, taxes, depreciation, amortisation and impairment adjustments.

EBIT – earnings before interest, taxes and impairment adjustments.

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Notes to consolidated financial statements (continued)

2. Segment reporting (continued)

	Strategic Intelligence	Integrated Communications & Digital	Field Marketing	Internet & E Commerce	Specialised Communications Services	Unallocated	Eliminations	Consolidated
2009								
In thousands of AUD								
Gross revenue	102,023	192,250	150,095	91,556	126,281	-	(8,750)	653,455
Directly attributable cost of sales	(26,284)	(98,914)	(8,917)	(40,490)	(46,961)	-	8,750	(212,816)
Net revenue	75,739	93,336	141,178	51,066	79,320	-	-	440,639
Other operating income	484	91	87	-	571	-	-	1,233
Total revenue	76,223	93,427	141,265	51,065	79,891	-	-	441,872
Operating expenses	(64,210)	(79,087)	(113,746)	(22,225)	(64,591)	(8,853)	-	(352,712)
EBITDA	12,013	14,340	27,519	28,841	15,300	(8,853)	-	89,160
Depreciation & amortisation expenses	(2,828)	(5,374)	(3,710)	(3,250)	(4,581)	(813)	-	(20,556)
EBIT	9,185	8,966	23,809	25,591	10,719	(9,666)	-	68,604
Share of profit of equity accounted investee	-	-	-	145	-	-	-	145
Impairment of Investment in equity accounted investee	-	-	-	(4,215)	-	-	-	(4,215)
Net finance expenses	-	-	-	-	-	(26,551)	-	(26,551)
Income tax expense	-	-	-	-	-	(15,582)	-	(15,582)
Profit for the period	9,185	8,966	23,809	21,521	10,719	(51,799)	-	22,401
Goodwill	78,830	102,278	130,083	130,881	105,130	-	-	547,202
Other intangibles	3,034	9,143	7,081	8,869	5,452	-	-	33,579
Investment in equity accounted investee	-	-	-	10,132	-	-	-	10,132
Assets excluding intangibles	28,021	36,718	33,953	20,158	44,247	150,936	(128,383)	185,650
Total assets	109,885	148,139	171,117	170,040	154,829	150,936	(128,383)	776,563
Liabilities	14,072	26,461	18,905	14,346	23,314	543,143	(128,383)	511,858
Total liabilities	14,072	26,461	18,905	14,346	23,314	543,143	(128,383)	511,858
Amortisation of Intangibles	1,357	3,664	2,435	1,947	2,045	-	-	11,448
Depreciation	1,471	2,054	1,508	1,022	2,240	813	-	9,108
Capital Expenditure	1,237	1,716	1,106	794	1,196	77	-	6,126

* All segments are continuing operations

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Notes to consolidated financial statements (continued)

2. Segment reporting (continued)

	Strategic Intelligence	Integrated Communications & Digital	Field Marketing	Internet & E Commerce	Specialised Communications Services	Unallocated	Eliminations	Consolidated
2008								
In thousands of AUD								
Gross revenue	75,416	169,664	133,398	84,637	127,973	-	(16,713)	574,375
Directly attributable cost of sales	(22,464)	(88,306)	(7,623)	(44,620)	(51,246)	-	16,713	(197,546)
Net revenue	52,952	81,358	125,775	40,017	76,727	-	-	376,829
Other operating income	141	118	144	-	330	659	-	1,392
Total revenue	53,093	81,476	125,919	40,017	77,057	659	-	378,221
Operating expenses	(42,810)	(69,732)	(103,591)	(15,812)	(59,020)	(9,063)	-	(300,028)
EBITDA	10,283	11,744	22,328	24,205	18,037	(8,404)	-	78,193
Depreciation & amortisation expenses	(1,695)	(5,425)	(3,361)	(1,911)	(3,892)	(649)	-	(16,933)
EBIT	8,588	6,319	18,967	22,294	14,145	(9,053)	-	61,260
Share of profit of equity accounted investee	(85)	-	-	136	-	-	-	51
Net finance expenses	-	-	-	-	-	(24,609)	-	(24,609)
Income tax expense	-	-	-	-	-	(14,056)	-	(14,056)
Profit for the period	8,503	6,319	18,967	22,430	14,145	(47,718)	-	22,646
Goodwill	71,454	84,186	110,280	110,350	86,362	-	-	462,632
Other intangibles	4,652	12,546	8,326	6,310	7,792	-	-	39,626
Investment in equity accounted investee	-	-	-	13,904	-	-	-	13,904
Assets excluding intangibles	31,911	33,601	31,110	16,284	56,147	164,987	(127,674)	206,366
Total assets	108,017	130,333	149,716	146,848	150,301	164,987	(127,674)	722,528
Liabilities	22,040	24,459	17,804	9,717	31,443	555,089	(127,674)	532,878
Total liabilities	22,040	24,459	17,804	9,717	31,443	555,089	(127,674)	532,878
Amortisation of Intangibles	652	3,442	2,068	1,343	1,630	-	-	9,135
Depreciation	1,043	1,983	1,293	568	2,262	649	-	7,798
Capital Expenditure	1,101	1,262	1,159	1,132	1,898	531	-	7,083

* All segments are continuing operations

Notes to consolidated financial statements (continued)

2. Segment reporting (continued)

The impact by segment on net revenue, EBITDA, profit for period, segment assets and segment liabilities on the management structure segment changes were:

In thousands of AUD

2009

Segment	Net Revenue	EBITDA	Profit for period	Segment assets	Segment Liabilities
Integrated Communications	(4,798)	(2,862)	(2,518)	(20,109)	(1,481)
Field Marketing	(2,032)	1,235	1,468	(3,799)	(1,865)
Internet & E-Commerce	2,854	2,493	2,212	13,208	836
Specialised Communications	3,976	(866)	(1,162)	10,700	2,510
	-	-	-	-	-

2008

Segment	Net Revenue	EBITDA	Profit for period	Segment assets	Segment Liabilities
Integrated Communications	(4,214)	(1,907)	(1,573)	(17,243)	(2,356)
Field Marketing	(2,364)	(732)	(585)	(8,457)	(5,185)
Internet & E-Commerce	2,238	1,757	1,508	9,190	542
Specialised Communications	4,340	882	650	16,510	6,999
	-	-	-	-	-

3. Revenue and other income

In thousands of AUD

	Note	Consolidated		The Company	
		2009	2008	2009	2008
Gross revenue from the rendering of services		642,098	573,648	-	-
Gross revenue from licences and other intangible rights		11,357	727	-	-
Gross revenue		653,455	574,375	-	-
Directly attributable cost of sales		(212,816)	(197,546)	-	-
Net revenue		440,639	376,829	-	-
Dividends:					
Related parties	29	-	569	45,556	48,959
Trade discounts		472	50	-	-
Other		761	773	-	4
Other income		1,233	1,392	45,556	48,963
Total revenue and other income		441,872	378,221	45,556	48,963

Notes to consolidated financial statements (continued)

4. Finance income and expense

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Finance income				
Interest income	724	1,261	238	95
Related party interest income	-	-	107	384
	<u>724</u>	<u>1,261</u>	<u>345</u>	<u>479</u>
Finance expenses				
Present value interest charges with respect to the deferred consideration of acquisitions	(5,588)	(3,411)	(3,344)	(2,807)
Interest on external loans	(21,217)	(21,965)	(13,721)	(17,143)
Related party interest expense	-	-	-	(165)
Finance lease interest	(470)	(494)	(128)	-
	<u>(27,275)</u>	<u>(25,870)</u>	<u>(17,193)</u>	<u>(20,115)</u>
Net finance expense	<u>(26,551)</u>	<u>(24,609)</u>	<u>(16,848)</u>	<u>(19,636)</u>

5. Auditors' remuneration

<i>In AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
Audit services					
Auditors of the Company – KPMG Australia		553,000	568,972	83,000	80,000
Auditors of the Company – overseas KPMG firm		330,443	300,043	-	-
		<u>883,443</u>	<u>869,015</u>	<u>83,000</u>	<u>80,000</u>
<i>In AUD</i>					
Other services					
Migration services work:					
Auditors of the Company – KPMG Australia		17,150	62,138	-	-
Taxation compliance services:					
Auditors of the Company – KPMG Australia		47,500	195,750	47,500	195,750
Auditors of the Company – overseas KPMG firm		265,662	42,232	-	-
Transaction and due diligence service:					
Auditors of the Company – KPMG Australia		535,600	2,248,111	535,600	2,248,111
Auditors of the Company – overseas KPMG firm		179,281	701,156	179,281	701,156
		<u>1,045,193</u>	<u>3,249,387</u>	<u>762,381</u>	<u>3,145,017</u>

6. Income tax expense

Recognised in the income statement

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Current tax expense				
Current year	17,578	14,965	(6,380)	(6,962)
Adjustments for prior years	(801)	(343)	(247)	(442)
	<u>16,777</u>	<u>14,622</u>	<u>(6,627)</u>	<u>(7,404)</u>
Deferred tax expense				
Origination and reversal of temporary differences	(947)	(264)	(47)	(217)
Benefit of tax losses recognised	(248)	(302)	-	-
	<u>(1,195)</u>	<u>(566)</u>	<u>(47)</u>	<u>(217)</u>
Total income tax expense in income statement	<u>15,582</u>	<u>14,056</u>	<u>(6,674)</u>	<u>(7,621)</u>

All income tax is attributable to continuing operations.

6. Income tax expense (continued)

Numerical reconciliation between tax expense and pre-tax net profit

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
Income tax expense using the Company's tax rate of 30%		11,395	11,011	5,619	5,897
<i>Increase in income tax expense due to:</i>					
Present value interest charges		1,659	1,030	1,003	842
Other non-deductible/(subtraction) terms		52	801	(417)	(107)
Effect of higher tax rate on overseas incomes		990	208	-	-
Accounting amortisation of identifiable intangible assets		2,766	2,434	-	-
Imputation gross up on dividends received		213	106	213	184
Share option expense		1,088	1,315	1,088	1,162
Impairment charge		1,264	-	-	-
<i>Decrease in income tax expense due to:</i>					
Tax amortisation of identifiable intangible assets		(346)	(285)	-	(285)
Share of joint venture entities' net profit		44	15	-	-
Franking credits on dividends received		(709)	(352)	(709)	(614)
Other non-assessable income		-	-	(13,224)	(14,258)
Under/(over) provision for tax in previous year		(801)	(343)	(247)	(442)
Unwinding of deferred tax liability established in business combinations		(2,365)	(2,002)	-	-
Tax losses not brought to account		332	118	-	-
Income tax expense on pre-tax net profit		15,582	14,056	(6,674)	(7,621)
Deferred tax asset recognised directly in equity					
Relating to equity settled transactions	22	862	(198)	862	(198)
		862	(198)	862	(198)
Deferred tax liability recognised directly in reserves					
Relating to fair value revaluation of available for sale financial asset		-	(1,062)	-	(1,062)
		-	(1,062)	-	(1,062)

7. Earnings per share**Basic earnings per share**

The calculation of basic earnings per share for the year ended 30 June 2009 was based on the profit attributable to ordinary shareholders of \$21,407,728 (year ended 30 June 2008: \$21,690,838) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 101,576,797 (year ended 30 June 2008: 75,888,613), calculated as follows:

Profit attributable to ordinary shareholders**For the year ended 30 June***In thousands of AUD*

	2009	2008
Profit for the period	21,408	21,691
Profit attributable to ordinary shareholders	<u>21,408</u>	<u>21,691</u>

Weighted average number of ordinary shares**For the year ended 30 June***In thousands of shares*

	2009	2008
Weighted average number of ordinary shares at 30 June	101,577	75,889

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2009 was based on profit attributable to ordinary shareholders of \$21,407,728 (year ended 30 June 2008: \$21,690,838) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 101,612,319 (year ended 30 June 2008: 77,388,665), calculated as follows:

Profit attributable to ordinary shareholders (diluted)**For the year ended 30 June***In thousands of AUD*

	2009	2008
Profit attributable to ordinary shareholders	21,408	21,691
Profit attributable to ordinary shareholders (diluted)	<u>21,408</u>	<u>21,691</u>

Weighted average number of ordinary shares (diluted)**For the year ended 30 June***In thousands of shares*

	2009	2008
Weighted average number of ordinary shares (basic) at 30 June	101,577	75,889
Effect of share options on issue	35	1,500
Weighted average number of ordinary shares (diluted) at 30 June	<u>101,612</u>	<u>77,389</u>

Notes to consolidated financial statements (continued)

8. Cash and cash equivalents

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
Cash at bank and on hand		23,531	38,664	719	7,462
Bank short term deposits		28	159	-	1
Cash and cash equivalents in the balance sheet		23,559	38,823	719	7,463
Bank overdraft		-	(3,778)	-	-
Cash and cash equivalents in the statement of cash flows	28	23,559	35,045	719	7,463

The consolidated entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

9. Trade and other receivables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Current				
Trade receivables	107,057	107,740	900	1,131
Less: Impairment loss	(1,213)	(799)	-	-
	105,844	106,941	900	1,131
Other debtors	4,181	1,962	62	324
	110,025	108,903	962	1,455
Non-current				
Loans to controlled entities	-	-	121,541	112,273
Other non-current receivables	991	801	-	-
	991	801	121,541	112,273
Total trade and other receivables	111,016	109,704	122,503	113,728

No interest is charged on trade debtors. The consolidated entities exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 23.

