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

Annual Financial Report
For the year ended 30 June 2004
Photon Group Limited
ABN 97 091 524 515

Contents

Directors’ Report 1
Statements of financial performance 9
Statements of financial position 10
Statements of cash flows 11
Notes to the financial statements 12
Directors’ Declaration 55
Independent audit report 56
Photon Group Limited  
ABN 97 091 524 515

Directors’ Report

The directors present their report together with the financial report of Photon Group Limited (“the Company”) and of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor’s report thereon.

Directors

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

Tim Hughes - Executive chairman
Tim is a Director of WAM Capital Limited, Carinya Investment Management and the Sporting Chance Cancer Foundation. Tim Hughes has had a 20 year business career in television production and distribution, television broadcasting, radio, investment management and marketing services. Tim has a Bachelor of Business from UTS.

Matthew Bailey - Chief executive officer & director
Matthew joined Photon as CEO in 2004. In addition to this role he is responsible for the Photon subsidiary, The Bailey Group. Matthew has 16 years experience as CEO of The Bailey Group with extensive experience in retail selling, sales force strategy and brand development. Matthew has a Bachelor of Business from Swinburne University.

Anthony Armstrong - Executive director
Anthony has extensive experience in the marketing services industry having previously been Vice President International for the J Walter Thompson Co, Managing Director of J. Walter Thompson in Australia and Managing Director of J Walter Thompson Hong Kong. Anthony has been a director of WPP Australia and is currently a director of the National Trust of Australia and the Juvenile Diabetes Research Foundation. Anthony has a Master of Commerce from UNSW and Bachelor of Economics from University of Sydney.

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

Susan McIntosh - Non-executive director
Susan is a Chartered Accountant with over 20 years experience in Media. Susan is currently Managing Director of RG Capital Holdings Limited and is also a director of RG Capital Radio Limited and an alternate director of ETRADE Australia Limited.

Brian Bickmore - Non-executive director
Brian joined Austereo Limited in 1980 as a founding executive and recently resigned from Austereo Limited after 24 years. Brian served initially as Austereo’s Finance Director and from 1997 was Group General Manager. In 2003 Brian was appointed as Managing Director Corporate Development and International Media. Brian was instrumental in the merger of the Triple M and Austereo businesses, a core element of Austereo’s success. He also directed Austereo’s international expansion. Brian is also a director of RG Capital Radio Limited.
Directors Report (continued)

Directors (continued)

Tim Tighe - Non-executive director
Tim is a Business Leader with extensive international experience. A career of 21 years with the McDonald’s Australia Group, for the last 12 years he has been both Country and Regional Managing Director, opening and developing some of the most challenging countries for McDonald’s in Eastern Europe and South East Asia.

Paul Gregory – Non-executive director
Paul is currently providing management services to Beachculture Aust Pty Ltd - a major national and international retailer of iconic international surf and street wear labels. Previously Paul has led a diversity of medium sized private retail companies, including Australian Geographic Pty Ltd and Red Earth Australia Pty Ltd, and has overseen the expansion of these companies at both a domestic and international level.

Greg Bundy and John Falconer resigned on 1 July 2003.

Brian Bickmore, Paul Gregory and Tim Tighe were appointed on 25 March 2004.

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

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

Review and result of operations
On 30 April 2004, the Company listed on the Australian Stock Exchange with an initial public offering of 15,373,000 shares. Of these shares, the Company issued 10,000,000 new shares. The purpose of the offer was to:

- provide Photon with an appropriate capital structure and the financial flexibility to pursue growth opportunities;
- improve on-going access to capital markets; and
- provide a liquid market for shares.

The proceeds of the offer were allocated as follows:

- repayment of debt $11m;
- expenses of the offer $1.9m;
- partial funding to acquire minority interests $3.5m;
- funds provided for working capital and expansion $1.6m.

The consolidated net profit/(loss) from ordinary activities after income tax amounted to $1,286,981 (2003: loss $638,156). Annual growth was attributable from a combination of acquisitions and organic growth in existing companies.
Dividends

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

<table>
<thead>
<tr>
<th>Type</th>
<th>Cents per share</th>
<th>Total amount $</th>
<th>Date of payment</th>
<th>Franked/unfranked</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paid or declared after year end</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final – Ordinary shares</td>
<td>2.0c</td>
<td>980,733</td>
<td>11 October 2004</td>
<td>Franked</td>
</tr>
<tr>
<td><strong>Note</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dealt with in the financial report as:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noted as a subsequent event</td>
<td>23</td>
<td>980,733</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

State of affairs

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

- acquired 100% of the issued capital of Barimos Pty Ltd and its controlled entities,
- acquired 60% of the issued capital of The Artel Group and its controlled entities,
- acquired 51% of the issued capital of Image Box Group Pty Ltd,
- acquired the minority interest in the following controlled or associated entities:
  - acquired 49% of the issued capital of Australian Business Theatre Group Pty Ltd,
  - acquired 49% of the issued capital of Brass Tacks Pty Ltd,
  - acquired 49% of the issued capital of CPR Communications & Public Relations Pty Ltd and its controlled entities,
  - acquired 49% of the issued capital of Ideassociates Pty Ltd,
  - acquired 49% of the issued capital of Robbins Brandt Richter Ltd,
  - acquired 25% of the issued capital of Love Pty Ltd,
  - acquired 50% of the issued capital of Returnity Pty Ltd,
  - acquired 49% of the equity in the AdPartners Group Partnership
  - acquired 37% of the equity in the Bay Street Media Works Partnership
- Bellamyhayden Pty Ltd completed a share buy-back of 333,333 ordinary shares under the terms of the share buy-back agreement dated 17 May 2004. This resulted in the company’s shareholding being diluted to 40% of the issued capital of Bellamyhayden Pty Ltd.
- On 25th March 2004, the consolidated entity signed into a Fully Drawn Advance facility of up to $25,000,000 with the ANZ Banking Group. The facility bears interest of fixed and variable rates based on prevailing market rates. The fully drawn advance is secured by a first registered mortgage over all the assets, interests and undertakings of the consolidated entity. As at balance date, the outstanding balance was reduced to $14,000,000 in accordance with the terms of the facility.
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:

<table>
<thead>
<tr>
<th>Director</th>
<th>Board meetings</th>
<th>Audit Committee Meetings</th>
<th>Remuneration Committee Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>A</td>
</tr>
<tr>
<td>Tim Hughes</td>
<td>16</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Matthew Bailey</td>
<td>4</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>15</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>15</td>
<td>16</td>
<td>-</td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>13</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>Brian Bickmore</td>
<td>5</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Tim Tighe</td>
<td>4</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Paul Gregory</td>
<td>5</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

A – Number of meetings attended  
B – Number of meetings held during the time the director held office during the year.
Directors Report (continued)

Directors’ and senior executives’ remuneration

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

<table>
<thead>
<tr>
<th></th>
<th>Base remuneration</th>
<th>Non-cash benefits</th>
<th>Super contributions</th>
<th>Options issued (iii)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>25,000</td>
<td>-</td>
<td>2,250</td>
<td>-</td>
<td>27,250</td>
</tr>
<tr>
<td>Brian Bickmore (i)</td>
<td>10,000</td>
<td>-</td>
<td>900</td>
<td>-</td>
<td>10,900</td>
</tr>
<tr>
<td>Paul Gregory (i)</td>
<td>10,000</td>
<td>-</td>
<td>900</td>
<td>-</td>
<td>10,900</td>
</tr>
<tr>
<td>Tim Tighe (i)</td>
<td>10,000</td>
<td>-</td>
<td>900</td>
<td>-</td>
<td>10,900</td>
</tr>
<tr>
<td>Greg Bundy (ii)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>John Falconer (ii)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tim Hughes</td>
<td>75,000</td>
<td>-</td>
<td>6,125</td>
<td>14,605</td>
<td>95,730</td>
</tr>
<tr>
<td>Matthew Bailey (i)</td>
<td>69,838</td>
<td>26,636</td>
<td>11,438</td>
<td>5,761</td>
<td>113,673</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>288,592</td>
<td>50,406</td>
<td>11,002</td>
<td>9,299</td>
<td>359,299</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>345,872</td>
<td>-</td>
<td>28,128</td>
<td>-</td>
<td>374,000</td>
</tr>
<tr>
<td>Executive officers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geoff Nesbitt</td>
<td>120,000</td>
<td>16,498</td>
<td>11,002</td>
<td>2,805</td>
<td>150,305</td>
</tr>
<tr>
<td>Consolidated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Julian Martin</td>
<td>244,918</td>
<td>55,082</td>
<td>24,000</td>
<td>-</td>
<td>324,000</td>
</tr>
<tr>
<td>Adam Kilgour</td>
<td>165,000</td>
<td>24,706</td>
<td>14,811</td>
<td>-</td>
<td>204,517</td>
</tr>
<tr>
<td>Terry Carman</td>
<td>136,000</td>
<td>17,499</td>
<td>17,500</td>
<td>-</td>
<td>169,999</td>
</tr>
<tr>
<td>Stewart Bailey (i)</td>
<td>27,798</td>
<td>13,140</td>
<td>3,016</td>
<td>-</td>
<td>43,954</td>
</tr>
</tbody>
</table>

(i) For the period from 1 April 2004 to 30 June 2004
(ii) Resigned on 1 July 2003
(iii) The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.
Directors’ and senior executives’ remuneration

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

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Expiry date</th>
<th>Fair value per option</th>
<th>Exercise price</th>
<th>Price of shares on grant date</th>
<th>Estimated volatility</th>
<th>Risk free interest rate</th>
<th>Dividend yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>28 Nov 03</td>
<td>27 Nov 08</td>
<td>$0.23</td>
<td>$1.50</td>
<td>Not listed</td>
<td>7.5 – 9.0%</td>
<td>5.92%</td>
<td>4.5%</td>
</tr>
<tr>
<td>1 April 04</td>
<td>1 April 09</td>
<td>$0.295</td>
<td>$1.80</td>
<td>Not listed</td>
<td>7.5 – 9.0%</td>
<td>5.27%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

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

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

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

- From 1 April 2006 – 33 ? %
- From 1 April 2007 – 66 ? %

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

Options granted as remuneration to directors’ and senior executives

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

<table>
<thead>
<tr>
<th>Directors</th>
<th>Number of options granted</th>
<th>Exercise price</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Hughes</td>
<td>250,000</td>
<td>$1.50</td>
<td>27 November 2008</td>
</tr>
<tr>
<td>Tim Hughes</td>
<td>300,000</td>
<td>$1.80</td>
<td>1 April 2009</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>100,000</td>
<td>$1.50</td>
<td>27 November 2008</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>300,000</td>
<td>$1.80</td>
<td>1 April 2009</td>
</tr>
<tr>
<td>Matthew Bailey</td>
<td>300,000</td>
<td>$1.80</td>
<td>1 April 2009</td>
</tr>
<tr>
<td>Officers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geoff Nesbitt</td>
<td>25,000</td>
<td>$1.50</td>
<td>27 November 2008</td>
</tr>
<tr>
<td>Geoff Nesbitt</td>
<td>100,000</td>
<td>$1.80</td>
<td>1 April 2009</td>
</tr>
</tbody>
</table>

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

Unissued shares under option

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

<table>
<thead>
<tr>
<th>Expiry date</th>
<th>Number of options</th>
<th>Exercise price</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 January 2007</td>
<td>700,000</td>
<td>$1.25</td>
</tr>
<tr>
<td>28 November 2008</td>
<td>375,000</td>
<td>$1.50</td>
</tr>
<tr>
<td>1 April 2009</td>
<td>1,000,000</td>
<td>$1.80</td>
</tr>
<tr>
<td></td>
<td>2,075,000</td>
<td></td>
</tr>
</tbody>
</table>
Directors' Report (continued)

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:

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Amount paid on each share</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,000,000</td>
<td>$0.75</td>
</tr>
<tr>
<td>1,000,000</td>
<td>$1.00</td>
</tr>
</tbody>
</table>

Events subsequent to balance date

Acquisition of wholly-owned entity

Subsequent to balance date, the Company acquired 100% of the issued share capital of The Leading Edge ("TLE"), a market research company. The purchase price was $15 million cash plus additional deferred cash payments to be tied to the earnings of TLE in the period through to 30 June 2007. The acquisition was funded using existing debt facilities.

The financial effects of the transaction have not been brought to account in the financial statements for the year ended 30 June 2004.

Dividends

For dividends declared after 30 June 2004, see note 23.

International Financial Reporting Standards

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At balance date, it was not possible to quantify the effect of the convergence to IFRS as key IAS’s and AASB’s are currently under development.

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

Directors' Interests

<table>
<thead>
<tr>
<th>Director</th>
<th>Ordinary shares</th>
<th>Options over ordinary shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Hughes</td>
<td>1,953,444</td>
<td>790,000</td>
</tr>
<tr>
<td>Matthew Bailey</td>
<td>8,498,850</td>
<td>300,000</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>247,222</td>
<td>640,000</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>4,840,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>164,444</td>
<td>80,000</td>
</tr>
<tr>
<td>Brian Bickmore</td>
<td>150,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Tim Tighe</td>
<td>150,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Paul Gregory</td>
<td>150,000</td>
<td>Nil</td>
</tr>
<tr>
<td>Total</td>
<td>16,153,960</td>
<td>1,810,000</td>
</tr>
</tbody>
</table>
Indemnification and insurance of officers

Indemnification

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

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

Insurance premiums

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

- costs and expenses 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.

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

Dated at Sydney this 24th day of August 2004.

Tim Hughes
Director
### Photon Group Limited
ABN 97 091 524 515

**Statements of financial performance for the year ended 30 June 2004**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>33,355,843</td>
<td>21,536,657</td>
<td>489,188</td>
<td>436,178</td>
</tr>
<tr>
<td>2</td>
<td>978,658</td>
<td>384,422</td>
<td>1,214,512</td>
<td>672,124</td>
</tr>
</tbody>
</table>

Revenue from rendering of services
Other revenues from ordinary activities

Total revenue from ordinary activities

Employee expenses
Borrowing costs
Occupancy costs
Depreciation and amortisation expenses
Insurance expense
Consultancy fees
Equipment hire charges
Travel expense
Communication expense
Reversal/(provision) for diminuition of investments
Other expenses from ordinary activities
Share of net profit of associates and joint ventures accounted for using the equity method

Profit/(loss) from ordinary activities before related income tax expense
Income tax expense relating to ordinary activities
Net profit/(loss)
Net profit/(loss) attributable to outside equity interests
Net profit/(loss) attributable to members of the parent entity

Non-owner transaction changes in equity
Net exchange difference relating to self-sustaining foreign operations
Total changes in equity from non-owner related transactions attributable to members of the parent entity
recognised directly in equity

Basic earnings per share (cents):
Ordinary shares
Diluted earnings per share (cents):
Ordinary shares

The statements of financial performance are to be read in conjunction with the notes to the financial statements as set out on pages 12 to 54.
## Statements of financial position

**as at 30 June 2004**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>9</td>
<td>5,993,720</td>
<td>5,541,783</td>
<td>867,424</td>
<td>2,335,935</td>
</tr>
<tr>
<td>Receivables</td>
<td>10</td>
<td>13,865,594</td>
<td>9,096,721</td>
<td>685,873</td>
<td>523,358</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>1,571,657</td>
<td>634,746</td>
<td>71,222</td>
<td>65,014</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td>21,430,971</td>
<td>15,273,250</td>
<td>1,624,519</td>
<td>2,924,307</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>10</td>
<td>-</td>
<td>100,000</td>
<td>4,703,995</td>
<td>2,261,156</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>12</td>
<td>484,504</td>
<td>540,751</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>13</td>
<td>178,925</td>
<td>60,376</td>
<td>69,512,741</td>
<td>9,019,563</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>14</td>
<td>67,732,922</td>
<td>10,714,685</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>15</td>
<td>2,772,315</td>
<td>1,092,109</td>
<td>18,464</td>
<td>12,674</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>5(d)</td>
<td>888,072</td>
<td>194,306</td>
<td>680,843</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>236,443</td>
<td>37,815</td>
<td>113,195</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td>72,293,181</td>
<td>12,704,042</td>
<td>75,029,238</td>
<td>11,293,393</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>93,724,152</td>
<td>28,013,292</td>
<td>76,653,757</td>
<td>14,217,700</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>16</td>
<td>12,450,399</td>
<td>9,662,884</td>
<td>4,281,431</td>
<td>1,797,573</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>17</td>
<td>2,498,365</td>
<td>136,514</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Current tax liabilities</td>
<td>5(b)</td>
<td>3,059,253</td>
<td>368,328</td>
<td>279,771</td>
<td>-</td>
</tr>
<tr>
<td>Provisions</td>
<td>18</td>
<td>1,740,806</td>
<td>931,087</td>
<td>13,731</td>
<td>61,131</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td></td>
<td>19,748,823</td>
<td>11,098,813</td>
<td>6,574,933</td>
<td>1,858,704</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>16</td>
<td>-</td>
<td>531,098</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>17</td>
<td>12,468,280</td>
<td>70,824</td>
<td>12,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>5(c)</td>
<td>113,108</td>
<td>151,370</td>
<td>126,246</td>
<td>-</td>
</tr>
<tr>
<td>Provisions</td>
<td>18</td>
<td>245,309</td>
<td>103,124</td>
<td>7,891</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td></td>
<td>12,826,697</td>
<td>856,416</td>
<td>12,134,137</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>32,575,520</td>
<td>11,955,229</td>
<td>18,709,070</td>
<td>1,858,704</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td>61,148,632</td>
<td>16,058,063</td>
<td>57,944,687</td>
<td>12,358,996</td>
</tr>
</tbody>
</table>

Equity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed equity</td>
<td>19</td>
<td>62,189,537</td>
<td>17,927,500</td>
<td>62,189,537</td>
<td>17,927,500</td>
</tr>
<tr>
<td>Accumulated losses</td>
<td>21</td>
<td>(4,308,284)</td>
<td>(5,595,265)</td>
<td>(4,244,850)</td>
<td>(5,568,504)</td>
</tr>
<tr>
<td>Reserves</td>
<td>20</td>
<td>10,286</td>
<td>(3,073)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total parent entity interest</strong></td>
<td></td>
<td>57,891,539</td>
<td>12,329,162</td>
<td>57,944,687</td>
<td>12,358,996</td>
</tr>
<tr>
<td>Outside equity interests</td>
<td>22</td>
<td>3,257,093</td>
<td>3,728,901</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>61,148,632</td>
<td>16,058,063</td>
<td>57,944,687</td>
<td>12,358,996</td>
</tr>
</tbody>
</table>

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 12 to 54.
Photon Group Limited
ABN 97 091 524 515

Statements of cash flows
for the year ended 30 June 2004

<table>
<thead>
<tr>
<th>Note</th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash receipts in the course of operations</td>
<td>32,272,657</td>
<td>21,226,126</td>
</tr>
<tr>
<td>Cash payments in the course of operations</td>
<td>(26,710,725)</td>
<td>(17,182,274)</td>
</tr>
<tr>
<td>Dividends received</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest received</td>
<td>227,274</td>
<td>174,594</td>
</tr>
<tr>
<td>Borrowing costs paid</td>
<td>(506,097)</td>
<td>(220,370)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(1,658,849)</td>
<td>(797,083)</td>
</tr>
<tr>
<td><strong>Net cash provided by/(used in) operating activities</strong></td>
<td>3,624,260</td>
<td>3,200,993</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for property, plant &amp; equipment</td>
<td>516,667</td>
<td>(294,888)</td>
</tr>
<tr>
<td>Payments for investments (net of cash acquired)</td>
<td>(33,743,092)</td>
<td>(2,460,134)</td>
</tr>
<tr>
<td>Repayment of loans by related parties</td>
<td>284,845</td>
<td>-</td>
</tr>
<tr>
<td>Loans to related parties</td>
<td>(2,486,701)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(35,428,281)</td>
<td>(2,755,022)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issue of shares</td>
<td>21,265,000</td>
<td>3,922,500</td>
</tr>
<tr>
<td>Transaction costs from issue of shares</td>
<td>(1,972,401)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td>25,000,000</td>
<td>2,531,098</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(11,274,252)</td>
<td>(4,300,600)</td>
</tr>
<tr>
<td>Dividends paid to outside equity interest in controlled entities</td>
<td>(762,389)</td>
<td>(489,482)</td>
</tr>
<tr>
<td><strong>Net cash provided by financing activities</strong></td>
<td>32,255,958</td>
<td>1,665,516</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash held</strong></td>
<td>451,937</td>
<td>2,109,487</td>
</tr>
<tr>
<td><strong>Cash at the beginning of the financial year</strong></td>
<td>5,541,783</td>
<td>3,432,296</td>
</tr>
<tr>
<td><strong>Cash at the end of the financial year</strong></td>
<td>5,993,720</td>
<td>5,541,783</td>
</tr>
</tbody>
</table>

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 12 to 54.
Notes to the financial statements
for the year ended 30 June 2004

1 Statement of significant accounting policies

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

(a) Basis of preparation

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

It has been prepared on the basis of historical costs and except where stated does not take into account changing money values or fair values of assets.

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

(b) Principles of consolidation

Controlled entities

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

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

Associates

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

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

Joint Venture

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

Joint venture entities

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

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

Transactions eliminated on consolidation

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

Unrealised gains resulting from transactions with associates and joint ventures are eliminated to the extent of the consolidated economic entity’s interest. Unrealised gains relating to joint venture entities are eliminated against the carrying amount of investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence recoverable amount impairment.
1 Statement of significant accounting policies (continued)

c) Revenue recognition

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

Rendering of services

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

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

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

Sale of non-current assets

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

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

Dividends

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

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

Interest revenue

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

d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

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

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.
1 Statement of significant accounting policies (continued)

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

(g) Borrowing costs

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

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

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

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

(h) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income.

The tax effect of timing differences which arise from items being brought to account in different periods for income tax and account purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses, when realisation is virtually certain.

Tax consolidation

The company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 27. The implementation date for the tax consolidated group is 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has not entered into a tax funding agreement as at reporting date.

(i) Earnings per share

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

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associates with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares.
1 Statement of significant accounting policies (continued)

(j) Acquisition of assets

All assets acquired, including property, plant and equipment are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

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

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

Subsequent additional costs

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

(j) Receivables

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

Trade debtors

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

(k) Work in progress

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

(l) Investments

Controlled entities

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

Associates

In the Company’s financial statements, investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

Joint ventures

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

Other entities

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

(m) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.
1 Statement of significant accounting policies (continued)

(m) Leased assets (continued)

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by the repayment of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

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

(n) Goodwill

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

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

(o) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value.
1 Statement of significant accounting policies (continued)

(p) Depreciation and amortisation

Useful lives

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer equipment</td>
<td>25% - 40%</td>
<td>20% - 40%</td>
</tr>
<tr>
<td>Office furniture and equipment</td>
<td>5% - 25%</td>
<td>5% - 40%</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>10% - 25%</td>
<td>-</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>10% - 33.33%</td>
<td>-</td>
</tr>
<tr>
<td>Equipment under finance lease</td>
<td>25%</td>
<td>-</td>
</tr>
<tr>
<td>Intangibles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>20 years</td>
<td>20 years</td>
</tr>
</tbody>
</table>

(q) Payables

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

(r) Interest bearing liabilities

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

(s) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees’ services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs such as payroll tax and superannuation.
Statement of significant accounting policies (continued)

(s) Employee benefits (continued)

Long service leave

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

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

Profit sharing and bonus plans

A liability is recognised for profit sharing and bonus plans.