10. Other assets

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Current				
Work in progress	10,864	10,376	-	-
Prepayments	4,584	8,701	183	398
Other current assets	3,259	3,381	2,165	2,228
	18,707	22,458	2,348	2,626
Non-current				
Deposits	523	595	-	-
Other non-current assets	1,814	1,353	-	5
	2,337	1,948	-	5

Notes to consolidated financial statements (continued)

11. Other financial assets

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2009	2008	2009	2008
Current investments					
Derivatives used for hedging		-	697	-	697
		-	697	-	697
Non-current investments					
Deposit – interest bearing		223	214	-	-
Investments in controlled entities		-	-	394,023	343,153
		223	214	394,023	343,153
Investments in associated entities	13	10,132	13,904	14,167	13,767

Deposit – 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 2.95% at 30 June 2009 (30 June 2008: 7%).

12. Current tax assets and liabilities

The current tax liability for the consolidated entity of \$6,906,690 (2008: \$7,449,978) and for the Company a current tax liability of \$3,301,860 (2008: \$5,355,471) represent the amount of income taxes payable in respect of current and prior periods.

In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability (asset) initially recognised by the members in the tax-consolidated group.

13. Investments accounted for using the equity method

Investments in associates

The consolidated entity accounts for investments in associates using the equity method. Dark Blue Sea Limited was classified as an equity-accounted investment on 1 April 2008, being the date at which significant influence was obtained.

The consolidated entity has the following investments in associates:

	Principal activities	Country	Reporting	Ownership	
			Date	2009	2008
Dark Blue Sea Limited	Internet Property Development	Australia	30 June 2009	28.25%	24.65%
Bellamyhayden Pty Limited	Media Strategy	Australia	30 June 2009	100.00%	100.00%

<i>In thousands of AUD</i>	Revenues	Profit/(loss)	Share of	Total	Total	Net assets as	Share of
	(100%)	(100%)	associates net	Assets	Liabilities	reported by	associate's net
			profit/(loss)	(100%)	(100%)	associates	assets equity
			recognised			(100%)	accounted
2009							
Dark Blue Sea Limited (ii)	8,405	615	145	9,890	3,127	6,763	1,911
	8,405	615	145	9,890	3,127	6,763	1,911
2008							
Bellamyhayden Pty Limited (i)	900	(212)	(85)	-	-	-	-
Dark Blue Sea Limited (ii)	4,791	552	136	13,482	3,570	9,912	2,443
	5,691	340	51	13,482	3,570	9,912	2,443

Consolidated

2009	2008
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Movements in carrying amount of associated entities

Carrying amount at the beginning of the year	13,904	540
Reclassification from available for sale assets (ii)	-	13,767
Acquisition of interest in associated entity	399	-
Share of associate entity profit	145	51
Reclassification to controlled entity (i)	-	(200)
Dividends received from associates	(101)	(254)
Impairment	(4,215)	-
Carrying amount at the end of the year	10,132	13,904

(i) On 29 August 2007, the Company acquired the remaining 60% of the issued capital of Bellamy Hayden Pty Limited (Bellamy Hayden), taking the Company's ownership to 100%. As a result, the equity method of accounting does not apply from 29 August 2007, and Bellamy Hayden forms part of the consolidated financial statements of the consolidated entity. The share of net loss disclosed above represents the period 1 July 2007 to 29 August 2007.

(ii) The investment in Dark Blue Sea Limited (DBS) is included in the accounts of Photon on an equity accounted basis. The investment is held at cost in the Company and is equity accounted in the consolidated entity. Due to the decline in the company's share price during the course of the year ended 30 June 2009, the quoted market value of the investment is less than its carrying amount in the company and the consolidated entity. The on market value of the investment in DBS at 30 June 2009 was \$0.13 per share totalling \$2,877,847 compared to a carrying amount of \$10,131,846. Since year end, the quoted market price of DBS shares increased to \$0.26 per shares, increasing the market value of the Company's investment to \$5,755,694.

There was a significant decline in the DBS share price during the first six months of 2009, falling from \$0.35 per share to \$0.185 per share. In accordance with AASB 136, the significant and prolonged decline in the share price of DBS during the first six months of 2009 was an indicator of impairment and consequently the Company completed an independent valuation on 10 February 2009 along with a value in use calculation to determine if its carrying amount exceeds its recoverable amount.

13. Investments accounted for using the equity method (continued)

Investments in associates (continued)

The fall in the share price of DBS in the first six months of 2009 was in line with market trends during this period. Further, DBS shares are thinly traded (excluding trading specifically related to the on market buy-back conducted by DBS) and DBS is not researched by broking analysts. It is the opinion of the Board that the value of DBS cannot be reliably measured by reference to the listed share price.

The Company tested the value in use under a number of scenarios using discount rate range of 12.2% to 15.1% and a growth rate range to assess the value in use. Following completion of this valuation analysis, during the half year ended 31 December 2008, management recorded impairment adjustment to write down the carrying amount of the investment to \$0.46 per share, resulting in an impairment of \$4,214,854.

In considering the recoverable amount of the investment in DBS, the Directors also obtained and considered an independent valuation from Lonergan Edwards Associates Limited on 10 February 2009. The independent valuation considered the value of DBS' domain name portfolio separately from its advertising intermediary business, reflecting the different nature, growth profile and risks associated with these businesses. The primary valuation methodology used for the advertising intermediary business was the capitalisation of earnings method based on maintainable earnings before interest and tax (EBIT). The valuation was cross checked against revenue multiples together with the implied value of the domain name portfolio based on current earnings levels and industry benchmarks. Further analysis was performed against recent comparable transactions and trading multiples of comparable companies. The primary valuation methodology used for the domain name portfolio was a discounted cash flow approach having regard to the number of sales of domain names, the number of unprofitable domain names and the revenue per unprofitable domain name. The valuation was cross checked against the implied value of the domain name portfolio based on current earnings levels and industry benchmarks.

Since 31 December 2008 the share price of DBS has stabilised, trading in the range of \$0.13 per share to \$0.25 per share. The Company has monitored the performance of DBS through the public announcements made subsequently to the date of the independent valuation, and will continue to monitor the performance of the business through each reporting period. On 19 June 2009 DBS issued its full year profit guidance which indicated that market conditions in US online advertising market remained challenging. However over the course of the year DBS has completed a range of significant cost saving initiatives which will be beneficial to the financial performance once trading conditions improve. Although DBS' net profit before tax is expected to be materially lower than 2008, the performance of the company in the second half of 2009 is expected to be materially consistent with the first six months of 2009. On 17 July 2009, DBS announced that its Domain Name Sales Distribution Agreement with a material sales channel, GoDaddy was to be terminated from August 2009. DBS stated that it was still assessing the impact of the termination of the agreement and was seeking to increase sales through existing channels as well as expediting a number of other sales channels.

In assessing the recoverable amount of its investment in DBS at 30 June 2009, the Directors critically reviewed the assumptions used in its value in use calculation and the Lonergan Edwards Associates Limited report from February 2009 in light of current circumstances and made revisions as necessary. Changes have been made to reflect the revised discount rate for the business at 30 June 2009, and the level of uncertainty that exists around the timing of future earnings recovery to historical levels and the impact of the termination of the GoDaddy agreement. The Company is of the opinion no matters have arisen subsequent to the completion of the independent valuation on 10 February 2009 that would indicate that the investment is impaired further below the reduced carrying amount of \$10,131,846.

14. Deferred tax assets and liabilities**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD

	Consolidated		The Company	
	2009	2008	2009	2008
Deferred tax asset				
Tax losses carried forward	1,661	4,447	-	-
Employee benefits	3,142	2,722	70	44
Impairment of doubtful debts	293	51	-	-
Accruals and income in advance	1,055	839	66	165
Leased assets	193	152	156	145
Lease make good	419	528	-	5
Lease incentive	308	300	4	-
Deductible share issue costs	1,226	364	1,226	363
Fixed assets	555	390	117	60
Other	265	293	200	149
	<u>9,117</u>	<u>10,086</u>	<u>1,839</u>	<u>931</u>
Deferred tax liabilities				
Identifiable intangibles	7,062	9,655	-	-
Lease make good asset	143	227	-	2
Work in progress	3,771	1,898	-	-
Other	875	382	-	-
	<u>11,851</u>	<u>12,162</u>	<u>-</u>	<u>2</u>
Deferred tax assets/liabilities not taken into account				
Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from:				
Revenue losses	497	383	-	-
Capital losses	4,170	2,847	4,170	2,847
Gross tax losses carried forward	<u>4,667</u>	<u>3,230</u>	<u>4,170</u>	<u>2,847</u>

15. Plant and equipment

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
Computer equipment					
At cost		21,795	21,878	1,122	914
Accumulated depreciation		(15,548)	(15,465)	(778)	(448)
		<u>6,247</u>	<u>6,413</u>	<u>344</u>	<u>466</u>
Office furniture & equipment					
At cost		14,093	14,046	64	60
Accumulated depreciation		(9,384)	(9,098)	(37)	(26)
		<u>4,709</u>	<u>4,948</u>	<u>27</u>	<u>34</u>
Plant and equipment					
At cost		7,088	7,357	-	-
Accumulated depreciation		(4,175)	(3,991)	-	-
		<u>2,913</u>	<u>3,366</u>	<u>-</u>	<u>-</u>
Leasehold Improvements					
At cost		11,409	10,613	823	819
Accumulated depreciation		(7,919)	(6,671)	(688)	(524)
		<u>3,490</u>	<u>3,942</u>	<u>135</u>	<u>295</u>
Plant & equipment under finance lease					
At cost		7,147	8,086	2,807	2,807
Accumulated amortisation		(3,815)	(4,318)	(1,661)	(1,252)
		<u>3,332</u>	<u>3,768</u>	<u>1,146</u>	<u>1,555</u>
Total plant and equipment, net written-down value					
		<u>20,691</u>	<u>22,437</u>	<u>1,652</u>	<u>2,350</u>

Reconciliations

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

Computer equipment

Carrying amount at the beginning of the year	6,413	2,865	466	356
Acquisitions through entity acquired	47	2,635	-	-
Additions	3,683	4,175	208	390
Depreciation	(3,909)	(2,988)	(330)	(280)
Effect of movements in exchange rates	114	(159)	-	-
Disposals	(101)	(115)	-	-
Carrying amount at the end of the year	<u>6,247</u>	<u>6,413</u>	<u>344</u>	<u>466</u>

Office furniture & equipment

Carrying amount at the beginning of the year	4,948	2,627	34	24
Acquisitions through entity acquired	31	2,627	-	-
Additions	1,493	1,316	4	21
Depreciation	(1,675)	(1,404)	(11)	(11)
Effect of movements in exchange rates	(4)	(143)	-	-
Disposals	(84)	(75)	-	-
Carrying amount at the end of the year	<u>4,709</u>	<u>4,948</u>	<u>27</u>	<u>34</u>

Plant & equipment

Carrying amount at the beginning of the year	3,366	2,919	-	-
Acquisitions through entity acquired	1	369	-	-
Additions	800	1,367	-	-
Depreciation	(975)	(1,069)	-	-
Effect of movements in exchange rates	6	(7)	-	-
Disposals	(285)	(213)	-	-
Carrying amount at the end of the year	<u>2,913</u>	<u>3,366</u>	<u>-</u>	<u>-</u>

15. Plant and equipment (continued)

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
Reconciliations (continued)					
Leasehold improvements					
Carrying amount at the beginning of the year		3,942	2,347	295	431
Acquisitions through entity acquired		59	804	-	-
Additions		849	1,991	4	22
Amortisation		(1,355)	(1,123)	(164)	(158)
Effect of movements in exchange rates		16	(71)	-	-
Disposals		(21)	(6)	-	-
Carrying amount at the end of the year		3,490	3,942	135	295
Leased plant and equipment					
Carrying amount at the beginning of the year		3,768	3,042	1,555	1,941
Acquisitions through entity acquired		-	61	-	-
Additions		968	1,838	-	25
Amortisation		(1,293)	(1,121)	(409)	(411)
Effect of movements in exchange rates		2	(11)	-	-
Disposals		(113)	(41)	-	-
Carrying amount at the end of the year		3,332	3,768	1,146	1,555

16. Intangible assets

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Goodwill				
At cost	547,202	462,632	-	-
	547,202	462,632	-	-
IT related intellectual property				
At cost	21,028	14,422	-	-
Accumulated amortisation	(8,832)	(5,277)	-	-
	12,196	9,145	-	-
Contracts and customer relationships				
At cost	40,434	41,759	-	-
Accumulated amortisation	(19,339)	(11,693)	-	-
	21,095	30,066	-	-
Brand names				
At cost	751	751	-	-
Accumulated amortisation	(463)	(337)	-	-
	288	414	-	-
Total intangible assets, net carrying value	580,781	502,257	-	-

16. Intangible assets (Continued)

In thousands of AUD

	Consolidated		The Company	
	2009	2008	2009	2008
Reconciliations				
Reconciliations of the carrying amounts of intangibles are set out below:				
Goodwill				
Carrying amount at the beginning of the year	462,632	263,465	-	-
Acquisitions through business combinations	11,693	178,375	-	-
Adjustments through deferred consideration	65,228	22,233	-	-
Effect of movement in exchange rate	7,649	(1,441)	-	-
Carrying amount at the end of the year	547,202	462,632	-	-
IT related intellectual property				
Carrying amount at the beginning of the year	9,145	6,608	-	-
Acquisitions through business combinations	442	1,941	-	-
Additions	6,155	3,105	-	-
Amortisation	(3,661)	(2,509)	-	-
Effect of movement in exchange rate	115	-	-	-
Carrying amount at the end of the year	12,196	9,145	-	-
Contracts and customer relationships				
Carrying amount at the beginning of the year	30,066	15,565	-	-
Acquisitions through business combinations	170	20,922	-	-
Additions	-	80	-	-
Amortisation	(7,662)	(6,501)	-	-
Effect of movement in exchange rate	(1,479)	-	-	-
Carrying amount at the end of the year	21,095	30,066	-	-
Brand name				
Carrying amount at the beginning of the year	414	539	-	-
Amortisation	(126)	(125)	-	-
Carrying amount at the end of the year	288	414	-	-

Goodwill is tested for impairment on a division or business unit basis, reflecting the synergies obtained by the division or business unit.