Superannuation plan

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

(t) Provisions

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

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

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

Dividends

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

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
<td>2003 $</td>
</tr>
<tr>
<td>Rendering services from operating activities</td>
<td>33,355,843</td>
<td>21,536,657</td>
</tr>
</tbody>
</table>

Other revenues:
From operating activities
Interest:
- Related parties: 8,458 32,327
- Other parties: 227,274 174,594
Dividends:
- Related parties: 886,665 561,000

From outside operating activities
Gross proceeds on sale of non-current assets: 284,845 273
Profit on sale of investments: 264,276 183,334
Trade Grants: 124,191 161,266
Other: 78,072 48,289

Total other revenues: 978,658 384,422 1,214,512 672,124

Total revenue from ordinary activities: 34,334,501 21,921,079 1,703,700 1,108,302

3 Profit from ordinary activities before income tax expense

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

Borrowing costs:
- Related parties: - 114,236 1,644 114,236
- Other parties: 506,097 106,134 465,872 75,424

Depreciation of:
- Plant and equipment: 542,805 271,144 9,188 8,055

Amortisation of:
- Goodwill: 1,375,894 1,536,002
- Leased Assets: 33,875 26,120

Total depreciation and amortisation: 1,952,574 1,833,266 9,188 8,055

Net bad and doubtful debt expense including movements in provision for doubtful debts: 53,117 8,554 - -

Net expense for movements in provision for:
- Employee entitlements: 189,512 281,311 (39,509) 42,830
- Non-recovery of loan to related party: - (62,000)
- (Reversal)/provision for diminution in value of investments: - - (1,075,228) 1,268,378

Operating lease rental expense:
- Minimum lease rental payments: 1,939,676 1,294,094 16,800 15,754

Net (gain)/loss on disposal of non-current assets: 99,199 240 - (273)
Foreign exchange (gain)/loss: 6,658 5,287 - (58,700)
Deferred tax balances
As a consequence of the enactment of the Tax Consolidation legislation and the Company, as the head entity in a tax consolidated group, implementing tax consolidation from 1 July 2003, the head entity has applied UIG 52, *Income Tax Accounting under the Tax Consolidation System*.

The subsidiary-related deferred tax balances recognised in the Company and consolidated entity have been determined based on the previous timing difference at the level of the tax-consolidated group. The consolidated entity has reflected all adjustments in income tax expense as it has elected not to open past acquisition accounting. Future acquisition accounting will take deferred tax balances into account.

In the Company, the effect of implementing tax consolidation and of applying UIG 52 at 1 July 2003 was:
- An increase in deferred tax assets transferred from wholly owned subsidiaries in the tax consolidated group of $680,843
- An increase in deferred tax liabilities transferred from wholly owned subsidiaries in the tax consolidated group of $126,246
- An increase in current tax liabilities transferred from wholly owned subsidiaries in the tax consolidated group of $279,771
- A decrease in tax expense transferred from wholly owned subsidiaries in the tax consolidated group of $274,826

### Auditors’ Remuneration

<table>
<thead>
<tr>
<th>Audit services:</th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
<td>2003 $</td>
</tr>
<tr>
<td>Auditors of the Company – KPMG Australia</td>
<td>130,000</td>
<td>98,000</td>
</tr>
<tr>
<td>Other auditors:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit and review of financial reports</td>
<td>15,000</td>
<td>-</td>
</tr>
<tr>
<td>Other services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transaction and due diligence services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors of the Company – KPMG Australia</td>
<td>992,000</td>
<td>-</td>
</tr>
<tr>
<td>Taxation services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditors of the Company – KPMG Australia</td>
<td>27,000</td>
<td>30,256</td>
</tr>
<tr>
<td></td>
<td>1,164,000</td>
<td>128,256</td>
</tr>
</tbody>
</table>

20
5 Taxation

(a) Income tax expense

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prima facie income tax expense calculated at 30% on the profit from ordinary activities</td>
<td>1,008,465</td>
<td>407,500</td>
<td>314,648</td>
</tr>
<tr>
<td></td>
<td>Increase in income tax expense due to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Amortisation of goodwill</td>
<td>412,768</td>
<td>460,801</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Other non-deductible expenses</td>
<td>80,664</td>
<td>87,669</td>
<td>27,309</td>
</tr>
<tr>
<td></td>
<td>Write-off of investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Effect of higher tax rate on overseas incomes</td>
<td>7,846</td>
<td>7,194</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Decrease in income tax expense due to:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Share of joint venture entities’ net profit</td>
<td>(94,901)</td>
<td>(28,135)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Franking credits on dividends received</td>
<td>-</td>
<td>-</td>
<td>(266,000)</td>
</tr>
<tr>
<td></td>
<td>Other non-assessable in come</td>
<td>(1,048)</td>
<td>(59,215)</td>
<td>(298,285)</td>
</tr>
<tr>
<td></td>
<td>Under/over provision for tax in previous year</td>
<td>(7,933)</td>
<td>(14,556)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Realisation of tax losses not previously brought to account</td>
<td>(364,405)</td>
<td>(169,747)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Net tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of tax consolidation</td>
<td>-</td>
<td>-</td>
<td>(274,826)</td>
</tr>
<tr>
<td></td>
<td>Tax losses not brought to account</td>
<td>276,429</td>
<td>282,529</td>
<td>222,328</td>
</tr>
<tr>
<td></td>
<td>Income tax expense attributable to profit from ordinary activities</td>
<td>1,317,885</td>
<td>974,040</td>
<td>(274,826)</td>
</tr>
</tbody>
</table>

(b) Current tax liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for current income tax</td>
<td>3,017,100</td>
<td>334,305</td>
<td>279,771</td>
<td>-</td>
</tr>
<tr>
<td>Provision for deferred tax instalments</td>
<td>42,153</td>
<td>34,023</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total current tax liabilities</td>
<td>3,059,253</td>
<td>368,328</td>
<td>279,771</td>
<td>-</td>
</tr>
</tbody>
</table>

(c) Deferred tax liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for deferred instalments</td>
<td>37,441</td>
<td>79,420</td>
<td>126,246</td>
<td>-</td>
</tr>
<tr>
<td>Provision for deferred income tax</td>
<td>75,667</td>
<td>71,950</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>113,108</td>
<td>151,370</td>
<td>126,246</td>
<td>-</td>
</tr>
</tbody>
</table>
5 Taxation (continued)

(d) Deferred tax assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>110,511</td>
<td>-</td>
<td>110,511</td>
<td>-</td>
</tr>
<tr>
<td>Other timing differences</td>
<td>777,561</td>
<td>194,306</td>
<td>570,332</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>888,072</td>
<td>194,306</td>
<td>680,843</td>
<td>-</td>
</tr>
</tbody>
</table>

**Future income tax benefit not taken into account**

The potential future income tax benefits in the company and its controlled entities arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain:

- Revenue losses 1,577,237 2,200,761 1,378,721 1,169,932
- Capital losses 1,894,239 1,894,239 1,894,239 1,894,239
- Tax losses carried forward 3,471,476 4,095,000 3,272,960 3,064,171

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

1. the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised
2. the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law
3. no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

6 Dividends

**Dividend franking account**

<table>
<thead>
<tr>
<th></th>
<th>The Company 2004</th>
<th>The Company 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>30% franking credits available to shareholders of Photon Group Limited for subsequent financial years</td>
<td>5,521,277</td>
<td>287,772</td>
</tr>
</tbody>
</table>

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.
6 Dividends (continued)

Tax Consolidation legislation

On 1 July 2003, Photon Group Limited and its wholly-owned subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax consolidated group.

7 Earnings per share

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

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

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

Further details of these securities are contained in notes 19, 30 and 31.

<table>
<thead>
<tr>
<th>Earnings reconciliation</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
</tr>
<tr>
<td>Net profit</td>
<td>2,043,667</td>
</tr>
<tr>
<td>Net profit attributable to outside equity interests</td>
<td>(757,686)</td>
</tr>
<tr>
<td>Basic earnings</td>
<td>1,286,981</td>
</tr>
</tbody>
</table>

Allocation of earnings to category of ordinary share:

Basic
- Ordinary shares: 1,286,981

Diluted
- Ordinary shares: 1,286,981

Weighted average number of shares used as the denominator

Number for basic earnings per share
- Ordinary shares: 28,896,411

Number for diluted earnings per share
- Ordinary shares: 28,896,411
- Effect of executive share options on issue: 20,681
- Effect of unissued shares under option for options issued prior to Company listing: 333,149

Total: 29,250,242
8 Segment reporting

Business segments

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

Geographical segments

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

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

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

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>External segment revenue by location of assets</td>
<td>31,456,194</td>
<td>20,604,712</td>
<td>2,878,307</td>
<td>1,316,367</td>
<td>34,334,501</td>
<td>21,921,079</td>
</tr>
<tr>
<td>Segment assets by location of assets</td>
<td>92,702,899</td>
<td>26,461,797</td>
<td>1,021,253</td>
<td>1,551,495</td>
<td>93,724,152</td>
<td>28,013,292</td>
</tr>
<tr>
<td>Acquisition of non-current assets</td>
<td>58,192,114</td>
<td>3,333,572</td>
<td>1,092,665</td>
<td>1,551,495</td>
<td>59,284,779</td>
<td>4,885,067</td>
</tr>
</tbody>
</table>
Notes to the financial statements
for the year ended 30 June 2004

9  Cash Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Cash at bank and on hand</td>
<td>5,866,393</td>
<td>3,930,403</td>
<td>867,424</td>
<td>1,335,935</td>
</tr>
<tr>
<td>Bank short term deposits</td>
<td>127,327</td>
<td>1,611,380</td>
<td>-</td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>5,993,720</td>
<td>5,541,783</td>
<td>867,424</td>
<td>2,335,935</td>
</tr>
</tbody>
</table>

The bank short term deposits mature within 30 days and pay interest at a weighted average interest rate of 5.10% (2003: 4.65%) at 30 June 2004.

10 Receivables

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Non-current</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade debtors</td>
<td>Other debtors</td>
</tr>
<tr>
<td>Less: Provision for doubtful trade debtors</td>
<td>(113,425)</td>
<td>(73,385)</td>
</tr>
<tr>
<td></td>
<td>11,299,484</td>
<td>108,732</td>
</tr>
<tr>
<td></td>
<td>228,700</td>
<td>1,314</td>
</tr>
<tr>
<td></td>
<td>11,299,484</td>
<td>228,700</td>
</tr>
<tr>
<td>Other debtors</td>
<td>2,566,110</td>
<td>457,173</td>
</tr>
<tr>
<td>Dividends receivable</td>
<td>-</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>2,566,110</td>
<td>502,173</td>
</tr>
<tr>
<td>Non-current</td>
<td>Loans to related parties</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>4,703,995</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>2,261,156</td>
</tr>
</tbody>
</table>

No interest is charged on term debtors.