16. Intangible assets (Continued)**Amortisation and impairment charge**

The amortisation and charge is recognised in the depreciation and amortisation expense in the income statement.

Impairment tests for cash generating units containing goodwill

Refer above for the balance of goodwill carried in the consolidated entity at the end of the reporting period.

For the purposes of impairment testing, goodwill is allocated to the groups of cash-generating units (CGUs) that are expected to benefit from the synergies of the combination, as outlined below. The consolidated entity has reviewed its CGU grouping base and determined a line of business approach to be reflective of the smallest identifiable group of assets that generate cash inflows and that benefit from the synergies of each of the business combinations. Acquisitions complement and give rise to synergies within the existing divisional portfolios of businesses, although certain sub-segmentations have been completed where appropriate.

The recoverable amount of a CGU group is assessed using calculation methodologies based on value-in-use calculation which utilise projected cash flows from financial budgets approved by the Board of Directors which reflects the best estimate of the CGU group's cash flows at the time. Projected cash flows can differ from future actual results of operations and cash flows. The cash flow models consider growth in the CGU groups over the medium term, being five years discounted to present value using a discount rate based on the Company's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group. The growth rates range from 5% to 10% and are used to determine the cash flows for the next four years. The discount rate utilised considered a range of 7.98% to 10.94%. A capitalisation multiple is then applied to this medium-term cumulative discounted cash flow and an acceptable valuation range is formulated and tested against the carrying value of goodwill and other relevant assets within each CGU group. The impairment test was satisfied within the relevant range tested.

Key assumptions used in the approach to test for impairment relate to the discount rate and the capitalisation factor applied to projected cash flows.

Goodwill CGU group allocation

	Consolidated	
	2009	2008
The consolidated entity's carrying amount of goodwill for each of the cash generating units identified		
Market research	34,703	33,693
Media planning	45,886	37,339
Advertising	100,763	79,490
Point of sale	18,717	18,187
Field marketing	129,985	113,460
Web development	29,759	26,847
Search engine marketing	89,583	75,936
Public relations	75,397	53,292
Corporate communications	19,734	21,713
Events	2,675	2,675
	547,202	462,632

The impairment analysis prepared to support the recoverable amount of goodwill has also been considered in confirming that the recoverable amount of the company's investment in controlled entities exceeds the carrying amount.

17. Trade and other payables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Current liabilities				
Trade payables	29,735	37,806	697	2,063
Other trade payables and accrued expenses	38,038	49,428	2,052	4,269
Unearned income	14,128	12,983	-	-
Deferred consideration payable	66,708	7,839	42,274	5,821
Payable to related parties	-	-	-	7,414
	<u>148,609</u>	<u>108,056</u>	<u>45,023</u>	<u>19,567</u>
Non-current liabilities				
Other payables	23	-	-	-
Deferred consideration payable	44,724	57,668	31,695	37,016
	<u>44,747</u>	<u>57,668</u>	<u>31,695</u>	<u>37,016</u>

The consolidated entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

18. Loans and borrowings

This note provides information about the contractual terms of the consolidated entity's interest-bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rate and foreign currency risk, see note 23.

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Current liabilities				
Secured overdraft	-	3,778	-	-
Secured bank loans	33,558	-	33,558	-
Finance lease liabilities	908	1,086	402	373
Hire purchase lease liabilities	1,280	1,221	-	-
Loan notes payable	-	5,725	-	-
Derivative financial liability	181	-	181	-
	<u>35,927</u>	<u>11,810</u>	<u>34,141</u>	<u>373</u>
Non-current liabilities				
Secured bank loans	239,548	314,736	140,752	219,301
Other non-current loans	516	1,136	-	-
Finance lease liabilities	1,928	2,608	1,264	1,666
Hire purchase lease liabilities	2,228	2,245	-	-
Derivative financial liability	4,172	-	4,172	-
	<u>248,392</u>	<u>320,725</u>	<u>146,188</u>	<u>220,967</u>

18. Loans and borrowings (continued)**Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

In thousands of AUD

Currency	Date of maturity	Consolidated			
		30 June 2009		30 June 2008	
		Face value	Carrying amount	Face value	Carrying amount
AUD	30 April 2010	33,558	33,558	-	-
AUD	31 October 2010	59,805	59,805	57,265	57,265
GBP	31 October 2010	57,735	57,735	59,558	59,558
AUD	31 March 2011	46,000	46,000	-	-
USD	31 October 2011	20,509	20,509	17,178	17,178
GBP	31 October 2011	20,552	20,552	18,699	18,699
AUD	31 October 2011	34,947	34,947	12,036	12,036
AUD (i)	4 July 2009	-	-	150,000	150,000
Total secured bank loans		273,106	273,106	314,736	314,736

In thousands of AUD

Currency	Year of maturity	Company			
		30 June 2009		30 June 2008	
		Face value	Carrying amount	Face value	Carrying amount
AUD	30 April 2010	33,558	33,558	-	-
AUD	31 October 2010	59,805	59,805	57,265	57,265
AUD	31 March 2011	46,000	46,000	-	-
AUD	31 October 2011	34,947	34,947	12,036	12,036
AUD (i)	4 July 2009	-	-	150,000	150,000
Total secured bank loans		174,310	174,310	219,301	219,301

(i) A portion of these facilities, \$134,000,000, have been renegotiated and extended to the terms of loans and borrowings that are currently in place as at 30 June 2009. The remaining undrawn balance of \$16,000,000 was cancelled.

18. Loans and borrowings (continued)

Financing facilities

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
The consolidated entity has access to the following lines of credit:				
<i>Total facilities available:</i>				
Bank overdrafts	4,771	7,956	1,000	1,000
Fixed/ variable rate cash advance facility	330,000	346,000	330,000	346,000
Interest rate swap facility	11,400	11,400	11,400	11,400
Lease finance facility	5,500	8,500	5,500	8,500
Indemnity guarantee facility	3,500	3,108	2,874	3,108
ANZ Online facility	7,000	7,000	7,000	7,000
Credit card facility	3,100	2,300	3,100	1,747
	<u>365,271</u>	<u>386,264</u>	<u>360,874</u>	<u>378,755</u>
<i>Facilities used at reporting date:</i>				
Bank overdrafts	-	3,778	-	-
Fixed/ variable rate cash advance facility	273,106	320,316	273,106	320,316
Interest rate swap facility	-	-	-	-
Lease finance facility	4,990	2,148	1,730	2,148
Indemnity guarantee facility	3,473	2,675	2,853	2,675
ANZ Online facility	-	-	-	-
Credit card facility	659	354	659	354
	<u>282,228</u>	<u>329,271</u>	<u>278,348</u>	<u>325,493</u>
<i>Facilities not utilised at reporting date:</i>				
Bank overdraft	4,771	4,178	1,000	1,000
Fixed/ variable rate cash advance facility	56,894	25,684	56,894	25,684
Interest rate swap facility	11,400	11,400	11,400	11,400
Lease finance facility	510	6,352	3,770	6,352
Indemnity guarantee facility	27	433	21	433
ANZ Online facility	7,000	7,000	7,000	7,000
Credit card facility	2,441	1,946	2,441	1,393
	<u>83,043</u>	<u>56,993</u>	<u>82,526</u>	<u>53,262</u>

At 30 June 2008 the fixed/variable rate cash advance facility used at reporting date includes a financial guarantee drawn against the facility in the amount of \$5,579,813. No amount existed at 30 June 2009.

Financing arrangements

All finance facilities, with the exception of the bank overdraft, are negotiated by the Company on behalf of the consolidated entity. The carrying amount of amounts drawn down on facilities as at the reporting date equate to face value.

Bank overdrafts

The bank overdraft of Ad Partners Group Pty Limited is included in the security arrangements associated with 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 bank overdraft of Belgiovane Williams Mackay Pty Limited is secured 51% by Photon Group Limited and included in the security arrangements associated with the Fixed/ Variable Rate Cash Advance Facility and 49% by the minority shareholders. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The company has entered into a set off arrangements between the company and various Australian subsidiaries.

18. Loans and borrowings (continued)

Financing arrangements (continued)

The bank overdraft of Corporate Edge Group Limited and Lorica Group Limited is secured by a debenture over the assets and undertakings of Corporate Edge Group Limited and Lorica Group Limited. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Naked Communications BV is secured by a debenture over the assets and undertakings of Naked Communications BV. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Naked Communications Limited and Lunch Communications Limited is secured by a debenture over the assets and undertakings of Naked Communications Limited and Lunch Communications Limited. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

Fixed/ Variable Rate Cash Advance Facility

Amounts drawn on the Fixed/ Variable Rate Cash Advance Facility are denominated in AUD, GBP and USD and bear interest based on the following:

- \$330 million (2008: \$346 million) general corporate finance facility: the bank bill swap reference rate - average bid for 30 days plus a fixed margin.
- \$7 million (2008: \$7 million) ANZ Online Facility: the bank bill swap reference rate - average bid for 30 days plus a fixed margin.

Some exposure to the bank bill swap rate is fixed through the use of interest rate swap arrangements (as detailed below).

The Cash Advance Facility is secured by:

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

Repayment terms relating to the Fixed/ Variable Rate Cash Advance Facility require the amount to be repaid in accordance with the terms and debt repayment schedule. The Company has an obligation to repay \$50 million of the Fixed/Variable Rate Cash Advance Facility by 30 April 2010. On 17 August 2009, the Company announced an underwritten capital raising of \$114.5 million to be completed via a placement of 14.4 million shares to investors at \$1.85 per share and a non-renounceable entitlement offer allowing existing shareholders (including shareholders following completion of the placement) to subscribe for one new share for every two shares held on the record date of 25 August 2009 at \$1.50 per share. The capital raising is expected to be completed around 18 September 2009. Existing shareholders associated with RG Capital Multimedia Limited and Tim Hughes have committed to participating in the entitlement offer for their pro rata share. The proceeds of this raising (net of fees) will be used to meet the mandatory repayment amount of \$50 million, with the balance of the proceeds applied against the Fixed / Variable Cash Advance Facility.

Interest rate swap facility

The interest rate swap facility is in place to assist with hedging in interest rate exposures.

As at 30 June 2009 interest rate swap transactions swapping floating for fixed interest rates were in place under the following arrangements:

- Fixed rate of 5.93% for a notional amount of GBP £15,000,000 for the period 25 July 2008 to 31 October 2010
- Fixed rate of 5.92% for a notional amount of GBP £10,000,000 for the period 25 July 2008 to 31 October 2011
- Fixed rate of 3.98% for a notional amount of USD \$10,000,000 for the period 25 July 2008 to 31 October 2011

18. Loans and borrowings**Financing arrangements (continued)**

As at 30 June 2008 interest rate swap transactions swapping floating for fixed interest rates were in place under the following arrangements:

- Fixed rate of 6.28% for a notional amount of AUD \$20,000,000 for the period 5 May 2006 to 31 March 2009
- Fixed rate of 6.28% for a notional amount of AUD \$20,000,000 for the period 5 May 2006 to 31 March 2009
- Fixed rate of 7.47% for a notional amount of AUD \$25,000,000 for the period 12 November 2007 to 31 March 2009
- Fixed rate of 7.44% for a notional amount of AUD \$25,000,000 for the period 13 November 2007 to 31 March 2009
- Fixed rate of 6.88% for a notional amount of AUD \$6,000,000 for the period 16 July 2007 to 30 March 2009
- Fixed rate of 6.39% for a notional amount of GBP £5,000,000 for the period 2 August 2007 to 30 March 2009

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 \$3,472,599 (2008: \$2,675,110) supporting property rental and other obligations

ANZ Online Facility

The payroll facility is subject to annual review and is in place to assist with distribution of payroll and payments to creditors.

Credit card facility

The credit card facility is subject to annual review and is subject to application approval and the Bank's standard terms and conditions.

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Finance lease and hire purchase payable commitments				
<i>Finance lease commitments are payable:</i>				
Within one year	2,517	2,627	514	514
One year or later and no later than five years	4,661	5,541	1,400	1,913
	7,178	8,168	1,914	2,427
Less: Future lease finance charges	(834)	(1,008)	(248)	(388)
	6,344	7,160	1,666	2,039
Finance lease and hire purchase liabilities provided for in the financial statements				
<i>Current</i>	2,188	2,288	402	373
<i>Non-current</i>	4,156	4,872	1,264	1,666
<i>Finance lease commitments are payable:</i>	6,344	7,160	1,666	2,039

The consolidated entity leases plant and equipment under finance leases expiring from 1 to 5 years (2008: 1 to 5 years). At the end of the lease term, the consolidated entity has the option to purchase the equipment at a substantial discount to market value. The terms of the leases require that additional debt and further leases are not undertaken without prior approval of the lessor.