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

11 Other Assets

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Non-current</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Work in progress</td>
<td>Deposits</td>
</tr>
<tr>
<td></td>
<td>1,175,205</td>
<td>106,020</td>
</tr>
<tr>
<td>Prepayments</td>
<td>325,934</td>
<td>37,815</td>
</tr>
<tr>
<td>Other</td>
<td>70,518</td>
<td>2,590</td>
</tr>
<tr>
<td></td>
<td>1,571,657</td>
<td>634,746</td>
</tr>
<tr>
<td></td>
<td>4,703,995</td>
<td>65,014</td>
</tr>
</tbody>
</table>

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

12 Investments accounted for using the equity method

<table>
<thead>
<tr>
<th></th>
<th>Joint venture entities</th>
<th>Associated entities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>540,751</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>484,504</td>
</tr>
</tbody>
</table>
**13 Other financial assets**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-current</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits – interest bearing</td>
<td>175,197</td>
<td>56,648</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest bearing deposits are amounts paid to secure leasing facilities. These amounts are held in bank term deposit accounts and pay at an average weighted interest rate of 5.24% at 30 June 2004 (30 June 2003: 3.88%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in controlled entities – at cost</td>
<td>70,114,452</td>
<td>10,340,974</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less: Provision for diminution in value</td>
<td>(1,268,378)</td>
<td>(1,768,378)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investments in joint venture entities/ associated entities – at cost</td>
<td>666,667</td>
<td>1,022,195</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less: Provision for diminution in value</td>
<td>(575,228)</td>
<td>446,967</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Shares in listed entity – at cost</td>
<td>178,925</td>
<td>60,376</td>
<td>69,512,741</td>
<td>9,019,563</td>
</tr>
<tr>
<td><strong>Intangibles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>70,909,389</td>
<td>12,460,314</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less: accumulated amortisation</td>
<td>(3,176,467)</td>
<td>(1,745,629)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer equipment</td>
<td>2,099,676</td>
<td>1,518,191</td>
<td>29,743</td>
<td>17,273</td>
</tr>
<tr>
<td>At cost</td>
<td>(1,395,046)</td>
<td>(1,084,790)</td>
<td>(15,345)</td>
<td>(7,962)</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>704,630</td>
<td>433,401</td>
<td>14,398</td>
<td>9,311</td>
</tr>
<tr>
<td>Office furniture &amp; equipment</td>
<td>2,074,255</td>
<td>1,622,337</td>
<td>9,280</td>
<td>6,772</td>
</tr>
<tr>
<td>At cost</td>
<td>(1,191,125)</td>
<td>(1,072,232)</td>
<td>(5,214)</td>
<td>(3,409)</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>883,130</td>
<td>550,105</td>
<td>4,066</td>
<td>3,363</td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>1,674,146</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At cost</td>
<td>(867,237)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated amortisation</td>
<td>806,909</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>315,085</td>
<td>99,751</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At cost</td>
<td>(96,991)</td>
<td>(38,025)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated amortisation</td>
<td>218,094</td>
<td>61,726</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Plant &amp; equipment under finance lease</td>
<td>257,692</td>
<td>101,322</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At cost</td>
<td>(98,140)</td>
<td>(54,445)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated amortisation</td>
<td>159,522</td>
<td>46,877</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total property plant and equipment, net book value</strong></td>
<td>2,772,315</td>
<td>1,092,109</td>
<td>18,464</td>
<td>12,674</td>
</tr>
</tbody>
</table>
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Computer equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount at the beginning of the year</td>
<td>433,401</td>
<td>198,519</td>
<td>9,311</td>
<td>7,157</td>
</tr>
<tr>
<td>Acquisitions through entity acquired</td>
<td>110,953</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Additions</td>
<td>393,911</td>
<td>382,849</td>
<td>12,470</td>
<td>8,381</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(227,224)</td>
<td>(148,009)</td>
<td>(7,383)</td>
<td>(6,227)</td>
</tr>
<tr>
<td>Net foreign currency differences on translation of self-sustaining operations</td>
<td>603</td>
<td>42</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td>(7,014)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Carrying amount at the end of the year</td>
<td>704,630</td>
<td>433,401</td>
<td>14,398</td>
<td>9,311</td>
</tr>
</tbody>
</table>

| **Office furniture & equipment** |                   |                   |                  |                  |
| Carrying amount at the beginning of the year | 550,105 | 244,491 | 3,363 | 4,465 |
| Acquisitions through entity acquired | 373,719 | - | - | - |
| Additions | 218,688 | 409,552 | 2,508 | 726 |
| Depreciation | (180,297) | (103,601) | (1,805) | (1,828) |
| Net foreign currency differences on translation of self-sustaining operations | 3,759 | 176 | - | - |
| Disposals | (82,844) | (513) | - | - |
| Carrying amount at the end of the year | 883,130 | 550,105 | 4,066 | 3,363 |

| **Plant & equipment** |                   |                   |                  |                  |
| Carrying amount at the beginning of the year | - | - | - | - |
| Acquisitions through entity acquired | 1,185,572 | - | - | - |
| Depreciation | (84,477) | - | - | - |
| Disposals | (294,186) | - | - | - |
| Carrying amount at the end of the year | 806,909 | - | - | - |

| **Leasehold improvements** |                   |                   |                  |                  |
| Carrying amount at the beginning of the year | 61,726 | 67,885 | - | - |
| Acquisitions through entity acquired | 113,915 | - | - | - |
| Additions | 92,846 | 13,360 | - | - |
| Amortisation | (50,807) | (19,533) | - | - |
| Net foreign currency differences on translation of self-sustaining operations | 414 | 14 | - | - |
| Carrying amount at the end of the year | 218,094 | 61,726 | - | - |
### Notes to the financial statements for the year ended 30 June 2004

#### 15 Property, plant and equipment (continued)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Leased plant &amp; equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount at the beginning of the year</td>
<td>46,877</td>
<td>68,042</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisitions through entity acquired</td>
<td>146,550</td>
<td>4,955</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amortisation</td>
<td>(33,875)</td>
<td>(26,120)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Carrying amount at the end of the year</td>
<td>159,552</td>
<td>46,877</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### 16 Payables

**Current**

- Trade Creditors: 6,800,706, 5,600,667, 449,302, 91,278
- Other creditors and accruals: 3,132,331, 1,872,482, 532,586, 74,843
- Unearned income: 899,685, 558,283, - , -
- Payable to other persons: 1,358,318, 1,631,452, 2,468,029, -
- Loans from directors: 259,359, - , - , -

**Noncurrent**

- Loans from directors: - , 531,098, - , -

#### 17 Interest bearing liabilities

**Current**

- Bank loans – secured: 2,034,565, - , 2,000,000, -
- Lease liabilities - hire purchase: 425,075, 101,866, - , -
  - finance lease: 38,725, 34,648, - , -

**Non-current**

- Bank loans – secured: 12,132,634, 12,000,000
- Lease liabilities - hire purchase: 229,639, 64,001, - , -
  - finance lease: 106,007, 6,823, - , -

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>2,498,365</td>
<td>136,514</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>12,468,280</td>
<td>70,824</td>
<td>12,000,000</td>
<td>-</td>
</tr>
</tbody>
</table>
### Financing arrangements

The consolidated entity has access to the following lines of credit:

#### Total facilities available:

<table>
<thead>
<tr>
<th>Note</th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
<td>2003 $</td>
</tr>
<tr>
<td>Bank overdrafts</td>
<td>400,000</td>
<td>810,000</td>
</tr>
<tr>
<td>Fixed/ variable rate fully drawn advance facility</td>
<td>25,000,000</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Mortgage loan facility</td>
<td>167,199</td>
<td>-</td>
</tr>
<tr>
<td>Interest rate swap facility</td>
<td>280,000</td>
<td>-</td>
</tr>
<tr>
<td>Lease finance facility</td>
<td>500,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26,347,199</strong></td>
<td><strong>7,810,000</strong></td>
</tr>
</tbody>
</table>

#### Facilities used at reporting date:

<table>
<thead>
<tr>
<th>Note</th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
<td>2003 $</td>
</tr>
<tr>
<td>Bank overdrafts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed/ variable rate fully drawn advance facility</td>
<td>14,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Mortgage loan facility</td>
<td>167,199</td>
<td>-</td>
</tr>
<tr>
<td>Interest rate swap facility</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lease finance facility</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,167,199</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

#### Facilities not utilised at reporting date:

<table>
<thead>
<tr>
<th>Note</th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
<td>2003 $</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>400,000</td>
<td>810,000</td>
</tr>
<tr>
<td>Fixed/ variable rate fully drawn advance facility</td>
<td>11,000,000</td>
<td>7,000,000</td>
</tr>
<tr>
<td>Interest rate swap facility</td>
<td>280,000</td>
<td>-</td>
</tr>
<tr>
<td>Lease finance facility</td>
<td>500,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,180,000</strong></td>
<td><strong>7,810,000</strong></td>
</tr>
</tbody>
</table>

### Financing arrangements (continued)

#### Bank overdrafts

The bank overdraft of the Ad Partners Group Partnership is secured by a deed of indemnity provided by Photon Group Limited to Ad Partners Group Partnership. The bank overdrafts are payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates. The overdraft was not being utilised at 30 June 2004.

#### Fixed/ Variable Rate Fully Drawn Advance Facility

The fixed/ variable rate fully drawn advance facility is subject to annual review. The facility bears interest of fixed rates based on an interest swap arrangement and variable rates based on prevailing market rates. The bill acceptance facility is secured by:

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

Repayment terms relating to the Fixed/ Variable Rate Fully Drawn Advance Facility require the amount to be repaid over seven half year principle instalments of $2,000,000 each commencing 1 January 2005.
17 Interest bearing liabilities (continued)

Mortgage loan facility

The mortgage loan facility to Kolorart Graphics Pty Limited, is secured by a registered debenture over its whole assets and undertakings including goodwill and uncalled capital. A registered mortgage over personal property has also been given by a director of The Artel Group Pty Limited.

Interest rate swap facility

The interest rate swap facility is in place to assist with hedging in interest rate exposures. The facility was not utilised as at balance date. As at 30 June 2004 (effective date), an interest rate swap transaction was entered into swapping fixed for floating interest rates at a fixed rate of 5.76% for a notional amount of $7,000,000 being half of the utilised amount of the fixed/ variable rate fully drawn advance facility at reporting date.

Lease finance facility

The lease finance facility is subject to annual review and is in place to assist with capital expenditure requirements. The facility was not utilised at 30 June 2004.

18 Provisions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>29</td>
<td>1,623,738</td>
<td>931,087</td>
<td>13,731</td>
</tr>
<tr>
<td>Lease incentive</td>
<td></td>
<td>117,068</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,740,806</td>
<td>931,087</td>
<td>13,731</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>29</td>
<td>245,309</td>
<td>103,124</td>
<td>7,891</td>
</tr>
</tbody>
</table>

Reconciliations

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

Lease incentive

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying amount at beginning of year</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Provisions made during the year</td>
<td>56,410</td>
</tr>
<tr>
<td></td>
<td>Increase through acquisition of entity</td>
<td>80,000</td>
</tr>
<tr>
<td></td>
<td>Payments made during year</td>
<td>(19,342)</td>
</tr>
<tr>
<td></td>
<td>Carrying amount at end of year</td>
<td>117,068</td>
</tr>
</tbody>
</table>
**Contributed equity**

<table>
<thead>
<tr>
<th>Share capital</th>
<th><strong>Consolidated</strong></th>
<th><strong>The Company</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>49,036,632 (2003: 21,149,722) ordinary shares, fully paid</td>
<td>62,189,537</td>
<td>17,927,500</td>
</tr>
</tbody>
</table>

**Ordinary shares**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. Note 30 provides details of shares issued on exercise of options by directors and specified executives.