19. Employee benefits

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Aggregate liability for employee benefits, including on-costs				
Current				
Employee benefits provision	8,286	7,853	204	143
Non-current				
Employee benefits provision	1,710	1,550	28	8
	Consolidated		The Company	
	2009	2008	2009	2008
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%	0-5%	0-5%	0-5%
Discount rate	5.55%	6.55%	5.55%	6.55%
Settlement term (years)	7-10	7-10	10	10

Equity-based plans**Executive share option scheme (ESOS)**

The Company has an executive share option scheme.

The plan allows for the Board to determine who is entitled to participate in the ESOS 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 fair value of employee share options is measured using the Black-Scholes formula or the Binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

On 1 October 2008, the Company issued 1,730,000 options to employees under the Company's ESOS, the exercise price of these options issued was \$ 2.73 being the weighted average share price (VWAP) for the 30 days prior to 28 August 2008.

On 17 November 2008, the Company issued 50,000 options to employees under the Company's ESOS, the exercise price of these options issued was \$ 1.80 being the lowest exercise price in accordance with the ESOS as approved by shareholders at the Company's Annual General Meeting in 2004.

On 11 February 2009, the Company issued 255,000 options to employees under the Company's ESOS, the exercise price of these options issued was \$ 1.80 being the lowest exercise price in accordance with the ESOS as approved by shareholders at the Company's Annual General Meeting in 2004.

On 30 June 2009, the Company issued 400,000 options to employees under the terms materially similar to the Company's ESOS but lower than the minimum exercise price in the ESOS of \$1.80. The exercise price of these options issued was \$ 1.51 being the weighted average share price (VWAP) for the 30 days prior to 30 June 2009.

19. Employee benefits (continued)

Equity-based plans (continued)

Senior Executive Option Plan

In July 2007, the Company introduced a Senior Executive Option Plan (SEOP), designed to incentivise the Company's executive directors, division managing Directors and other senior management. The plan allows for the Board to determine who is entitled to participate in the SEOP and may grant options accordingly. The exercise of the options will entitle the option holder to subscribe for one share. The options are granted at the date of the agreement between the company and the employee, or for Directors, the date of shareholder approval, being the Company's 2007 AGM on the 20 November 2007 at an exercise price of \$6.00. The granted options have both a service condition being continued employment and a performance hurdle requiring an 18% year on year increase in the Photon share price to fully vest. As at 30 June 2008, no SEOP options had been issued.

The fair value of senior executive share options is measured using the Monte-Carlo simulation method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The Monte Carlo Simulation Method requires the use of many individual simulations, each simulation entails the following steps:

1. Simulate the share price of the Company, and the companies in the peer group, as at a performance test date. The share prices are simulated such that they are consistent with the assumed distribution of, and correlation between, share price outcomes.
2. Determine whether any awards vest at the current test date, based on simulated share prices
3. For any vesting awards, calculate the value using the simulated share price. This valuation uses either an analytic or Binomial tree methodology.
4. Calculate the present value of the award as at the valuation date.

The results of many simulations are aggregated to determine the total fair value of the award.

Executive Committee Option Scheme (ECOS)

In October 2008, the Company introduced an Executive Committee Option Scheme (ECOS), designed to incentivise the Company's executive directors, division managing Directors and other senior executives. The plan allows for the Board to determine who is entitled to participate in the ECOS and may grant options accordingly. The exercise of the options will entitle the option holder to subscribe for one share. This scheme was approved in Company's 2008 AGM on the 28 October 2008.

The fair value of executive committee share options is measured using the Black-Scholes formula of the Binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

In October 2008, the Company granted Mr. Tim Hughes 500,000 options and Mr. Matthew Bailey 300,000 options under ECOS with an exercise price of \$2.24 per option. The granted options have both a service condition of continued employment and a performance hurdle requiring greater than 10% growth in the Photon's Earning Per Share (EPS) for the year ending 30 June 2009 compared to Photon's EPS for the year ending 30 June 2008.

19. Employee benefits (continued)

Equity-based plans (continued)

In June 2009, the Company granted a further 280,000 options to senior executives under the ECOS with an exercise price of \$1.51 per option. The granted options have both a service condition and a performance hurdle requiring greater than 10% growth in the Photon's EPS for the year ending 30 June 2010 compared to Photon's EPS for the year ending 30 June 2009.

In June 2009, the Company granted a further 900,000 options to Division Managing Directors under the ECOS with an exercise price of \$1.51 per option. The granted options have both a service condition and two performance hurdles. For half of the granted options to vest, growth greater than 10% in Photon's EPS for the year ending 30 June 2010 compared to Photon's EPS for the year ending 30 June 2009 is required. For the balance of the granted options to vest, growth of greater than 10% in the Divisional Managing Director's relevant division EBITDA for the year ending 30 June 2010 compared to EBITDA for the year ending 30 June 2009 is required.

As at 30 June 2009, no ECOS options have been issued.

Matthew Bailey options

On 17 October 2006, one million options were approved to be issued to Matthew Bailey in four tranches of 250,000 options. The fair value of Tranche 1 was measured using the Binomial Tree method and tranches 2 to 4 were measured using the Monte Carlo simulation method (refer above). Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The following tranches have been issued as at 30 June 2009:

- Tranche 1: 250,000 options on 17 October 2006. The exercise price of the options was \$4.91, being the Volume Weighted Average Share Price (VWAP) for the 30 days prior to 30 June 2006, the date on which the Company's Remuneration Committee approved the issue of options (subject to shareholder approval).
- Tranche 2: 250,000 options on 28 November 2007. The exercise price of the options was \$5.94, being the Volume Weighted Average Share Price (VWAP) for the 30 days prior to 30 June 2007, the date on which the Company's Remuneration Committee approved the issue of options (subject to shareholder approval). This issue was subject to EPS hurdles.
- Tranche 3: 250,000 options on 1 October 2008. The exercise price of the options was \$3.16, being the Volume Weighted Average Share Price (VWAP) for the 30 days prior to 30 June 2008, the date on which the Company's Remuneration Committee approved the issue of options (subject to shareholder approval). This issue was subject to EPS hurdles.

Tim Hughes options

On 20 December 2007, one million options were issued to Tim Hughes. The fair value of options was measured using the Binomial Tree method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. The exercise price of the options was \$6.00.

Share options granted prior to November 2002 are not required to be recognised and measured in accordance with the principles of AASB 2. Details of options over unissued ordinary shares held by executives of the consolidated entity are set out in the Remuneration Report.

Notes to consolidated financial statements (continued)

19. Employee benefits (continued)

Equity-based plan (continued)

Employee share option scheme (ESOS), Executive Committee Option Scheme (ECOS) & Senior Executive option plan (SEOP)

Summary of options over unissued ordinary shares

Consolidated and company

Grant date	Expiry date	Weighted average Exercise Price	Numbers of options on issue at beginning of year (ii)	Options granted during year (iii)	Options issued during year	Options exercised during year	Options forfeited / expired during year	Number of options at year end	Proceeds received	Date issued	No. of shares issued	Expected life (years)	
							On issue (i)	Vested					
2009													
1 April 2004	1 April 2009	\$1.60	166,667	-	-	100,000	66,667	-	-	160,000	29 September 2008	100,000	5
29 July 2005	29 July 2010	\$2.79	1,437,288	-	-	-	56,420	1,380,868	1,319,385	-	-	-	2 – 5
30 Aug 2006	30 Aug 2010	\$4.71	1,213,000	-	-	-	216,000	997,000	332,333	-	-	-	2 – 5
17 October 2006	30 Sept 2011 – 30 Sept 2012	\$5.74	500,000	250,000	250,000	-	-	750,000	250,000	-	-	-	3.5 – 6.5
1 July 2007	1 July 2012	\$5.74	1,365,500	-	-	-	224,000	1,141,500	-	-	-	-	3.5 – 4.5
27 Aug 2007	26 Aug 2012	\$6.05	100,000	-	-	-	-	100,000	-	-	-	-	3.5 – 4.5
20 Nov 2007	20 Dec 2012	\$5.80	1,000,000	-	-	-	-	1,000,000	-	-	-	-	3 – 4
5 February 2008	28 Feb 2013	\$5.38	300,000	-	-	-	50,000	250,000	-	-	-	-	2 – 5
1 April 2008	31 March 2013	\$4.01	55,000	-	-	-	-	55,000	-	-	-	-	2.4 – 3.4
2 June 2008	31 May 2013	\$3.28	100,000	-	-	-	-	100,000	-	-	-	-	4 – 5
1 October 2008	30 September 2013	\$2.73	-	1,730,000	1,730,000	-	80,000	1,650,000	-	-	-	-	2 – 5
17 November 2008	16 November 2013	\$1.80	-	50,000	50,000	-	-	50,000	-	-	-	-	2 – 5
11 February 2009	31 January 2014	\$1.80	-	255,000	255,000	-	-	255,000	-	-	-	-	2 – 5
28 October 2008	31 August 2012	\$2.24	-	800,000	-	-	-	-	-	-	-	-	1 – 4
30 June 2009	30 June 2014	\$1.51	-	400,000	400,000	-	-	400,000	-	-	-	-	2 – 5
30 June 2009	31 August 2013	\$1.51	-	1,180,000	-	-	-	-	-	-	-	-	1 – 4
			6,237,455	4,665,000	2,685,000	100,000	693,087	8,129,368	1,901,718	160,000		100,000	

(i) 666,667 options on issue at 30 June 2009 related to a former employee who retained options at the discretion of the Board.

(ii) The difference between the 30 June 2009 opening and the 30 June 2008 closing is 666,667 which relates to the above former employee options.

(iii) ECOS options were granted during the year ended 30 June 2009 but were not issued.

Photon Group Limited

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Notes to consolidated financial statements (continued)

19. Employee benefits (continued)

Equity-based plan (continued)

Employee share option scheme (ESOS), Executive Committee Option Scheme (ECOS) & Senior Executive option plan (SEOP)

Summary of options over unissued ordinary shares

Grant date	Expiry date	Weighted average Exercise Price	Numbers of options on issue at beginning of year	Options granted during year	Options issued during year	Options exercised during year	Options forfeited / Expired during year (i)	Number of options at year end On issue (i) Vested	Proceeds received	Date issued	No. of shares issued	Expected life (years)
2008												
1 April 04	1 April 09	\$1.80	466,667	-	-	300,000	-	166,667 46,667	540,000	30 Aug 2007	300,000	5
31 May 05 (i)	31 May 10	\$2.87	1,000,000	-	-	333,333	-	666,667 444,444	956,666	21 Sept 2007	333,333	2 – 5
29 July 05	29 July 10	\$2.99	1,595,750	-	-	98,210	60,252	1,437,288 1,145,763	293,648	21 Sept 2007	98,210	2 – 5
30 Aug 06	30 Aug 10	\$4.91	1,368,000	-	-	-	155,000	1,213,000 -	-	-	-	2 – 5
17 October 2006	30 Sept 2011 – 30 Sept 2012	\$5.94	250,000	-	250,000	-	-	500,000 -	-	-	-	3.5 – 6.5
1 July 2007	1 July 2012	\$5.94	-	1,450,000	1,450,000	-	84,500	1,365,500 -	-	-	-	3.5 – 4.5
27 Aug 2007	26 Aug 2012	\$6.25	-	100,000	100,000	-	-	100,000 -	-	-	-	3.5 – 4.5
20 Nov 2007	20 Dec 2012	\$6.00	-	1,000,000	1,000,000	-	-	1,000,000 -	-	-	-	3 – 4
20 June 2007 – 20 Nov 2007	31 March 2012	\$6.00	-	6,522,950	-	-	-	- -	-	-	-	2.8 – 3.8
1 April 2008	1 April 2013	\$6.00	-	450,000	-	-	-	- -	-	-	-	2.4 – 3.4
2 June 2008	2 June 2013	\$6.00	-	400,000	-	-	-	- -	-	-	-	4 – 5
5 February 2008	28 Feb 2013	\$5.58	-	300,000	300,000	-	-	300,000 -	-	-	-	2 – 5
1 April 2008	31 March 2013	\$4.21	-	55,000	55,000	-	-	55,000 -	-	-	-	2.4 – 3.4
2 June 2008	31 May 2013	\$3.48	-	100,000	100,000	-	-	100,000 -	-	-	-	4 – 5
			4,680,417	10,377,950	3,255,000	731,543	299,752	6,904,122 1,636,874	1,790,314			731,543

(i) 180,000 options as at 30 June 2008 relate to a former employee who retained options at the discretion of the Board.

19. Employee benefits (continued)

- At 30 June 2009, there are 1,803,509 (2008: 1,636,874) options exercisable.
- 626,420 (2008: 299,752) options were forfeited during the year were the result of employees ceasing employment at the Company.
- The weighted average share price of options exercised during the year on the day of exercise was \$1.60 (2008: \$2.48).
- The fair value of share options and associated assumptions are disclosed in the Remuneration Report within the Directors' Report. The total expense recognised in the consolidated entity for the financial year 30 June 2009 for share based payment transactions was \$3,591,671 (2008: \$4,384,094).

The number and weighted average exercise price of share options is as follows:

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding at 1 July (excludes left employees)	\$4.70	6,237,455	\$3.51	4,680,417
Forfeited during the period	\$3.15	(626,420)	\$4.81	(299,752)
Expired during the period	\$1.60	(66,667)	-	-
Exercised during the period	\$1.60	(100,000)	\$2.45	(731,543)
Issued during the period	\$2.48	2,685,000	\$5.83	3,255,000
Outstanding at 30 June (excludes left employees)	\$3.99	8,129,368	\$4.70	6,904,122
Exercisable at 30 June	\$3.41	1,803,509	\$2.92	1,636,874

- The options outstanding at 30 June 2009 have an exercise price in the range of \$1.51 to \$6.05 and a weighted average contractual life 2.98 years.
- The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2009 was \$2.68 (2008: \$5.86).
- The fair value of services received in return from share options granted is based on the fair value of share options granted, measured using:
 - The Black Scholes model : options under ESOS and ECOS
 - The Binomial model : options under ESOS and ECOS, options issued to Tim Hughes, Tranche 1 options issued to Matthew Bailey
 - Monte Carlo Simulation Method: Tranches 2-4 of options issued to Matthew Bailey.

The measurements incorporate the probability of the relative shareholder return vesting condition being met, with the following inputs:

19. Employee benefits (continued)

2009 - Key Management employees (including senior employees)

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

Grant date	Expiry date	Value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield	Expected life (years)
1 October 2008 (i)	30 September 2013	\$0.378 - \$0.423	\$2.73	\$2.59	25% - 30%	5.7%	7.2%	2 - 5
28 October 2008 (ii) (iii)	31 August 2012	\$0.0558	\$2.24	\$1.50	30%	4.76%	7.2%	1 - 4
17 November 2008 (i)	16 November 2013	\$0.140 - \$0.280	\$1.80	\$1.38	25% - 30%	4.76%	7.2%	2 - 5
11 February 2009 (i)	31 January 2014	\$0.100 - \$0.220	\$1.80	\$1.28	25% - 30%	4.76%	7.2%	2 - 5
30 June 2009 (i)	30 June 2014	\$0.268 - \$0.299	\$ 1.51	\$ 1.64	35%	5.23%	8%	2-5
30 June 2009 (ii) (iii)	31 August 2013	\$0.212	\$ 1.51	\$ 1.64	35%	5.23%	8%	1-4

- (i) As set out in the Company's ESOS, the exercise price of options granted after 25 March 2004 is calculated with reference to the volume weighted average price (VWAP) of the Company's ordinary shares for 30 business days prior to the issue date.
- (ii) As set out in the Company's ECOS, the exercise price of options is calculated with reference to either the volume weighted average price (VWAP) of the Company's ordinary shares for the previous financial year's AGM or the VWAP for 30 business days prior to the issue date.
- (iii) Options granted under ECOS have not been issued as at 30 June 2009, are not issued until certain performance hurdles are met.

19. Employee benefits (continued)**2008 - Key Management employees (including senior employees)**

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

Grant date	Expiry date	Value per option	Exercise price (i)	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield	Expected life (years)
1 July 2007	1 July 2012	\$1.28 - \$1.40	\$5.94	\$6.03	25%	6.33%	3.8%	3.5 – 4.5
1 July 2007 (ii)	31 March 2011 – 31 March 2012	\$0.72 - \$0.84	\$6.00	\$5.90	25%	6.32% - 6.34%	3.8%	3.2 – 4.2
27 August 2007 (ii)	31 March 2011 – 31 March 2012	\$0.87 - \$0.95	\$6.00	\$6.25	25%	6.08% - 6.12%	3.9%	3 – 4
27 August 2007	26 August 2012	\$1.34	\$6.26	\$6.25	25%	6.33%	3.8%	3.5 – 4.5
19 November 2007 (ii)	31 March 2011 – 31 March 2012	\$1.28 - \$1.34	\$6.00	\$6.85	25%	6.14% - 6.30%	3.7%	2.8 – 3.8
20 November 2007 (iii)	20 December 2012	\$1.83	\$6.00	\$6.93	20 – 30%	6.29%	3.7%	3.8
20 November 2007 (ii)	31 March 2011 – 31 March 2012	\$1.32 - \$1.38	\$6.00	\$6.93	25%	6.14% - 6.30%	3.7%	2.8 – 3.8
5 February 2008	28 February 2013	\$0.50	\$5.58	\$5.75	20 – 30%	6.41%	7.2%	2 – 5
1 April 2008 (ii)	31 March 2011 – 31 March 2012	\$0.00 – \$0.09	\$6.00	\$3.70	30%	6.11% - 6.14%	7.3%	2.4 – 3.4
1 April 2008	31 March 2013	\$0.45	\$4.21	\$3.70	20 – 30%	5.85%	7.2%	3 – 5
2 June 2008	31 March 2011 – 31 March 2012	\$0.00 – \$0.11	\$6.00	\$3.87	30%	6.11% - 6.14%	7.3%	2.2 – 3.2
2 June 2008 (ii)	2 June 2013	\$0.49	\$3.48	\$3.87	20 – 30%	6.59%	7.2%	4 – 5

- (i) As set out in the Company's ESOS, 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.
- (ii) Options granted under SEOP have not been issued as at 30 June 2008, are not issued until certain performance hurdles are met.
- (iii) Options issued to Tim Hughes vesting over 3 years between 1 July 2007 and 30 June 2010 and expires 30 June 2012.

20. Key management personnel disclosures

In addition to executive and non-executive directors, the following were key management personnel of the consolidated entity at any time during the reporting period.

Name	Position
Stewart Bailey	Managing Director Field Marketing Division
Nigel Long	Managing Director Strategic Intelligence Division
Andrew Davie	Managing Director Integrated Communications & Digital Division
Caitlin Millar-Smith	Managing Director Internet& E-Commerce Division
Adam Kilgour	Managing Director Specialised Communications Division

Disclosure of remuneration policies, service contracts and details of individual directors and executives remuneration as permitted by Corporations Regulations 2M.3.03 and 2M6.04 are included in the Remuneration report in the Directors' Report on pages 19 to 34.

Loans with key management personnel

No loans were outstanding at the reporting date to key management personnel and their related parties.

Notes to consolidated financial statements (continued)

20. Key management personnel disclosures (continued)

Other transactions with the Company or its controlled entities

A number of the key management personnel, or their 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 key management personnel, and their related entities, total revenues of \$767,900 and total expenses of \$225,876. Details of the transactions are as follows:

Key management personnel	Transaction	Note	Consolidated 2009 Revenue/ (Expense) \$'000	Consolidated 2008 Revenue/ (Expense) \$'000
S McIntosh	Project management and production	(i)	768	4
M Bailey	Rental of subsidiary premises	(ii)	(226)	(161)

(i) Project management and production services provided to RG Capital Pty Ltd by Australian Business Theatre Pty Limited. S McIntosh is director of RG Capital Pty Ltd.

(ii) The Bailey Superannuation Fund provided rental property services to The Bailey Group Pty Limited

The key management personnel compensation (including all directors) is as follows:

In AUD	Consolidated		Company	
	2009	2008	2009	2008
Short-term employee benefits	4,887,364	3,214,442	2,592,404	2,071,695
Other long term benefits	265,707	143,167	79,911	89,542
Post-employee benefits	-	225,000	-	-
Share based payments - Shares issued	-	417,502	-	-
Share-based payments –Options granted under ESOS	1,108,860	1,431,325	1,108,860	1,265,929
Share-based payments – Options granted under ECOS	267	-	267	-
Share-based payments – Options granted under SEOP	1,933,286	1,914,375	1,933,286	1,465,750
Total	8,195,484	7,345,811	5,714,728	4,892,916

Stewart Bailey, Adam Kilgour, Caitlin Miller-Jack, Andrew Davie and Nigel Long receive no compensation in relation to the management of the Company. The compensation disclosed above represents an allocation of the key management personnel's estimated compensation from the consolidated entity in relation to their services rendered to the Company.

The prior year comparative totals include key management personnel in 2008 who are not key management personnel in 2009 and have therefore not been disclosed in the remuneration report while being included in the total above in accordance with AASB 124 *Related Party Disclosures*.

20. Key management personnel disclosures (continued)

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 key management personnel, including their related entities is as follows:

	Granted held at 1 July 2008	Granted as remuneration in year	Exercised	Granted held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors						
Tim Hughes	5,100,000	500,000	(100,000)	5,500,000	-	1,000,000
Matthew Bailey	1,900,000	300,000	-	2,200,000	250,000	250,000
Executives						
Stewart Bailey	800,000	380,000	-	1,180,000	33,334	40,000
Adam Kilgour	803,334	380,000	-	1,183,334	35,000	35,000
Nigel Long	600,000	280,000	-	880,000	-	-
Andrew Davie	500,000	-	-	500,000	-	-
Caitlin Millar-Jack	522,950	150,000	-	672,950	-	-

	Granted held at 1 July 2007	Granted as remuneration in year	Exercised	Granted held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors						
Tim Hughes	1,200,000	4,000,000	(100,000)	5,100,000	100,000	100,000
Matthew Bailey	1,200,000	900,000	(200,000)	1,900,000	100,000	-
Executives						
Stewart Bailey	100,000	700,000	-	800,000	6,667	6,667
Adam Kilgour	105,000	700,000	(1,666)	803,334	1,666	-
Nigel Long	-	600,000	-	600,000	-	-
Andrew Davie	-	500,000	-	500,000	-	-
Caitlin Millar – Jack	-	522,950	-	522,950	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2009.

No options were held by key management personnel related parties.

Matthew Bailey and Stewart Bailey are related parties.

20. Key management personnel disclosures (continued)

Options and rights over equity instruments issued as remuneration (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Photon Group Limited held, directly indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2008	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2009
Directors						
Tim Hughes	3,130,505	1,334,711	-	100,000	-	4,565,216
Matthew Bailey(i)	8,930,450	2,976,819	-	-	-	11,907,269
Susan McIntosh	244,444	81,482	-	-	-	325,926
Brian Bickmore	158,234	50,000	-	-	-	208,234
Paul Gregory	160,000	-	-	-	-	160,000
Executives						
Adam Kilgour	1,249,841	521,614	-	-	-	1,771,455
Stewart Bailey(i)	8,930,450	2,976,819	-	-	-	11,907,269

(i) Matthew Bailey's and Stewart Bailey's shareholdings are inclusive of their related party shareholdings.

	Held at 1 July 2007	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2008
Directors						
Tim Hughes	2,700,444	330,061	-	100,000	-	3,130,505
Matthew Bailey(i)	8,663,332	-	67,118	200,000	-	8,930,450
Susan McIntosh	244,444	-	-	-	-	244,444
Brian Bickmore	150,000	8,234	-	-	-	158,234
Paul Gregory	160,000	-	-	-	-	160,000
Executives						
Adam Kilgour	1,238,175	10,000	-	1,666	-	1,249,841
Stewart Bailey(i)	8,663,332	-	67,118	200,000	-	8,930,450

(i) Matthew Bailey's and Stewart Bailey's shareholdings are inclusive of their related party shareholdings.

21. Provisions

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Current				
Lease make good	752	892	-	-
Lease incentive	832	742	343	343
Rent increase	681	502	668	493
	<u>2,265</u>	<u>2,136</u>	<u>1,011</u>	<u>836</u>
Non-Current				
Lease make good	1,559	1,558	15	15
Lease incentive	907	1,524	743	1,086
Rent increase	698	386	-	-
	<u>3,164</u>	<u>3,468</u>	<u>758</u>	<u>1,101</u>
Total provisions current and non current	<u>5,429</u>	<u>5,604</u>	<u>1,769</u>	<u>1,937</u>
Reconciliations				
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:				
Lease make good				
Carrying amount at beginning of year	2,450	1,268	15	15
Increase due to new provision	74	269	-	-
Increase through business combination	39	1,128	-	-
Effect of movement in exchange rates	4	(84)	-	-
Provision released during the year	(256)	(131)	-	-
Carrying amount at end of year	<u>2,311</u>	<u>2,450</u>	<u>15</u>	<u>15</u>
Lease incentive				
Carrying amount at beginning of year	2,266	2,193	1,429	1,772
Increase due to new incentive	35	316	-	-
Increase through business combination	-	230	-	-
Effect of movement in exchange rates	3	(27)	-	-
Released during the year	(565)	(446)	(343)	(343)
Carrying amount at end of year	<u>1,739</u>	<u>2,266</u>	<u>1,086</u>	<u>1,429</u>
Rent increase				
Carrying amount at beginning of year	888	319	493	319
Rental increase	490	296	175	174
Increase due new provision	-	192	-	-
Increase through business combination	1	81	-	-
Carrying amount at end of year	<u>1,379</u>	<u>888</u>	<u>668</u>	<u>493</u>
Total provisions current and non current	<u>5,429</u>	<u>5,604</u>	<u>1,769</u>	<u>1,937</u>

22. Capital and reserves

In thousands of AUD

	Consolidated		The Company	
	2009	2008	2009	2008
Share capital				
102,840,415 (2008: 76,589,369) ordinary shares, fully paid	255,500	180,371	255,500	180,371
Ordinary shares				
<p> 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. </p>				
Ordinary shares				
<i>Movements during the year</i>				
Balance at beginning of year				
76,589,369 (2008: 74,206,346) shares	180,371	169,077	180,371	169,077
Shares issued:				
- 434,650 shares issued pursuant to acquisition of Found for \$3.16 per share	1,371	-	1,371	-
- 211,000 shares issued pursuant to exercise of options under the terms of the ESOS	338	-	338	-
- 25,529,790 shares issued pursuant to the rights issue for \$3.00	76,589	-	76,589	-
- 75,606 shares issued pursuant to equity settled employee bonuses	115	-	115	-
- 45,000 shares issued pursuant to acquisition of Bellamyhayden for \$5.53 per share	-	249	-	249
- 158,228 shares issued pursuant to acquisition of ISS Marketing for \$6.32 per share	-	1,000	-	1,000
- 100,000 shares issued pursuant to acquisition of Club Sales for \$6.23 per share	-	623	-	623
- 600,000 shares issued pursuant to acquisition of BMF Advertising for \$6.25 per share	-	3,750	-	3,750
- 741,562 shares issued pursuant to exercise of options under the terms of the ESOS	-	1,796	-	1,796
- 111,662 shares issued pursuant to equity settled employee bonuses	-	682	-	682
- 516,590 shares issued pursuant to acquisition of Findology for \$6.49.	-	3,351	-	3,351
- 109,981 shares issued pursuant to exercise of options under the terms of the ESOS	-	209	-	209
		-		-
Transaction costs arising from issue of shares	(4,146)	(168)	(4,146)	(168)
Tax effect of transactions through equity	862	(198)	862	(198)
Balance at end of year	255,500	180,371	255,500	180,371

22. Capital and reserves (continued)

Ordinary shares (continued)

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Options reserve

The options reserve comprises the cumulative expense relating to the fair value of options on issue to key management personnel and employees.