**Ordinary shares**

**Movements during the year**

Balance at beginning of year

<table>
<thead>
<tr>
<th>Shares issued:</th>
<th><strong>Consolidated</strong></th>
<th><strong>The Company</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>21,149,722 (2003: 12,005,000) shares</td>
<td>17,927,500</td>
</tr>
<tr>
<td>Shares issued:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-4,000,000 shares (2002: Nil) issued for the exercise of options:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 2006 options at $0.75</td>
<td>2,250,000</td>
<td>-</td>
</tr>
<tr>
<td>January 2006 options at $1.00</td>
<td>1,000,000</td>
<td>-</td>
</tr>
<tr>
<td>-8,498,850 shares issued pursuant to acquisition of Barimos (“the Bailey Group”) for $1.80 per share</td>
<td>15,297,930</td>
<td>-</td>
</tr>
<tr>
<td>-5,373,060 shares issued pursuant to acquisition agreements for the minority interest in controlled entities for $1.80 per share</td>
<td>15,000</td>
<td>3,922,500</td>
</tr>
<tr>
<td>-10,000,000 shares issued for cash pursuant to prospectus for $1.80 per share</td>
<td>18,000,000</td>
<td>-</td>
</tr>
<tr>
<td>-15,000 shares (2002: 3,922,500) issued for cash for $1 per share</td>
<td>15,000</td>
<td>3,922,500</td>
</tr>
<tr>
<td>-2,222,222 issued for debt to equity conversion for $0.90 per share</td>
<td>-</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Transaction costs arising from share issue under Prospectus and shares issued for acquisition of minority interests in controlled entities</td>
<td>(1,972,401)</td>
<td>-</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>62,189,537</td>
<td>17,927,500</td>
</tr>
</tbody>
</table>
Notes to the financial statements
for the year ended 30 June 2004

20 Reserves

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency translation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>(3,073)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exchange difference on net investment in foreign operations net of tax</td>
<td>13,359</td>
<td>(3,073)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>10,286</td>
<td>(3,073)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Nature and purpose of reserves

**Foreign Currency Translation Reserve**

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

21 Accumulated Losses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated losses at beginning of year</td>
<td>(5,595,265)</td>
<td>(4,957,109)</td>
<td>(5,568,504)</td>
<td>(4,298,943)</td>
</tr>
<tr>
<td>Net profit/(loss) attributable to members of the parent entity</td>
<td>1,286,981</td>
<td>(638,156)</td>
<td>1,323,654</td>
<td>(1,269,561)</td>
</tr>
<tr>
<td>Accumulated losses at end of year</td>
<td>(4,308,284)</td>
<td>(5,595,265)</td>
<td>(4,244,850)</td>
<td>(5,568,504)</td>
</tr>
</tbody>
</table>

22 Outside equity interests

<table>
<thead>
<tr>
<th></th>
<th>Consolidated 2004</th>
<th>Consolidated 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside equity interests in controlled entities comprise:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest in retained profits/(accumulated losses) at the end of the financial year</td>
<td>(403,173)</td>
<td>1,172,775</td>
</tr>
<tr>
<td>Interest in share capital</td>
<td>3,660,266</td>
<td>2,556,126</td>
</tr>
<tr>
<td>Total outside equity interests</td>
<td>3,257,093</td>
<td>3,728,901</td>
</tr>
</tbody>
</table>

23 Dividends

<table>
<thead>
<tr>
<th></th>
<th>Cents per share</th>
<th>Total amount $</th>
<th>Date of payment</th>
<th>Franked/ unfranked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsequent events</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final – Ordinary shares</td>
<td>2.0c</td>
<td>980,733</td>
<td>11 October 2004</td>
<td>Franked</td>
</tr>
</tbody>
</table>

The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2004 and will be recognised in subsequent financial reports.
24 Additional financial instruments disclosure

(a) Interest rate risk exposure

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the interest rates on borrowings that are floating. The interest rate swap agreement allows the consolidated entity to swap floating rate borrowings to fixed rates. Maturity of the swap contract occurs every three months with reset dates continuing for the duration of one year. The contract involves quarterly payment or receipt of the net amount of interest.

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

<table>
<thead>
<tr>
<th>Fixed rate maturing in</th>
<th>Weighted average interest rate</th>
<th>Floating interest rate</th>
<th>Non-interest bearing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Note</td>
<td>1 year or less $</td>
<td>1 to 5 years $</td>
<td></td>
</tr>
<tr>
<td>Fixed rate</td>
<td>2004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>9</td>
<td>3.45%</td>
<td>5,835,547</td>
<td>127,327</td>
</tr>
<tr>
<td>Receivables</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>13</td>
<td>5.24%</td>
<td>-</td>
<td>175,197</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>3,728</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>178,925</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>5,835,547</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>302,524</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>13,900,168</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>20,038,239</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>16</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bank loans</td>
<td>17</td>
<td>5.65%</td>
<td>7,000,000</td>
<td>7,167,199</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>17</td>
<td>8.91%</td>
<td>-</td>
<td>463,800</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>18</td>
<td>5.87%</td>
<td>1,869,047</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>1,869,047</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>8,869,047</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>7,630,999</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>335,646</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>12,450,399</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>29,286,091</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash assets</td>
<td>9</td>
<td>3.81%</td>
<td>3,921,019</td>
<td>1,611,380</td>
</tr>
<tr>
<td>Receivables</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>13</td>
<td>3.88%</td>
<td>-</td>
<td>56,648</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>3,728</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>60,376</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>3,921,019</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>1,668,028</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>9,209,833</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>14,798,880</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>16</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>17</td>
<td>-</td>
<td>136,514</td>
<td>70,824</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>18</td>
<td>5.00%</td>
<td>1,034,211</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>1,034,211</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>1,034,211</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>136,514</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>70,824</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>10,193,982</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>11,435,531</td>
</tr>
</tbody>
</table>

(b) Credit risk exposure

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

Recognised financial instruments

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

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

(c) Net fair values of assets and liabilities

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

### Non cancellable operating lease expense commitments

Future operating lease not provided for in the financial statements and payable:

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>2,064,646</td>
<td>1,552,768</td>
</tr>
<tr>
<td>One year or later and no later than five years</td>
<td>3,224,160</td>
<td>1,580,587</td>
</tr>
<tr>
<td>Later than five years</td>
<td>693,172</td>
<td>203,649</td>
</tr>
<tr>
<td></td>
<td>5,981,978</td>
<td>3,337,004</td>
</tr>
</tbody>
</table>

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

### Finance lease payable commitments

**Finance lease commitments are payable:**

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>50,584</td>
<td>37,192</td>
</tr>
<tr>
<td>One year or later and no later than five years</td>
<td>121,014</td>
<td>7,056</td>
</tr>
<tr>
<td>Less: Future lease finance charges</td>
<td>171,598</td>
<td>44,248</td>
</tr>
<tr>
<td></td>
<td>(26,866)</td>
<td>(2,777)</td>
</tr>
<tr>
<td></td>
<td>144,732</td>
<td>41,471</td>
</tr>
</tbody>
</table>

Lease liabilities provided for in the financial statements

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>38,725</td>
<td>34,648</td>
</tr>
<tr>
<td>Non-current</td>
<td>106,007</td>
<td>6,823</td>
</tr>
<tr>
<td></td>
<td>144,732</td>
<td>41,471</td>
</tr>
</tbody>
</table>
26 Contingent liabilities and contingent assets

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

Deferred consideration
With respect to five of the acquisitions of minority interest occurring during the 2004 year, a deferred consideration is payable if specified earnings targets are achieved over a three year period ending 30 June 2006. As the determination of any additional amount payable is dependant on achieving earnings targets, in addition to considering the performance of the specified entities in the financial year ending 30 June 2006, for which forecasting has not been, and could not reliably be performed, the Directors have resolved that the amounts payable are not reasonably determinable.

With respect to the purchase of a controlling interest in one of the controlled entities acquired during the 2004 year, a deferred consideration is payable if specified earnings targets are achieved for the year ended 30 June 2005. As the termination of any additional amount payable is dependant on achieving earnings targets the Directors have resolved that the amount payable is not reasonably determinable.

With respect to the Bailey Group Pty Limited, a number of Earnout Shares are payable. The further shares to be issued will be determined using a defined formula as set out in the prospectus and are payable five business days after the Bailey Group Pty Limited’s 2005 EBITDA is determined in accordance with the Bailey Group Pty Limited Share Purchase Agreement. This is likely to occur in approximately September 2005, subject to specified requirements being met.

Indemnities
Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations still outstanding at 30 June 2004.

The Bailey Group have received income tax assessments relating to disallowed deductions with respect to amounts claimed for income tax purposes. The Bailey Group has objected to such income tax assessments. As part of the ‘Bailey Share Purchase Agreement’, the Bailey interests have indemnified The Bailey Group against any claim by the Australian Taxation Office (ATO) and to this end have placed cash funds amounting to $4,500,000 in escrow pending settlement of this outstanding income tax matter. It is estimated that should The Bailey Group be unsuccessful in its objections the amount payable to the ATO as at 30 June 2004 is $1,613,130. This amount is included in the statement of financial position as ‘tax indemnity’ included within other current assets with a corresponding amount recorded as a current tax liability in the statement of financial position.

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

Contingent liabilities – considered remote

Litigation
A subsidiary company entered into an agreement to lease business premises in Melbourne and subsequently withdrew its offer under the terms referred to in the offer document. The prospective lessor claims the withdrawal from the agreement to lease was performed outside the special timing condition imposed and consequently the lessor is claiming that the notification of withdrawal did not constitute an effective withdrawal from such agreement. It is not possible to estimate the financial effect of this claim should it be successful, however the period to which the agreement to lease relates to is no greater than six months. The directors are of the opinion, based on legal advice, that no provision is required.
Notes to the financial statements
for the year ended 30 June 2004

26 Contingent liabilities and contingent assets (continued)

Guarantees
The Company has guaranteed rental facilities of
certain controlled or associated entities:

<table>
<thead>
<tr>
<th>Name</th>
<th>2004 $</th>
<th>2003 $</th>
<th>2004 $</th>
<th>2003 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ideassociates Pty Limited</td>
<td>- 48,965</td>
<td>-</td>
<td>48,965</td>
<td></td>
</tr>
<tr>
<td>Returnity Pty Limited</td>
<td>- 20,211</td>
<td>-</td>
<td>20,211</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 69,176</td>
<td>-</td>
<td>69,176</td>
<td></td>
</tr>
</tbody>
</table>

27 Controlled entities

(a) Particulars in relation to controlled entities:

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary Share Consolidated Entity Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 %</td>
</tr>
<tr>
<td>Parent entity</td>
<td></td>
</tr>
<tr>
<td>Photon Group Limited</td>
<td></td>
</tr>
<tr>
<td>Controlled entities</td>
<td></td>
</tr>
<tr>
<td>AdPartners Group Partnership</td>
<td>100</td>
</tr>
<tr>
<td>Australian Business Theatre Group Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>The Artel Group Pty Limited</td>
<td>60</td>
</tr>
<tr>
<td>Brass Tacks Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>Barimos Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>CPR Communications and Public Relations Pty Limited (“CPR”)</td>
<td>100</td>
</tr>
<tr>
<td>IDEAssociates Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>ImageBox Group Pty Limited</td>
<td>51</td>
</tr>
<tr>
<td>Love Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>Photon (APG) Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>The Precinct Group Pty Limited</td>
<td>51</td>
</tr>
<tr>
<td>Returnity Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>Robbins Brandt Richter Limited (i)</td>
<td>100</td>
</tr>
<tr>
<td>Australian Research Group Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>Bay Street Mediaworks Partnership</td>
<td>100</td>
</tr>
<tr>
<td>Precinct Ltd (ii)</td>
<td>100</td>
</tr>
<tr>
<td>The Artel Group Marketing Services Pty Limited</td>
<td>60</td>
</tr>
<tr>
<td>Kolorart Graphics Pty Limited</td>
<td>60</td>
</tr>
<tr>
<td>POP Productions Pty Limited</td>
<td>60</td>
</tr>
<tr>
<td>The Bailey Group Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>Powerforce Total Merchandising Pty Limited</td>
<td>100</td>
</tr>
<tr>
<td>Retail * Facts Pty Limited</td>
<td>100</td>
</tr>
</tbody>
</table>
### Controlled entities (continued)

#### (a) Particulars in relation to controlled entities:

(i) Robbins Brandt Richter Limited was incorporated in and carries on business in New Zealand.