Revaluation reserve

The revaluation reserve comprises the cumulative net change in the fair value of available-for sale financial assets until the investment is derecognised.

Cash Flow Hedge reserve

The cash flow hedge reserve comprises the net movement in the fair value of interest rate swap and foreign currency derivatives.

22. Capital and reserves (continued)**Dividends**

	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
2009				
Final 2008 – Ordinary shares	17.0c	17,396	7 October 2008	Franked
Interim 2009 – Ordinary shares	6.0c	6,167	7 April 2009	Franked
		<u>23,563</u>		
2008				
Final 2007 – Ordinary shares	13.0c	9,765	18 October 2007	Franked
Interim 2008 – Ordinary shares	11.5c	8,808	8 April 2008	Franked
		<u>18,573</u>		
	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
Subsequent events				
Since the end of the financial year, the directors declared the following dividend:				
Final – Ordinary shares	6.5c	6,685	11 September 2009	Franked

Dividend franking account

	The Company	
	2009 \$'000	2008 \$'000
30% franking credits available to shareholders of Photon Group Limited for subsequent financial years	24,811	21,091

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.

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by \$2,864,840 (2008: \$7,440,110).

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of the dividend franking account.

Notes to consolidated financial statements (continued)

23. Financial risk management / Financial instruments

The consolidated entity has exposure to the followings risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The consolidated entity's principal financial instruments comprise cash, receivables, payables, interest bearing liabilities, other financial liabilities and derivative financial instruments.

The consolidated entity manages its exposure to key financial risks in accordance with the consolidated entity's treasury risk management policy. The policy has been established to manage the key financial risks such as interest rate, foreign exchange, counterparty credit and liquidity.

The consolidated entity's treasury risk management policies are established to identify and analyse the risks faced by the consolidated entity, to set appropriate risk limits and controls to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities. The consolidated entity, through its training and procedures, has developed a disciplined and constructive control environment in which treasury and finance personnel understand their roles and obligations in respect of the consolidated entity's treasury management objectives.

The consolidated entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates, foreign exchange, liquidity and credit risk. The consolidated entity enters into derivative financial instruments, principally interest rate swaps and forward rate agreements to manage interest rate and foreign currency risks. The consolidated entity seeks to deal only with creditworthy counterparties and these assessments are regularly reviewed. Liquidity risk is monitored through the use of future rolling cash flow forecasts.

Credit risk**Exposure to credit risk**

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from a consolidated entity's receivables from customers. For the Company it arises from receivables from subsidiaries. Each subsidiary is responsible for its analysis of the creditworthiness of new customers and for determining whether the subsidiary's standard payment terms and conditions are offered. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

During the year ended 30 June 2009, the consolidated entity entered into transactions with more than 2,000 unique customers. The ten largest customers accounted for 20% of net revenue for the year ended 30 June 2009 with no one customer accounting for more than 6% of net revenue. The consolidated entity has one receivable from Vision Pursuit Pty Limited for \$7 million as at 30 June 2009 within payment terms. There are no other material credit exposures relating to single or group of receivables

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

<i>In thousands of AUD</i>	Note	Carrying amount	
		2009	2008
Trade and other receivables	9	111,016	109,704
Cash and cash equivalents	8	23,559	38,823
Deposits	11	223	214
Derivative used for hedging	11	-	697
		<u>134,798</u>	<u>149,438</u>

The consolidated entity's maximum exposure to trade receivables credit risk at the reporting date was:

<i>In thousands of AUD</i>		Carrying amount	
		2009	2008
Trade receivables	9	<u>105,844</u>	<u>106,941</u>

The consolidated entity's credit risk exposure is consistent across the geographic and business segments in which the consolidated entity operates.

23. Financial risk management / Financial instruments (continued)**Impairment losses**

The ageing of the consolidated entity's trade receivables at the reporting date was:

<i>In thousands of AUD</i>	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	72,739	-	75,852	-
Past due and less than 90 days	23,810	-	25,497	-
Past due and more than 90 days	9,295	-	5,592	-
Past due, more than 90 days and impaired	1,213	1,213	799	799
	<u>107,057</u>	<u>1,213</u>	<u>107,740</u>	<u>799</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

<i>In thousands of AUD</i>	2009	2008
Balance at 1 July	799	267
Impairment loss recognised	414	(293)
Acquired through business combination	-	825
Balance at 30 June	<u>1,213</u>	<u>799</u>

Based on historic trading terms, the consolidated entity believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 90 days; which represents 90.2% (2008: 94.1%) of the trade receivables balance. For trade receivables which are past due and over 90 days, the consolidated entity individually assesses each trade receivable and determines its recoverability. For those trade receivables which are assessed as non recoverable, an impairment allowance is made, which represents 1.1% (2008: 0.7%) of the total trade receivables balance.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the consolidated entity is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

Equity price risk

The Company's investment in available for sale assets in 2007 is listed on the Australian Stock exchange (ASX). During 2008, the available for sale asset was re-classified as an equity accounted investee and therefore the Company had no price risk exposure during the year and no equity price risk exists at 30 June 2009.

23. Financial risk management / Financial instruments (continued)

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they become due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity manages liquidity risk by monitoring forecast cash flows monthly, reviewing them with the Board, and ensuring that adequate committed unutilised borrowing facilities are maintained. At 30 June 2009 the consolidated entity had \$56.9 million of committed unutilised borrowing capacity under its cash advance facilities. The consolidated entity also has a \$4.8 million overdraft facility available to it which was undrawn at 30 June 2009.

On 17 August 2009, the Company announced an underwritten capital raising of \$114.5 million to be completed via a placement of 14.4 million shares and a non-renounceable entitlement offer. The capital raising is expected to be completed around 18 September 2009 and the proceeds of this raising (net of fees) will be used to repay balances under the cash advance facilities. Following the repayment outstanding facilities, the consolidated entity is expected to have \$165 million of committed unutilised borrowing capacity under its cash advance facilities. These facilities, net of the mandatory payment of the cash advance facility of \$50 million prior to 30 April 2010, are expected to be used to meet deferred consideration liabilities. Please refer to the subsequent event note for more details on the capital raising.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Consolidated 30 June 2009

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 5 years	Over 5 years
<i>In thousands of AUD</i>					
Non-derivative financial liabilities					
Finance lease/Hire Purchase liabilities	6,344	7,178	2,517	4,661	-
Secured bank loans	273,106	293,965	46,155	247,810	-
Trade and other payables	67,796	67,796	67,773	23	-
Deferred consideration	111,432	111,432	66,708	44,724	-
Other loans payable	516	516	-	516	-
Derivative financial instruments					
Interest rate swaps used for hedging	4,353	4,353	181	4,172	-
	463,547	485,240	183,334	301,906	-

Consolidated 30 June 2008

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 5 years	Over 5 years
<i>In thousands of AUD</i>					
Non-derivative financial liabilities					
Finance lease/Hire Purchase liabilities	7,160	8,168	2,627	5,541	-
Secured bank loans	314,736	362,547	26,941	335,606	-
Trade and other payables	87,234	87,234	87,234	-	-
Secured overdraft	3,778	3,778	3,778	-	-
Deferred consideration	65,507	65,507	7,839	57,668	-
Loan notes payable	5,725	5,908	5,908	-	-
Other loans payable	1,136	1,136	1,136	-	-
Derivative financial instruments					
Interest rate swaps used for hedging	(697)	(697)	(697)	-	-
	484,579	533,581	134,766	398,815	-

23. Financial risk management / Financial instruments (continued)

Company 30 June 2009	Carrying amount	Contract-ual cash flows	Less than 1 year	1 – 5 years	Over 5 years
<i>In thousands of AUD</i>					
Non-derivative financial liabilities					
Finance lease/Hire Purchase liabilities	1,666	1,914	514	1,400	-
Secured bank loans	174,310	190,384	43,465	146,919	-
Trade and other payables	2,749	2,749	2,749	-	-
Payables to related parties	-	-	-	-	-
Deferred consideration	73,969	73,969	42,274	31,695	-
Derivative financial instruments					
Interest rate swaps used for hedging	4,353	4,353	181	4,172	-
	257,047	273,369	89,183	184,186	-

Company 30 June 2008	Carrying amount	Contract-ual cash flows	Less than 1 year	1 – 5 years	Over 5 years
<i>In thousands of AUD</i>					
Non-derivative financial liabilities					
Finance lease/Hire Purchase liabilities	2,039	2,427	514	1,913	-
Secured bank loans	219,301	249,645	20,399	229,246	-
Trade and other payables	6,332	6,332	6,332	-	-
Payables to related parties	7,414	7,414	7,414	-	-
Deferred consideration	42,837	42,837	5,821	37,016	-
Deferred consideration					
Derivative financial instruments					
	(697)	(697)	(697)	-	-
	277,226	307,958	39,783	268,175	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entities income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

The consolidated entity enters into derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the consolidated entity's treasury risk management policy.

Capital Management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's key sources of capital are available facilities under the Fixed / Variable Rate Cash Advance Facility and share capital. The Board seeks to maintain a balance between higher returns that might be possible with higher levels of gearing and the advantages afforded by a prudent capital position.

Under the terms of its Cash Advance Facility, the consolidated entity is required to maintain certain maximum capitalisation (book), maximum leverage and minimum interest cover ratios. The consolidated entity is in compliance with this requirement.

The Company has an Employee Share Option Plan (ESOS) and Executive Committee Option Scheme (ECOS), which allows for the Board to grant options accordingly to certain employees at its discretion. The exercise of an option will entitle the option holder to subscribe for one share.

23. Financial risk management / Financial instruments (continued)

Capital Management (continued)

From time to time, as considered appropriate by the Board, the Company raises share capital from the issue of new shares to existing and new shareholders.

There were no changes in the consolidated entity's approach to capital management during the year. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of this risk arises from operations, capital expenditures and translation risks.

The consolidated entity hedges the exposure to foreign currency assets on the balance sheet through obtaining borrowings in foreign currencies to minimise the exposure for the consolidated entity. Interest on these borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the consolidated entities, primarily United States Dollar and Great British Pound. This provides an economic hedge. The consolidated entity has entered into forward rate agreements in to hedge its exposure to foreign currency current liabilities associated with deferred consideration payments. Such forward rate agreements have the economic effect of fixing the Australian dollar value of foreign currency current liabilities.

The Company has entered into foreign currency forward rate agreements to purchase GBP 9,000,000 against a set AUD amount expiring within the next twelve months.

Interest rate risk

Interest rate risk refers to the risk that the fair value of the future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The consolidated entity has no significant interest-bearing assets. The consolidated entity's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk. The consolidated entity's policy is to ensure between 25 and 50 per cent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates, lower than those available if the consolidated entity borrowed at fixed rates directly. Under the interest rate swaps, the consolidated entity agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 18 for details on the interest rate swap facility.

The impact of a change in interest rates by +/- 1% from the year end rates applicable to the loans and borrowings is set out below:

23. Financial risk management / Financial instruments (continued)**Profile**

At the reporting date the interest rate profile of the Company's and the consolidated entity's interest-bearing financial instruments with interest rate risk was:

<i>In thousands of AUD</i>	Consolidated Carrying amount		Company Carrying amount	
	2009	2008	2009	2008
Variable rate instruments				
Secured bank loans	273,106	314,736	174,310	219,301
Cash and cash equivalents	23,531	38,823	719	7,463
Secured overdraft	-	3,778	-	-
Deposits	28	214	-	259

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

Consolidated <i>Effect in thousands of AUD</i>	Profit or loss		Equity	
	+100bp	-100bp	+100bp	-100bp
30 June 2009				
Variable rate instruments	(2,675)	2,675	-	-
Interest rate swap	719	(719)	(3,454)	(4,891)
Cash flow sensitivity (net)	(1,956)	1,956	(3,454)	(4,891)
30 June 2008				
Variable rate instruments	(3,203)	3,203	-	-
Interest rate swap	798	(798)	1,761	(367)
Cash flow sensitivity (net)	(2,405)	2,405	1,761	(367)
Company <i>Effect in thousands of AUD</i>				
30 June 2009				
Variable rate instruments	(1,687)	1,687	-	-
Interest rate swap	-	-	-	-
Cash flow sensitivity (net)	(1,687)	1,687	-	-
30 June 2008				
Variable rate instruments	(2,193)	2,193	-	-
Interest rate swap	798	(798)	1,761	(367)
Cash flow sensitivity (net)	(1,395)	1,395	1,761	(367)

23. Financial risk management / Financial instruments (continued)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

Consolidated	30 June 2009		30 June 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of AUD</i>				
Cash and cash equivalents	23,531	23,531	38,823	38,823
Bank short-term deposit	28	28	159	159
Trade receivables	105,844	105,844	106,941	106,941
Derivatives	(4,353)	(4,353)	697	697
Interest-bearing deposits	223	223	214	214
Trade and other payables	(67,796)	(67,796)	(87,234)	(87,234)
Secured bank loan	(273,106)	(273,106)	(314,736)	(314,736)
Secured bank overdraft	-	-	(3,778)	(3,778)
Deferred consideration payable	(111,432)	(111,432)	(65,507)	(65,507)
Finance lease liabilities	(2,836)	(2,836)	(3,694)	(3,694)
Hire purchase lease liabilities	(3,508)	(3,508)	(3,466)	(3,466)
Loan notes payable	-	-	(5,725)	(5,725)
Other loans payable	(516)	(516)	(1,136)	(542)
	<u>(333,921)</u>	<u>(333,921)</u>	<u>(338,442)</u>	<u>(337,848)</u>

Company	30 June 2009		30 June 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of AUD</i>				
Cash and cash equivalents	719	719	7,462	7,462
Bank short-term deposit	-	-	1	1
Trade receivables	900	900	1,131	1,131
Derivatives	(4,353)	(4,353)	697	697
Loans to subsidiaries	121,541	121,541	112,273	112,273
Investments in subsidiaries	394,023	394,023	343,153	343,153
Trade and other payables	(2,749)	(2,749)	(6,332)	(6,332)
Payable to related parties	-	-	(7,414)	(7,414)
Secured bank loan	(174,310)	(174,310)	(219,301)	(219,301)
Deferred consideration payable	(73,969)	(73,969)	(42,837)	(42,837)
Finance lease liabilities	(1,666)	(1,666)	(2,039)	(2,039)
	<u>260,136</u>	<u>260,136</u>	<u>186,794</u>	<u>186,794</u>

24. Operating leases**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2009	2008	2009	2008
Less than one year	13,380	10,505	1,723	1,649
Between one and five years	23,144	22,722	4,578	5,834
More than five years	404	3,256	-	-
	<u>36,928</u>	<u>36,483</u>	<u>6,301</u>	<u>7,843</u>

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.

All operating leases are subject to a standard two to five year renewal terms with no purchase option or escalation clauses included.

During the year ended 30 June 2009, \$17,136,893 was recognised as an expense in the income statement in respect of operating leases (2008: \$13,799,688).

25. Contingencies**Contingent liabilities****Indemnities**

Indemnities have been provided to directors and certain executive officers of the Company in respect to third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 30 June 2009.

26. Controlled entities

Particulars in relation to controlled entities:

Name	Consolidated Entity Interest	
	2009 %	2008 %
Parent entity		
Photon Group Limited		
Controlled entities		
AdPartners Group Pty Limited	100	100
Ad Partners Group (Media) Pty Limited	100	100
Australian Business Theatre Pty Limited	100	100
ABT Limited (ii)	100	100
ABT Creative (xiv)	100	100
Brass Tacks Pty Limited	100	100
CPR Communications and Public Relations Pty Limited	100	100
Australian Research Group Pty Limited	100	100
Capital Policies and Trade Pty Limited	94	94
The Precinct Group Pty Limited	100	100
Precinct Ideas Pty Limited	100	100
Ross Barr & Associates Pty Ltd	100	-
ImageBox Group Pty Limited	51	51
Love Pty Limited	100	100
IDEAssociates Pty Limited	100	100
Precinct Ltd (ii)	100	100
Returnity Pty Limited	100	100
Bailey Group NZ Ltd (i)	100	100
Photon Group NZ Ltd (i)	100	51
The Artel Group Pty Limited	100	100
Barimos Pty Limited	100	100
The Bailey Group Pty Limited	100	100
Powerforce Total Merchandising Pty Limited	100	100
Retail*Facts Pty Limited	100	100
REL Field Marketing Australia Pty Limited	100	100
The Leading Edge Market Research Consultants Pty Limited	100	100
The Leading Edge Market Research Consultants Limited (iii)	100	100
The Leading Edge Market Research Consultants Pte Limited (vi)	100	100
ONAT Holdings Pty Limited	100	100
Orchard National Pty Limited	100	100
Brand Impact Pty Limited	100	100
Retail Insight Australia Pty Limited	100	-
Be Interactive Holdings Pty Limited	100	100
Legion Interactive Pty Limited	100	100
Blue Sky Frog Pty Limited	100	100
Legion Interactive (NZ) Pty Limited (i)	100	100
Media Zoo Pty Limited	99.1	99.1
Be Interactive Pty Ltd	100	-
Kinetics Pty Limited	100	100
Kaleidoscope Marketing Communications Pty Limited	100	100
Counterpoint Marketing & Sales Pty Limited	100	100
SEE Life Differently Holdings Pty Limited	100	100
SEE Life Differently Pty Limited	100	100
Creo Limited (i)	100	100
Demonstration Plus Pty Limited	100	100
Demonstration Plus (NZ) Pty Limited (i)	100	100

26. Controlled entities (continued)

Particulars in relation to controlled entities: Name	Consolidated Entity Interest	
	2009 %	2008 %
iMega Pty Ltd	100	100
USA Online Pty Limited	100	100
iMarketing Pty Limited	100	100
Web Agency Pty Limited	100	100
Freegroove Pty Limited	100	100
Zearch Pty Limited	100	100
Ausrep Pty Ltd	100	100
Jigsaw Strategic Research Pty Limited	100	100
Belgiovane Williams Mackay Pty Ltd (xvii)	100	100
Paterson Partners Adcafe Pty Limited	100	100
Cox Inall Communications Pty Limited	100	100
Pixel Dust Pty Limited	100	100
I-Group BWM Pty Limited	100	100
DVL Smith Group Pty Ltd	100	100
DVL Smith Group Limited (iii)	100	100
DVL Smith Consulting Limited (v)	100	100
DVL Smith Training Limited (v)	100	100
C4 Communication Pty Limited	100	100
City Public Relations Pty Limited	100	-
SC Division Pty Ltd	100	100
SI Division Pty Ltd	100	100
FM Division Pty Ltd	100	100
ICD Division Pty Ltd	100	100
ICM Division Pty Ltd	100	100
Photon Group (US) Pty Limited	100	100
Photon Group (US) Inc (iv)	100	100
OB Media LLC (iv)	51	51
Found Agency Pty Limited	100	100
Yield Media Pty Limited	100	100
Wardell R C Advertising Pty Ltd	100	-
Eastern Media Marketing Pty Ltd	100	-
Element Media Marketing Pty Ltd	100	-
Bellamy Hayden Pty Limited	100	100
Bellamy Hayden SE Asia Pty Limited	100	100
Auspoll Pty Limited	100	100
First Republic Pty Limited	100	100
Belong Pty Limited	100	100
MessageNet Pty Limited	100	100
Public Insight (Australia) Pty Limited	100	100
4Exposure Pty Limited	100	100
Club Food Brokerage Pty Limited	100	100
Club Sales & Merchandising Pty Limited	100	100
Geekdom Pty Limited	100	100
Geeksville Pty Limited	100	-
Crystal Storm Pty Limited	51	51
Mark Communications Pty Limited	100	100
ISS Marketing Pty Limited	100	100
BMF Holdco Pty Limited	100	100
BMF Advertising Pty Limited	100	100
Photon Group UK Holdings Pty Limited	100	100
Photon Group UK Limited (iii)	100	100

26. Controlled entities (continued)

Particulars in relation to controlled entities: Name	Consolidated Entity Interest	
	2009 %	2008 %
Resource Experience Limited (iii)	100	100
RELSC Franco Limited (iii)	51	51
REL Sales Consulting Limited	100	100
Lorica Group Limited (iii)	100	100
Corporate Edge Group Limited (iii)	100	100
Likemind Limited (iii)	100	100
CLK MPL Limited (v)	100	100
Lorica Group Trustees Limited (v)	100	100
Michael Peters Limited (v)	100	100
Eyewitness Market Research Viewing Facilities Limited (v)	100	100
Talkvisual Limited (v)	100	100
The Brand Naming Company Limited (v)	100	100
Associated Design Consultant Limited (v)	100	100
Frank PR Limited (iii)	100	100
Sledge Limited (iii)	100	100
North By Northwest Group Limited (iii)	100	100
Hotwire Public Relations GmbH (vii)	100	100
Hotwire Public Relations SARL (viii)	100	100
Hotwire Public Relations SL (ix)	100	100
Hotwire Public Relations SRL (x)	100	100
Hotwire Public Relations Limited (iii)	100	100
Skywrite Communications Limited (iii)	100	100
33 Digital Limited (iii)	100	-
The Bailey Group UK Limited (iii)	100	100
Retail Insight Limited (iii)	100	100
Naked Communications Limited (iii)	100	100
Naked Ventures Limited (iii)	100	100
Hyper Happen Limited (iii)	100	100
Lunch Communications Limited (iii)	100	100
Ne Kid SAS (viii)	100	100
Naked Communications BV (xi)	100	100
Naked Communications AS (xii)	100	100
Naked Communications Australia Pty Limited	100	100
Naked Breakfast Pty Limited	100	100
Naked NZ Limited (i)	100	100
Naked Communications Holdings Inc (iv)	100	100
Naked New York LLC (iv)	100	100
Naked Communications Inc (xiii)	100	100
Naked Communications Sweden AB (xv)	65	-
Naked Communications ApS (xvi)	92.5	-
Precinct LLC (iv)	100	100
Findology Interactive Media Inc (iv)	100	100
Photon (Hong Kong) Limited (ii)	100	-
The Population Pty Limited (xviii)	100	-
Frank PR Australia Pty Limited (xix)	100	-

26. Controlled entities (continued)

- (i) Companies incorporated and carrying on a business in New Zealand
- (ii) Companies incorporated and carrying on a business in Hong Kong
- (iii) Companies incorporated and carrying on a business in the United Kingdom
- (iv) Companies incorporated and carrying on a business in the United States of America
- (v) Companies incorporated in the United Kingdom and dormant
- (vi) The Leading Edge Market Research Consultants Pte Limited was incorporated and carries on a business in Singapore.
- (vii) Hotwire Public Relations GmbH was incorporated and carries on a business in Germany
- (viii) Companies incorporated and carrying on a business in France
- (ix) Hotwire Public Relations SL was incorporated and carries on a business in Spain
- (x) Hotwire Public Relations SRL was incorporated and carries on a business in Italy
- (xi) Naked Communications BV was incorporated and carries on a business in the Netherlands
- (xii) Naked Communications AS was incorporated and carries on a business in Norway
- (xiii) Naked Communications Inc. was incorporated and carries on a business in Japan
- (xiv) ABT Creative Limited was incorporated and carries on a business in China
- (xv) Naked Communications Sweden AB was incorporated and carries on a business in Sweden
- (xvi) Naked Communications ApS was incorporated and carries on a business in Denmark
- (xvii) Although only 51% of the issued capital was acquired by the Company, the option tied to the remaining 49% minority interest requires 100% of the earnings and balance sheet to be included in the consolidated entity's balance sheet and income statement.
- (xviii) Although only 60% of the issued capital was acquired by the Company, the option tied to the remaining 40% minority interest requires 100% of the earnings and balance sheet to be included in the consolidated entity's balance sheet and income statement.
- (xix) Although only 70% of the issued capital was acquired by the Company, the option tied to the remaining 30% minority interest requires 100% of the earnings and balance sheet to be included in the consolidated entity's balance sheet and income statement.

27. Acquisitions of subsidiaries and minority interests

In the current period, there were no individually material significant acquisitions.

In the prior period, the following entities were acquired:

- On 17 July 2007, the Company acquired 100% of the issued capital of MessageNet Pty Limited (MessageNet), an SMS communication specialist company. The purchase price was an upfront payment of \$6,000,000 cash. In addition, deferred consideration tied to the earnings of MessageNet is payable through to 30 June 2010.
- On 30 July 2007, the Company acquired 100% of the issued capital of ISS Consolidated Pty Limited (ISS Marketing), a promotional and marketing agency. The purchase price was an upfront payment of \$5,000,000 cash and the issue of 158,228 ordinary Photon shares at \$6.32 per share. In addition, deferred consideration tied to the earnings of ISS Marketing is payable through to 30 June 2011.
- On 1 August 2007, the Company acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited (Markson Sparks), a public relations company. The purchase price was an upfront payment of \$3,000,000 cash. In addition, deferred consideration tied to the earnings of Markson Sparks is payable through to 30 June 2010.
- On 2 August 2007, the Company acquired 100% of the issued capital of Resource Experience Limited (REL Field Marketing), a field marketing company. The purchase price was an upfront payment of \$17,842,125 cash. In addition, deferred consideration tied to the earnings of REL Field Marketing is payable through to 31 December 2012.
- On 3 September 2007, the Company acquired 100% of the issued capital of Club Sales and Merchandising Pty Limited and Club Food Brokerage Pty Limited (Club Sales), sales and merchandising businesses. The purchase price was an upfront payment of \$7,377,000 cash and the issue of 100,000 ordinary Photon Shares at \$6.23 per share. In addition, deferred consideration tied to earnings of Club Sales is payable through to 30 June 2011.
- On 11 September 2007, the Company acquired 100% of the issued capital of Lorica Group Limited (Corporate Edge), a corporate communications and brand marketing business. The purchase price was an upfront payment of \$13,881,531 cash. In addition, deferred consideration tied to the earnings of Corporate Edge is payable through to 31 December 2010.