(ii) Precinct Ltd was incorporated in and carries on business in Hong Kong.

All other controlled entities were incorporated in Australia.

#### (b) Acquisition of controlled entities

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

##### Acquisition of entities

During the financial year the consolidated entity purchased the percentage voting shares in the following entities:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Acquisition date</th>
<th>% voting shares acquired</th>
<th>Business activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>AdPartners Group Partnership</td>
<td>25 March 2004</td>
<td>49</td>
<td>Integrated advertising and marketing communications services</td>
</tr>
<tr>
<td>Australian Business Theatre Pty Limited</td>
<td>25 March 2004</td>
<td>49</td>
<td>Creation, production and management of corporate events</td>
</tr>
<tr>
<td>Australian Business Research Group Pty Ltd</td>
<td>30 Sep &amp; 30 Nov 03 and 25 Mar 04</td>
<td>73.48</td>
<td>Market research services for CPR clients</td>
</tr>
<tr>
<td>The Artel Group Pty Limited (i)</td>
<td>25 March 2004</td>
<td>60</td>
<td>Development and production of point-of –purchase marketing materials</td>
</tr>
<tr>
<td>Barimos Pty Limited (ii)</td>
<td>25 March 2004</td>
<td>100</td>
<td>Sales, marketing and merchandising in retail</td>
</tr>
<tr>
<td>Bay Street Media Partnership</td>
<td>25 March 2004</td>
<td>100</td>
<td>Public relations and corporate communications</td>
</tr>
<tr>
<td>Brass Tacks Pty Limited</td>
<td>25 March 2004</td>
<td>49</td>
<td>Promotional marketing</td>
</tr>
<tr>
<td>CPR Communications &amp; Public Relations</td>
<td>30 Nov 2003 &amp; 25 March 2004</td>
<td>49</td>
<td>Public relations and corporate communications</td>
</tr>
<tr>
<td>IDEAssociates Pty Limited</td>
<td>25 March 2004</td>
<td>49</td>
<td>Corporate design specialising in financial services</td>
</tr>
<tr>
<td>Image Box Pty Limited (iii)</td>
<td>25 March 2004</td>
<td>51</td>
<td>Large format digital graphics</td>
</tr>
<tr>
<td>Love Pty Limited</td>
<td>25 March 2004</td>
<td>25</td>
<td>Integrated public communications</td>
</tr>
<tr>
<td>Returnity Pty Limited</td>
<td>25 March 2004</td>
<td>50</td>
<td>Permission based email marketing</td>
</tr>
<tr>
<td>Robbins Brandt Richter Ltd</td>
<td>25 March 2004</td>
<td>49</td>
<td>Direct marketing services</td>
</tr>
</tbody>
</table>

(i) On 25 March 2004, 60% of voting shares of The Artel Group Pty Limited and its controlled entities were acquired by Photon Group Limited for $4,950,000 cash, subject to adjustments based on 2004 & 2005 EBITDA.

(ii) On 25 March 2004, 100% of voting shares of Barimos Pty Limited and its controlled entities were acquired by Photon Group Limited for cash of $21million, 8,498,850 ordinary shares in Photon Group Limited and further Earnout shares based on based on 2004 and 2005 EBITDA. The formula for the Earnout shares is set out in detail on pages 57 and 58 of the Prospectus.

(iii) On 25 March 2004, 51% of voting shares of ImageBox Group Pty Limited was acquired by Photon Group Limited for $4,010,500 cash.

(iv) On 25 March 2004 50% of voting shares of Returnity Pty Limited were acquired by Photon Group Limited for $809,834

All other acquisitions resulted in the Photon Group Limited moving from existing controlling interests to 100% interests. These acquisitions were for a combination of cash and shares in the Photon Group Limited.

The operating results of the above entities have been included in the consolidated operating profit from the date of acquisition.
Notes to the financial statements
for the year ended 30 June 2004

27 Controlled entities (continued)

Details of the acquisitions are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Total consideration</td>
<td>64,283,980</td>
<td>5,228,014</td>
<td>59,751,283</td>
<td>3,199,541</td>
</tr>
<tr>
<td>Consideration (scrip)</td>
<td>24,969,438</td>
<td>-</td>
<td>24,969,438</td>
<td>-</td>
</tr>
<tr>
<td>Cash acquired</td>
<td>(5,571,450)</td>
<td>(739,407)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Outflow of cash</td>
<td>33,743,092</td>
<td>4,488,607</td>
<td>34,781,845</td>
<td>3,199,541</td>
</tr>
</tbody>
</table>

Fair value of net assets of entity acquired:

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash assets</td>
<td>5,571,450</td>
<td>739,407</td>
<td>5,576,391</td>
<td>739,407</td>
</tr>
<tr>
<td>Receivables</td>
<td>19,501,042</td>
<td>2,749,188</td>
<td>17,390,701</td>
<td>2,749,188</td>
</tr>
<tr>
<td>Work in progress</td>
<td>1,950,963</td>
<td>-</td>
<td>131,813</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>687,825</td>
<td>58,992</td>
<td>624,387</td>
<td>58,992</td>
</tr>
<tr>
<td>Property, plant &amp; equip</td>
<td>3,176,999</td>
<td>507,812</td>
<td>2,954,768</td>
<td>507,812</td>
</tr>
<tr>
<td>Bank loans</td>
<td>(140,712)</td>
<td>(140,712)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payables</td>
<td>(14,653,598)</td>
<td>(1,996,055)</td>
<td>(11,073,924)</td>
<td>(1,996,055)</td>
</tr>
<tr>
<td></td>
<td>9,606,101</td>
<td>1,504,645</td>
<td>9,478,375</td>
<td>1,504,645</td>
</tr>
<tr>
<td>Interests acquired prior</td>
<td>(5,512,180)</td>
<td>-</td>
<td>(3,576,439)</td>
<td>-</td>
</tr>
<tr>
<td>Outside equity interests at acquisition</td>
<td>(3,494,553)</td>
<td>(737,276)</td>
<td>(3,494,553)</td>
<td>(737,276)</td>
</tr>
<tr>
<td></td>
<td>599,368</td>
<td>767,369</td>
<td>2,407,383</td>
<td>767,369</td>
</tr>
<tr>
<td>Goodwill on acquisition</td>
<td>58,113,162</td>
<td>4,058,929</td>
<td>57,343,900</td>
<td>2,432,172</td>
</tr>
<tr>
<td>Consideration (cash)</td>
<td>33,743,092</td>
<td>4,488,607</td>
<td>34,781,845</td>
<td>3,199,541</td>
</tr>
<tr>
<td>Consideration (scrip)</td>
<td>24,969,438</td>
<td>-</td>
<td>24,969,438</td>
<td>-</td>
</tr>
</tbody>
</table>

28 Investments accounted for using the equity method

Interest in joint venture entities and associated entities

<table>
<thead>
<tr>
<th>Name</th>
<th>Principal Activity</th>
<th>Ownership Interest</th>
<th>Consolidated</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>%</td>
<td>$</td>
</tr>
<tr>
<td>Bellamyhayden Pty Limited</td>
<td>Media Strategy</td>
<td>40</td>
<td>50</td>
<td>484,504</td>
</tr>
<tr>
<td>Returnity Pty Limited</td>
<td>Email Marketing</td>
<td>-</td>
<td>50</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>484,504</td>
</tr>
</tbody>
</table>

During the year ended 30 June 2004, the Company acquired the remaining 50% interest in Returnity Pty Limited, the details of which are set out in Note 27. In addition, Bellamyhayden Pty Limited offered to buy-back shares held in its company under a selective buy-back scheme on 13 May 2004, the terms of which were accepted by the Company resulting in a decrease in the Company’s interest in Bellamyhayden Pty Limited from 50% to 40%. The investment in this entity is now accounted for as an associate.
## Investments accounted for using the equity method (continued)

<table>
<thead>
<tr>
<th>Description</th>
<th>Consolidated</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Movements in carrying amount of joint venture/ associated entities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying amount at the beginning of the year</td>
<td>540,751</td>
<td>442,272</td>
<td></td>
</tr>
<tr>
<td>Investment in joint venture entity during the year</td>
<td>-</td>
<td>4,695</td>
<td></td>
</tr>
<tr>
<td>Share of joint venture gain – Bellamyhayden Pty Limited</td>
<td>202,168</td>
<td>93,784</td>
<td></td>
</tr>
<tr>
<td>Share of joint venture gain – Returnity Pty Limited</td>
<td>112,840</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Disposal of joint venture entity that became a wholly-owned subsidiary</td>
<td>(118,864)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Sale of part interest in joint venture entity during year through selective company buyback</td>
<td>(252,391)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Carrying amount at the end of the year</strong></td>
<td>484,504</td>
<td>540,751</td>
<td></td>
</tr>
<tr>
<td><strong>Results of joint venture entities/ associated entities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Company’s and the consolidated entity’s share of the joint venture entities’ results consists of:</td>
<td>1,732,713</td>
<td>843,535</td>
<td></td>
</tr>
<tr>
<td>Revenue from ordinary activities</td>
<td>(1,335,935)</td>
<td>(639,002)</td>
<td></td>
</tr>
<tr>
<td>Expenses from ordinary activities</td>
<td>396,778</td>
<td>204,533</td>
<td></td>
</tr>
<tr>
<td>Share of accumulated losses</td>
<td>-</td>
<td>(66,124)</td>
<td></td>
</tr>
<tr>
<td>Income tax expense relating to ordinary activities</td>
<td>81,770</td>
<td>(44,625)</td>
<td></td>
</tr>
<tr>
<td><strong>Net profit – accounted for using the equity method</strong></td>
<td>315,008</td>
<td>93,784</td>
<td></td>
</tr>
<tr>
<td><strong>Statement of financial position</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The consolidated entity’s share of the joint venture entities’ results consists of:</td>
<td>445,568</td>
<td>759,081</td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>51,650</td>
<td>126,211</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>497,218</td>
<td>885,292</td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>116,163</td>
<td>242,157</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>2,218</td>
<td>102,384</td>
<td></td>
</tr>
<tr>
<td><strong>Net assets – accounted for using the equity method</strong></td>
<td>378,837</td>
<td>540,751</td>
<td></td>
</tr>
<tr>
<td><strong>Share of post-acquisition retained profits attributable to joint venture entities/ associated entities</strong></td>
<td>35,955</td>
<td>(57,829)</td>
<td></td>
</tr>
<tr>
<td>Share of joint venture entity’s retained profits/(losses) at beginning of year</td>
<td>315,008</td>
<td>93,784</td>
<td></td>
</tr>
<tr>
<td>Disposal of joint venture entity on acquisition of remaining 50% share of company</td>
<td>(112,840)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Disposal of part interest in joint venture entity</td>
<td>(60,183)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Share of joint venture entities’ retained profits/(losses) at end of year</td>
<td>177,940</td>
<td>35,955</td>
<td></td>
</tr>
</tbody>
</table>
29 Notes to the statement of cash flows