27. Acquisitions of subsidiaries and minority interests (continued)

- On 17 September 2007, the Company acquired 100% of the issued capital of BMF Advertising Pty Limited and 100% of the units of The BMF Unit Trust (BMF Advertising), an independent advertising agency. The purchase price was an upfront payment of \$21,810,000 cash and the issue of 600,000 ordinary Photon shares at \$6.25 per share. In addition, deferred consideration tied to the earnings of BMF Advertising is payable through to 30 June 2010.
- On 2 October 2007, the Company acquired the remaining 49% of the issued capital of Found Agency Pty Limited (Found), a search engine marketing agency. The purchase price was an upfront payment of \$1,930,263 cash. In addition, deferred consideration tied to the earnings of Found Agency is payable through to 30 June 2010.
- On 10 October 2007, the Company acquired 100% of the issued capital of Frank Public Relations Limited (Frank PR), a public relations company. The purchase price was an upfront payment of \$17,678,066 cash and \$717,358 through the issue of loan notes. In addition, deferred consideration tied to the earnings of Frank PR is payable through to 31 August 2011.
- On 1 November 2007, the Company acquired 100% of the issued capital of North By Northwest Group Limited (Hotwire Group), a public relations agency. The purchase price was an upfront payment of \$21,853,160 cash and \$592,440 through the issue of loan notes. In addition, deferred consideration tied to earnings of Hotwire Group through to 31 December 2010.
- On 20 November 2007, the Company acquired 100% of the issued capital of Sledge Limited (Sledge), a brand experience agency. The purchase price was an upfront payment of \$9,212,560 cash. In addition, deferred consideration tied to the earnings of Sledge through to 31 May 2011.
- On 5 December 2007, the Company acquired 100% of the issued capital of Findology Interactive Media Inc. and Way Internet Inc. (Findology), a search engine and online advertising agency. The purchase price was an upfront payment of \$19,428,379 cash and the issue of 516,590 ordinary Photon shares at \$6.49 per share. In addition, deferred consideration tied to the earnings of Findology through to 30 June 2011.
- On 19 December 2007, the Company acquired 100% of the issued capital of Retail Insight Limited (Retail Insight), a data and supply chain analyst agency. The purchase price was an upfront payment of \$2,032,832 cash. In addition, deferred consideration tied to the earnings of Retail Insight is payable through to 31 January 2011.
- On 5 February 2008, the Company acquired 100% of the issued capital of Naked Communications Limited (Naked), a media and communications planning agency. The purchase price was an upfront payment of \$36,700,000 comprised of cash and loan notes to Naked shareholders. In addition, deferred consideration tied to the earnings of Naked is payable through 31 December 2011.

The above acquisitions cumulatively contributed \$2,902,875 to net profit after tax of the consolidated entity.

The full year net revenue effect if MessageNet, ISS Marketing, REL Field Marketing, Markson Sparks, Club Sales, Corporate Edge, BMF Advertising, Frank PR, Hotwire Group, Sledge, Findology, Retail Insight and Naked were acquired on 1 July 2007 would have been to increase net revenue by \$65,447,796

The full year net profit after tax effect if MessageNet, ISS Marketing, REL Field Marketing, Markson Sparks, Club Sales, Corporate Edge, BMF Advertising, Frank PR, Hotwire Group, Sledge, Findology, Retail Insight and Naked had they been acquired on 1 July 2007 would have been to increase the net profit after tax by \$3,831,215.

The effect that the Bellamy Hayden acquisition would have had on the consolidated entity is included in the consolidated entity's income statement by virtue of the equity accounted 40% of the company from period 1 July 2007 to 29 August 2007. For details of the equity investment in Bellamy Hayden see note 13.

The acquisition of the remaining 49% interest in the Found Agency had no effect on the results of the consolidated entity as the Found Agency was consolidated from 5 March 2007 due to the existence of an option over the 49% interest.

27. Acquisitions of subsidiaries and minority interests (continued)

Effect of acquisitions for the year ended 30 June 2009

The acquisitions had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	137	-	137
Intangible assets	218	394	612
Trade and other receivables	385	-	385
Cash and cash equivalents	972	-	972
Deferred tax asset	1	-	1
Other assets	86	-	86
Trade and other payables	(213)	-	(213)
Interest bearing liabilities	(70)	-	(70)
Deferred tax liability	-	(118)	(118)
Provisions	(21)	-	(21)
Tax Liabilities	(72)	-	(72)
Other liabilities	(1,089)	-	(1,089)
Net identifiable assets and liabilities	<u>334</u>	<u>276</u>	<u>610</u>
Minority interest	<u>-</u>		
Goodwill on acquisition	<u>7,144</u>		
Total consideration			
Consideration paid, satisfied in scrip	7,478		
Deferred consideration	(1,063)		
Cash (acquired)	<u>(972)</u>		
Net cash outflow	<u>5,443</u>		

Goodwill has arisen on the acquisition of entities during the year as some intangibles such as key management and technical employee relationships and certain customer relationships did not meet the criteria for recognition as an intangible asset at the date of acquisition. Considering the characteristics of marketing and communication services companies, acquisitions do not usually have significant amounts of tangible assets as the principal asset typically acquired is creative talent and know-how of people. As a result, a substantial proportion of the purchase price is allocated to goodwill. Assets and liabilities of the acquired entities have been included in the financial report based on provisional fair values.

Fair value adjustments represent identifiable intangible assets net of deferred tax liabilities acquired in connection with the business combination.

27. Acquisitions of subsidiaries and minority interests (continued)

Effect of acquisitions for the year ended 30 June 2008

The acquisitions had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	6,627	-	6,627
Intangible assets	1,797	25,354	27,151
Trade and other receivables	64,944	-	64,944
Cash and cash equivalents	19,619	-	19,619
Deferred tax asset	6,900	-	6,900
Other assets	1,858	-	1,858
Trade and other payables	(68,252)	-	(68,252)
Interest bearing liabilities	(1,783)	-	(1,783)
Deferred tax liability	(751)	(7,499)	(8,250)
Provisions	(3,701)	-	(3,701)
Tax liabilities	(2,480)	-	(2,480)
Other liabilities	(3,331)	-	(3,331)
Net identifiable assets and liabilities	<u>21,447</u>	<u>17,855</u>	<u>39,302</u>
Minority interest	<u>(1,028)</u>		
Goodwill on acquisition	<u>189,127</u>		
Total consideration	227,401		
Consideration paid, satisfied in scrip	(8,973)		
Deferred consideration	(13,461)		
Cash (acquired)	(19,619)		
Loan notes payable	<u>(7,155)</u>		
Net cash outflow	<u>178,193</u>		

28. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2009	2008	2009	2008
(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 balance sheets as follows:					
Cash assets	8	23,559	35,045	719	7,463
(ii) Reconciliation of profit/ (loss) after income tax to net cash provided by operating activities					
Profit after income tax		21,408	21,691	25,404	27,278
Add/(less) items classified as investing/financing:					
(Profit)/ loss on sale of non-current assets		84	37	-	-
Options expensing		3,628	4,348	3,628	4,348
Add/(less) non-cash items:					
Depreciation and amortisation		9,267	16,933	915	859
Occupancy costs – release of provision		(36)	332	(168)	(168)
Lease make good amortisation		343	275	5	6
Release of lease make good provision		(257)	(113)	-	-
Equity settled bonus		115	-	115	-
Share of (profits)/losses of associated entities		(145)	51	-	-
Present value interest charges with respect to the deferred consideration of acquisitions		5,588	3,361	3,344	2,807
Amortisation of identifiable intangibles		11,289	-	-	-
Impairment Loss		4,215	-	-	-
Increase/ (decrease) in income taxes payable		(616)	(1,431)	(2,054)	62
Increase/ (decrease) in deferred tax liabilities		(311)	1,981	(2)	(215)
(Increase)/ decrease in deferred tax assets		(736)	(4,460)	(46)	1
Net cash provided by operating activities before change in assets and liabilities		53,836	43,005	31,141	34,978
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year:					
(Increase)/ decrease in receivables		(737)	4,450	494	297
(Increase)/ decrease in work in progress		(425)	(2,650)	-	-
(Increase)/ decrease in prepayments		4,117	(6,844)	215	114
(Increase)/ decrease in other assets		(73)	(1,825)	64	(1,425)
Increase/ (decrease) in payables		(20,041)	(18,957)	(3,579)	4,959
Increase / (decrease) in deferred income		1,147	10,467	-	-
Increase/ (decrease) in provisions		(500)	(3,283)	80	(37)
Increase/ (decrease) in related party accounts		-	-	(18,083)	(26,533)
Net cash from operating activities		37,324	24,363	10,332	12,353

Notes to consolidated financial statements (continued)

29. Non-key management personnel disclosures

All transactions with related parties are on normal terms and conditions. There were no related party transactions which affected the consolidated entity.

	The Company	
	2009 \$'000	2008 \$'000
The aggregate amounts included in the profit before income tax expense that resulted from transactions with related parties are:		
Interest revenue		
Wholly owned controlled entities	41	13
Partly owned controlled entities	66	82
Interest paid		
Wholly owned controlled entities	-	2
Dividend revenue		
Wholly owned controlled entities	44,002	47,525
Partly owned controlled entities	1,552	866
Management fees		
Wholly owned controlled entities	-	-
Partly owned controlled entities	-	-
Current accounts advanced to		
Wholly owned entities	38,847	28,895
Partly owned controlled entities	-	-
Receivables		
Aggregate amounts receivable from related parties including trade debtors		
Wholly owned controlled entities	89,367	75,743
Partly owned controlled entities	1,140	1,485
Payables		
Aggregate amounts payable to related parties including trade creditors		
Wholly owned controlled entities	6,917	302

Percentage of equity interests

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

Controlled entities	Note 26
Associated entities	Note 13

Notes to consolidated financial statements (continued)

30. Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports, and directors' report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Leading Edge Market Research Consultants Pty Limited, The Bailey Group Pty Ltd, Barimos Pty Ltd, BMF Holdco Pty Limited and Belong Pty Limited became party to the Deed on 25th June 2008.

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2009 is set out as follows:

Summarised income statement and retained profits

In AUD

	Consolidated 2009
<i>Profit before tax</i>	24,544,469
Income tax (expense)/ benefit	<u>1,807,356</u>
<i>Profit after tax</i>	<u>26,351,825</u>
Retained profits at beginning of year	9,422,924
Dividends recognised during the year	<u>(23,563,608)</u>
<i>Retained profits at end of year</i>	<u>12,211,141</u>
Attributable to:	
Equity holders of the Company	<u>12,211,141</u>
Profit for the period	<u>12,211,141</u>

30. Deed of cross guarantee (continued)

Balance sheet

In AUD

	Consolidated 2009
Assets	
Cash and cash equivalents	3,041,666
Trade and other receivables	21,610,608
Other financial assets	-
Other assets	4,193,778
Total current assets	<u>28,846,052</u>
Receivables	110,185,413
Other financial assets	292,436,142
Deferred tax assets	3,487,564
Plant and equipment	4,805,562
Other assets	52,921
Intangible assets	113,816,800
Total non-current assets	<u>524,784,402</u>
Total assets	<u>553,630,454</u>
Liabilities	
Trade and other payables	13,720,731
Loans and borrowings	34,162,166
Employee benefits	2,772,875
Income tax payable	3,369,608
Provision	1,385,341
Deferred consideration	42,273,772
Unearned revenue	640,110
Other financial liabilities	180,684
Total current liabilities	<u>98,505,287</u>
Loans and borrowings	142,889,604
Deferred tax liabilities	1,268,753
Employee benefits	957,975
Provisions	1,241,487
Deferred consideration	31,694,879
Other financial liabilities	4,172,334
Total non-current liabilities	<u>182,225,032</u>
Total liabilities	<u>280,730,319</u>
Net assets	<u>272,900,135</u>
Equity	
Issued capital	255,500,100
Reserves	5,188,894
Retained profits	12,211,141
Total equity	<u>272,900,135</u>

31. Subsequent events

Dividends

For dividends declared after 30 June 2009, see note 22.

Capital Raising

On 17 August 2009, the Company announced an underwritten capital raising of \$114.5 million to be completed via a placement of 14.4 million shares to investors at \$1.85 per share and an non-renounceable entitlement offer allowing existing shareholders (including shareholders following completion of the placement) to subscribe for one new share for every two shares held on the record date of 25 August 2009 at \$1.50 per share. Existing shareholders associated with RG Capital Multimedia Limited and Tim Hughes have committed to participating in the entitlement offer for their pro rata share. The capital raising is expected to be completed around 18 September 2009. The financial effects of this transaction have not been brought to account in the financial statements for the year ended 30 June 2009.

Directors' declaration

1. In the opinion of the directors of Photon Group Limited ("the Company"):
 - (a) the financial statements and notes, and the remuneration disclosures that are contained in sections 1,2 and 3 of the Remuneration report in the Directors' report, set out on pages 13 to 110, 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 2009 and of their performance, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report complies with International Financial Reporting Standards as disclosed in significant accounting policies note (a);
 - (c) the remuneration disclosures that are contained in sections 1,2 and 3 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
 - (d) 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. There are reasonable grounds to believe the Company and entities identified in note 30 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2009 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney this 17th day of August 2009.

Signed in accordance with a resolution of the directors:



Tim Hughes
Director



Independent auditor's report to the members of Photon Group Limited

Report on the financial report

We have audited the accompanying financial report of Photon Group Limited (the Company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration set out on page 111 of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Photon Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Photon Group Limited for the year ended 30 June 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

John Wigglesworth

Partner

Sydney

17 August 2009



Lead auditor's independence declaration under Section 307C of the Corporations 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 year ended 30 June 2009 there have been:

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

KPMG

John Wigglesworth

Partner

Sydney

17 August 2009