(i) Reconciliation of cash

For the purpose of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash assets $5,993,720 5,541,783 867,424 2,335,935

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) from ordinary activities after income tax</td>
<td>2,043,667</td>
<td>384,294</td>
<td>1,323,654</td>
<td>(1,269,561)</td>
</tr>
<tr>
<td>Add/(less) items classified as investing/financing:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit on sale of non-current assets</td>
<td>99,199</td>
<td>240</td>
<td>-</td>
<td>240</td>
</tr>
<tr>
<td>Add/(less) non-cash items:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1,952,574</td>
<td>1,833,266</td>
<td>9,188</td>
<td>8,055</td>
</tr>
<tr>
<td>Write-down/(back) of investment to recoverable amount</td>
<td>-</td>
<td>-</td>
<td>(1,075,228)</td>
<td>1,268,378</td>
</tr>
<tr>
<td>Share of profits/(losses) of joint venture entities</td>
<td>(315,008)</td>
<td>(93,784)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increase/(decrease) in income taxes payable</td>
<td>2,690,925</td>
<td>218,374</td>
<td>279,771</td>
<td>-</td>
</tr>
<tr>
<td>Profit on part disposal of joint venture entities</td>
<td>(264,276)</td>
<td>-</td>
<td>(183,334)</td>
<td>-</td>
</tr>
<tr>
<td>Increase/(decrease) in deferred tax liabilities</td>
<td>(38,262)</td>
<td>(8,374)</td>
<td>126,246</td>
<td>-</td>
</tr>
<tr>
<td>(Increase)/decrease in deferred tax assets</td>
<td>(693,766)</td>
<td>(73,308)</td>
<td>(680,843)</td>
<td>-</td>
</tr>
<tr>
<td>Net cash provided by operating activities before change in assets and liabilities</td>
<td>5,475,053</td>
<td>2,261,082</td>
<td>200,546</td>
<td>7,112</td>
</tr>
<tr>
<td>Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase)/decrease in receivables</td>
<td>(4,768,872)</td>
<td>(2,281,299)</td>
<td>(162,515)</td>
<td>(187,850)</td>
</tr>
<tr>
<td>(Increase)/decrease in work in progress</td>
<td>(662,719)</td>
<td>(352,566)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Increase)/decrease in prepayments</td>
<td>(206,264)</td>
<td>(59,889)</td>
<td>58,709</td>
<td>(13,406)</td>
</tr>
<tr>
<td>(Increase)/decrease in other assets</td>
<td>(385,106)</td>
<td>(18,498)</td>
<td>(178,112)</td>
<td>-</td>
</tr>
<tr>
<td>Increase/(decrease) in payables</td>
<td>2,186,754</td>
<td>2,630,086</td>
<td>2,483,858</td>
<td>(52,752)</td>
</tr>
<tr>
<td>Increase/(decrease) in deferred income</td>
<td>341,402</td>
<td>558,283</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increase/(decrease) in borrowings</td>
<td>592,108</td>
<td>128,910</td>
<td>-</td>
<td>(185,199)</td>
</tr>
<tr>
<td>Increase/(decrease) in provisions</td>
<td>951,904</td>
<td>334,884</td>
<td>(39,509)</td>
<td>42,829</td>
</tr>
<tr>
<td>Increase/(decrease) in related party accounts</td>
<td>100,000</td>
<td>-</td>
<td>(2,442,839)</td>
<td>-</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>3,624,260</td>
<td>3,200,993</td>
<td>(480,954)</td>
<td>(389,266)</td>
</tr>
</tbody>
</table>
Aggregate liability for employee benefits, including on-costs

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits provision</td>
<td>1,623,738</td>
<td>931,807</td>
</tr>
<tr>
<td>Non-current</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee benefits provision</td>
<td>245,309</td>
<td>103,124</td>
</tr>
</tbody>
</table>

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: 3% 3% 3% 3%
- Discount rate: 6% 5% 6% 5%
- Settlement term (years): 10 10 10 10

<table>
<thead>
<tr>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees at year end</td>
</tr>
</tbody>
</table>

**Equity-based plans**

*Executive share option plan (ESOP)*

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

The exercise of an option will entitle the option holder to subscribe for one share. The initial one million options granted pursuant to the Prospectus were granted at an exercise price of $1.80. All future options will be granted at an exercise price being the average of the daily volume weighted average sale price of Photon shares on each of the 30 days prior to the issue date. As at 30 June 2004, only the one million options (pursuant to the Prospectus) have been issued under the ESOP.

Details of options over unissued ordinary shares held by executives of the consolidated entity are set out in this note following.

The fair value of the shares issued as a result of exercising the options during the reporting period at their issue date was $1.80, being the Offer price of the shares as disclosed in the Prospectus.
Notes to the financial statements
for the year ended 30 June 2004

30 Employee benefits (Continued)

Equity-based plan (continued)

Executive share option plan (ESOP) (continued)

*Summary of options over unissued ordinary shares*

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Exercise date on or after</th>
<th>Expiry date</th>
<th>Exercise Price</th>
<th>Numbers of options at beginning of year</th>
<th>Options granted</th>
<th>Options exercised</th>
<th>No. of options at end of year on issue</th>
<th>No. of options at end of year – Vested</th>
<th>Proceeds received</th>
<th>Date issued</th>
<th>No. of shares issued</th>
<th>Fair value per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated and company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28 Nov 03</td>
<td>31 Jan 04</td>
<td>27 Nov 08</td>
<td>$1.50</td>
<td>-</td>
<td>25,000</td>
<td>-</td>
<td>25,000</td>
<td>25,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1 April 04</td>
<td>1 April 05</td>
<td>1 April 09</td>
<td>$1.80</td>
<td>-</td>
<td>100,000</td>
<td>-</td>
<td>100,000</td>
<td>100,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

- 125,000 125,000
30 Employee benefits (continued)

Superannuation

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

31 Director and Executive disclosures

Remuneration of specified directors and specified executives by the consolidated entity

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

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

The Company Constitution provides that the non-executive Directors are each entitled to be paid such remuneration from the company as the Directors decide for their services as Director, but the total amount provided to all non-executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. This amount has been fixed by the Company at $450,000 for the financial year ended 30 June 2004. The remuneration of non-executive Directors must not included a commission on, or percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending 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.
### Remuneration of specified directors and specified executives by the consolidated entity (continued)

<table>
<thead>
<tr>
<th>Name</th>
<th>Salary &amp; fees</th>
<th>Bonus</th>
<th>Non-monetary benefits</th>
<th>Superannuation</th>
<th>Value of options</th>
<th>Insurance premiums</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Specified directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>2004</td>
<td>25,000</td>
<td>-</td>
<td>2,250</td>
<td>-</td>
<td>-</td>
<td>27,250</td>
</tr>
<tr>
<td>Brian Bickmore</td>
<td>2004</td>
<td>10,000</td>
<td>-</td>
<td>900</td>
<td>-</td>
<td>-</td>
<td>10,900</td>
</tr>
<tr>
<td>Paul Gregory</td>
<td>2004</td>
<td>10,000</td>
<td>-</td>
<td>900</td>
<td>-</td>
<td>-</td>
<td>10,900</td>
</tr>
<tr>
<td>Tim Tighe</td>
<td>2004</td>
<td>10,000</td>
<td>-</td>
<td>900</td>
<td>-</td>
<td>-</td>
<td>10,900</td>
</tr>
<tr>
<td><strong>Executive</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tim Hughes (Chairman)</td>
<td>2004</td>
<td>75,000</td>
<td>-</td>
<td>6,125</td>
<td>14,605</td>
<td>-</td>
<td>95,730</td>
</tr>
<tr>
<td>Matthew Bailey (CEO)</td>
<td>2004</td>
<td>69,838</td>
<td>-</td>
<td>11,438</td>
<td>5,761</td>
<td>4,436</td>
<td>113,673</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>2004</td>
<td>345,872</td>
<td>-</td>
<td>28,128</td>
<td>-</td>
<td>-</td>
<td>374,000</td>
</tr>
</tbody>
</table>

# For period from 1 April 2004 to 30 June 2004
31 Director and Executive disclosure (continued)

Remuneration of specified directors and specified executives by the consolidated entity (continued)

<table>
<thead>
<tr>
<th>Name</th>
<th>Salary &amp; fees</th>
<th>Bonus</th>
<th>Non-monetary benefits</th>
<th>Superannuation</th>
<th>Value of options</th>
<th>Insurance Premiums</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Julian Martin</td>
<td>244,918</td>
<td>-</td>
<td>55,082</td>
<td>24,000</td>
<td>-</td>
<td>-</td>
<td>324,000</td>
</tr>
<tr>
<td>Adam Kilgour</td>
<td>165,000</td>
<td>-</td>
<td>24,706</td>
<td>14,811</td>
<td>-</td>
<td>-</td>
<td>204,517</td>
</tr>
<tr>
<td>Geoff Nesbitt</td>
<td>120,000</td>
<td>-</td>
<td>16,498</td>
<td>11,002</td>
<td>2,805</td>
<td>-</td>
<td>150,305</td>
</tr>
<tr>
<td>Terry Carman</td>
<td>135,000</td>
<td>-</td>
<td>17,499</td>
<td>17,500</td>
<td>-</td>
<td>-</td>
<td>169,999</td>
</tr>
<tr>
<td>Stewart Bailey #</td>
<td>27,798</td>
<td>-</td>
<td>10,500</td>
<td>3,016</td>
<td>-</td>
<td>2,640</td>
<td>43,954</td>
</tr>
</tbody>
</table>

# For period from 1 April 2004 to 30 June 2004
31 Director and Executive disclosure (continued)

Equity instruments

All options refer to options over ordinary shares of Photon Group Limited, which are exercisable on a one-for-one basis under the ESOP.

Options granted as remuneration

During the reporting period, the following options over ordinary shares were granted and vested during the year under the ESOP:

<table>
<thead>
<tr>
<th>Specified directors</th>
<th>Number of options granted during the year</th>
<th>Number of options vested during the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Hughes</td>
<td>Nov 08 options</td>
<td>250,000</td>
</tr>
<tr>
<td>Tim Hughes</td>
<td>Apr 09 options</td>
<td>300,000</td>
</tr>
<tr>
<td>Matthew Bailey</td>
<td>Apr 09 options</td>
<td>300,000</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>Nov 08 options</td>
<td>100,000</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>Apr 09 options</td>
<td>300,000</td>
</tr>
<tr>
<td>Specified executives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geoff Nesbitt</td>
<td>Nov 08 options</td>
<td>25,000</td>
</tr>
<tr>
<td>Geoff Nesbitt</td>
<td>Apr 09 options</td>
<td>100,000</td>
</tr>
</tbody>
</table>

375,000 options were granted on 28 November 2003, have an expiration date of 27 November 2008, an exercise price of $1.50, and a fair value of $0.23 per share at grant date. The options were provided at no cost to the recipients.

1,000,000 options were granted on 01 April 2004, have an expiration date of 1 April 2009, an exercise price of $1.80, and a fair value of $0.295 per share at grant date. The options were provided at no cost to the recipients.

All options expire on the earlier of their expiry date or termination of the individual’s employment. The options are exercisable annually from two years of issue date. After which time the option holder can exercise up to one third of the total number of options granted to them, after three years, the option holder is only entitled to exercise up to two thirds of those options and after four years, the option holder is entitled to exercise all those options. For options granted in the current year, the earliest exercise date is 29 November 2005.
31 Director and executive disclosures (continued)

Exercise of options granted as remuneration

During the reporting period, the following shares were issued on the exercise of options granted to executives or their associated interests.

<table>
<thead>
<tr>
<th>Specified directors</th>
<th>Number of shares</th>
<th>Amount paid per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Hughes</td>
<td>384,000</td>
<td>$0.75</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>1,000,000</td>
<td>$1.00</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>30,000</td>
<td>$0.75</td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>60,000</td>
<td>$0.75</td>
</tr>
<tr>
<td>Greg Bundy (resigned 1 July 2003)</td>
<td>90,000</td>
<td>$0.75</td>
</tr>
</tbody>
</table>

Specified executives

Nil

Option holdings

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

<table>
<thead>
<tr>
<th>Specified director</th>
<th>Held as at 1 July 2003</th>
<th>Granted as remuneration</th>
<th>Exercised</th>
<th>Held at 30 June 2004</th>
<th>Vested and exercisable as at 30 June 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Hughes</td>
<td>624,000</td>
<td>550,000</td>
<td>(384,000)</td>
<td>790,000</td>
<td>240,000</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>1,000,000</td>
<td>-</td>
<td>(1,000,000)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>270,000</td>
<td>400,000</td>
<td>(30,000)</td>
<td>640,000</td>
<td>240,000</td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>140,000</td>
<td>-</td>
<td>(60,000)</td>
<td>80,000</td>
<td>80,000</td>
</tr>
<tr>
<td>Greg Bundy (resigned 1 July 2003)</td>
<td>90,000</td>
<td>-</td>
<td>(90,000)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Matthew Bailey</td>
<td>-</td>
<td>300,000</td>
<td>-</td>
<td>300,000</td>
<td>-</td>
</tr>
<tr>
<td>John Falconer (resigned 1 July 2003)</td>
<td>40,000</td>
<td>-</td>
<td>-</td>
<td>40,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>
Notes to the financial statements for the year ended 30 June 2004

31 Director and Executive disclosure (continued)

Equity instruments (continued)

Equity holdings and transactions

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

<table>
<thead>
<tr>
<th>Specified director</th>
<th>Held as at 1 July 2003</th>
<th>Purchases</th>
<th>Received on exercise of options</th>
<th>Sales</th>
<th>Held as at 30 June 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tim Hughes</td>
<td>1,469,444</td>
<td>100,000</td>
<td>384,000</td>
<td>-</td>
<td>1,953,444</td>
</tr>
<tr>
<td>Siimon Reynolds</td>
<td>3,840,000</td>
<td>-</td>
<td>1,000,000</td>
<td>-</td>
<td>4,840,000</td>
</tr>
<tr>
<td>Anthony Armstrong</td>
<td>217,222</td>
<td>-</td>
<td>30,000</td>
<td>-</td>
<td>247,222</td>
</tr>
<tr>
<td>Susan McIntosh</td>
<td>104,444</td>
<td>-</td>
<td>60,000</td>
<td>-</td>
<td>164,444</td>
</tr>
<tr>
<td>Matthew Bailey #</td>
<td>-</td>
<td>8,498,850</td>
<td>-</td>
<td>-</td>
<td>8,498,850</td>
</tr>
<tr>
<td>Brian Bickmore</td>
<td>-</td>
<td>150,000</td>
<td>-</td>
<td>-</td>
<td>150,000</td>
</tr>
<tr>
<td>Tim Tighe</td>
<td>-</td>
<td>150,000</td>
<td>-</td>
<td>-</td>
<td>150,000</td>
</tr>
<tr>
<td>Paul Gregory</td>
<td>-</td>
<td>150,000</td>
<td>-</td>
<td>-</td>
<td>150,000</td>
</tr>
<tr>
<td>Greg Bundy (resigned 1 July 2003)</td>
<td>-</td>
<td>-</td>
<td>90,000</td>
<td>-</td>
<td>90,000</td>
</tr>
</tbody>
</table>

# Pursuant to The Bailey Group Share Sale Agreement

Loans and other transaction with specified directors and specified executives

Loans

No loans were outstanding at the reporting date to specified directors and specified executives, where the individual’s aggregate loan balance exceeded $100,000.
31 Director and executive disclosure (continued)

Loans and other transaction with specified directors and specified executives (continued)

Other transactions with the Company or its controlled entities

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

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

The aggregate amounts recognised during the year relating to specified directors, specified executives and their personally-related entities, total revenues of $74,867 and total expenses of $50,000. Details of the transactions are as follows:

<table>
<thead>
<tr>
<th>Specified directors</th>
<th>Transaction</th>
<th>Note</th>
<th>Consolidated 2004</th>
<th>Consolidated 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>S Reynolds</td>
<td>Consultancy</td>
<td></td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>S Reynolds</td>
<td>Marketing services</td>
<td>(i)</td>
<td>28,332</td>
<td>-</td>
</tr>
<tr>
<td>T Hughes, S McIntosh &amp; B Bickmore</td>
<td>Sales: Design services</td>
<td>(ii)</td>
<td>35,308</td>
<td>33,503</td>
</tr>
<tr>
<td>P Gregory</td>
<td></td>
<td>(iii)</td>
<td>11,227</td>
<td>-</td>
</tr>
</tbody>
</table>

(i) Sales: marketing and public relations services are provided by Love Pty Limited to Creatable Media Pty Limited. S Reynolds holds the position of director of Creatable Media Pty Limited.

(ii) Sales: corporate design services are provided to RG Capital Radio Limited by IDEAssociates Pty Limited. T Hughes, S McIntosh and B Bickmore are associated with RG Capital Radio Limited in their capacity as Executive Chairman (resigned on 3 June 2004) and Non-Executive Director respectively.

(iii) Digital graphics production services are provided to Beach Culture Australia Pty Limited by Image Box Pty Limited. Paul Gregory provides management services to Beach Culture Australia Pty Limited.
32 Non-director related parties

The classes of non-director related parties are:

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

**Transactions**

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

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 $</td>
<td>2003 $</td>
</tr>
<tr>
<td>Interest revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly-owned controlled entities</td>
<td>- 4,964</td>
<td>-</td>
</tr>
<tr>
<td>Partly-owned controlled entities</td>
<td>- 3,494</td>
<td>32,327</td>
</tr>
<tr>
<td>Dividend revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly-owned controlled entities</td>
<td>- 886,665</td>
<td>-</td>
</tr>
<tr>
<td>Partly-owned controlled entities</td>
<td>- 3,494</td>
<td>32,327</td>
</tr>
<tr>
<td>Management fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly-owned controlled entities</td>
<td>- 348,188</td>
<td>60,000</td>
</tr>
<tr>
<td>Partly-owned controlled entities</td>
<td>- 75,000</td>
<td>277,793</td>
</tr>
<tr>
<td>Commonly controlled entities</td>
<td>- 37,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit on disposal of joint venture entity</td>
<td>264,276</td>
<td>- 264,276</td>
</tr>
</tbody>
</table>
### 32 Non-director related parties (continued)

<table>
<thead>
<tr>
<th></th>
<th>Consolidated</th>
<th>The Company</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Loans advanced to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partly -owned controlled entities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commonly controlled entities</td>
<td>-</td>
<td>100,000</td>
</tr>
<tr>
<td>Wholly owned entities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate amounts receivable from non-director related parties including trade debtors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly-owned controlled entities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Payables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate amounts payable to non-director related parties other than trade creditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholly-owned controlled entities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Partly -owned controlled entities</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Percentage of equity interests**

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

- **Controlled entities**: Note 27(a)
- **Joint venture and associated entities**: Note 28
33 Events subsequent to balance date

Acquisition of entity

Subsequent to balance date, the Company acquired 100% of the issued share capital of The Leading Edge ("TLE"), a market research company on 11 August 2004. The purchase price was $15 million cash plus additional deferred cash payments to be tied to the earnings of TLE in the period through to 30 June 2007. The acquisition was funded using existing debt facilities.

The financial effects of the transaction have not been brought to account in the financial statements for the year ended 30 June 2004.

Dividend

For dividends declared after 30 June 2004, see note 23.

International Financial Reporting Standards

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

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity’s financial performance and position are summarised below. This summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant on going projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity’s financial reports in the future. The potential impacts on the consolidated entity’s financial performance and position of the adoption of IFRS, including systems upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The consolidated entity has put a project plan in place to ensure that the impact of the conversion to IFRS is adequately managed. The project plan has been designed to ensure full compliance with IFRS requirements, beginning with the half year ended 31 December 2005. The consolidated entity’s implementation project consists of three phases as described below:

Assessment and planning phase

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

This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
Events subsequent to balance date

Assessment and planning phase (continued)

- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The consolidated entity has commenced the assessment and planning phase and expects to complete this stage in the 2005 financial year.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The consolidated entity has commenced its design phase, with work progressing in each of the areas described above. The design phase is expected to be completed during the upcoming financial year.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the consolidated entity to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Exception for certain training that has been given to operational staff, the consolidated entity has not yet commenced the implementation phase. However, the consolidated entity expects this phase to be substantially complete by 30 June 2005.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

Goodwill and impairment testing

Under IFRS goodwill will not be systematically amortised on a straight-line basis over the period which the benefits are expected to be arise being a period no longer than 20 years, as currently required under Australian GAAP. Instead the carrying value of the group’s assets including goodwill be reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying value of an asset, or in certain circumstances the asset’s related cash generating unit, exceeds its recoverable amount. The full amount of impairment loss will be recognised in the statement of financial performance in the year the impairment arises.
Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

IFRS requires goodwill and other relevant assets should be allocated on a reasonable and consistent basis to the cash generating units of the business to the extent possible. The extent to which goodwill is allocated to these cash generating units will determine the strictest applied to determine whether goodwill and cash generating operations have been impaired. Under IFRS, when determining whether an assets is impaired, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Income tax

The conversion to IFRS will require the adoption of the balance sheet approach, which may result in more deferred tax assets and liabilities, and as tax effects follow the underlying transaction, they can be recognised in equity as well as income tax expense.

Equity-based compensation

IFRS will require expensing of equity-based compensation in the form of shares and options.
Photon Group Limited
ABN 97 091 524 515

Directors’ Declaration
For the year ended 30 June 2004

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

(a) the financial statements and notes, set out on pages 9 to 54, 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 2004 and of their performance, as represented by the results of their operations and net cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

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

Dated at Sydney this 23 day of August 2004.

Signed in accordance with a resolution of the directors:

[Signature]

Tim Hughes
Director
Independent audit report to the members of Photon Group Limited

Scope
We have audited the financial report of Photon Group Limited, ("the Company") for the financial year ended 30 June 2004, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes (1 to 33), and the directors’ declaration (set out on pages 9 to 53). The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company’s directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company’s and the consolidated entity’s financial position, and performance as represented by the results of their operations and their cash flows.

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

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

a) 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 2004 and of their performance for the financial year ended on that date; and
   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

P J Done
Partner

Sydney.

August 2004