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

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Directors' Report

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

Directors Report *(continued)*

Dividends

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

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

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 Report *(continued)*

Directors' meetings

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

Director	Board meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
Tim Hughes	16	16	-	-	1	1
Matthew Bailey	4	5	-	-	-	-
Anthony Armstrong	15	16	-	-	-	-
Siimon Reynolds	15	16	-	-	-	-
Susan McIntosh	13	16	1	1	-	-
Brian Bickmore	5	5	1	1	-	-
Tim Tighe	4	5	-	-	1	1
Paul Gregory	5	5	1	1	1	1

A – Number of meetings attended

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

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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:

	Base remuneration	Non-cash benefits	Super contributions	Options issued (iii)	TOTAL
Directors					
Non executive					
Susan McIntosh	25,000	-	2,250	-	27,250
Brian Bickmore (i)	10,000	-	900	-	10,900
Paul Gregory (i)	10,000	-	900	-	10,900
Tim Tighe (i)	10,000	-	900	-	10,900
Greg Bundy (ii)	-	-	-	-	-
John Falconer (ii)	-	-	-	-	-
Executive					
Tim Hughes	75,000	-	6,125	14,605	95,730
Matthew Bailey (i)	69,838	26,636	11,438	5,761	113,673
Anthony Armstrong	288,592	50,406	11,002	9,299	359,299
Siimon Reynolds	345,872	-	28,128	-	374,000
Executive officers					
The Company					
Geoff Nesbitt	120,000	16,498	11,002	2,805	150,305
Consolidated					
Julian Martin	244,918	55,082	24,000	-	324,000
Adam Kilgour	165,000	24,706	14,811	-	204,517
Terry Carman	135,000	17,499	17,500	-	169,999
Stewart Bailey (i)	27,798	13,140	3,016	-	43,954

(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.

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Directors Report *(continued)*

Directors' and senior executives' remuneration

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

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

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:

	Number of options granted	Exercise price	Expiry date
Directors			
Tim Hughes	250,000	$1.50	27 November 2008
Tim Hughes	300,000	$1.80	1 April 2009
Anthony Armstrong	100,000	$1.50	27 November 2008
Anthony Armstrong	300,000	$1.80	1 April 2009
Matthew Bailey	300,000	$1.80	1 April 2009
Officers			
Geoff Nesbitt	25,000	$1.50	27 November 2008
Geoff Nesbitt	100,000	$1.80	1 April 2009

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:

Expiry date	Number of options	Exercise price
31 January 2007	700,000	$1.25
28 November 2008	375,000	$1.50
1 April 2009	1,000,000	$1.80
	2,075,000	

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:

Number of shares	Amount paid on each share
3,000,000	$0.75
1,000,000	$1.00

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

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

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Directors Report *(continued)*

Indemnification and insurance of officers

Indemnification

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

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

Insurance premiums

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

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

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

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

Dated at Sydney this 24th day of August 2004.

Tim Hughes
Director

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Statements of financial performance for the year ended 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Revenue from rendering of services	2	33,355,843	21,536,657	489,188	436,178
Other revenues from ordinary activities	2	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
Employee expenses		(22,145,144)	(13,604,465)	(881,484)	(664,333)
Borrowing costs	3	(506,097)	(220,370)	(467,516)	(189,660)
Occupancy costs		(1,956,068)	(1,151,944)	(18,385)	(19,216)
Depreciation and amortisation expenses	3	(1,952,574)	(1,833,266)	(9,188)	(8,055)
Insurance expense		(245,286)	(174,384)	(30,451)	(41,327)
Consultancy fees		(1,240,978)	(622,047)	(83,983)	(57,784)
Equipment hire charges		(406,460)	(476,511)	(8,223)	(3,616)
Travel expense		(546,378)	(256,238)	(55,238)	(18,425)
Communication expense		(827,313)	(581,851)	(14,503)	(18,620)
Reversal/(provision) for diminuition of investments		-	-	1,075,228	(1,268,378)
Other expenses from ordinary activities		(1,461,659)	(1,735,453)	(161,129)	(88,449)
Share of net profit of associates and joint ventures accounted for using the equity method	28	315,008	93,784	-	-
Profit/(loss) from ordinary activities before related income tax expense		3,361,552	1,358,334	1,048,828	(1,269,561)
Income tax expense relating to ordinary activities	5	1,317,885	974,040	(274,826)	-
Net profit/(loss)		2,043,667	384,294	1,323,654	(1,269,561)
Net profit/(loss) attributable to outside equity interests		756,686	1,022,450	-	-
Net profit/(loss) attributable to members of the parent entity	21	1,286,981	(638,156)	1,323,654	(1,269,561)
Non-owner transaction changes in equity					
Net exchange difference relating to self-sustaining foreign operations	20	13,359	(3,073)	-	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity recognised directly in equity		1,300,304	(641,229)	1,323,654	(1,269,561)
Basic earnings per share (cents):					
Ordinary shares	7	4.45			
Diluted earnings per share (cents):					
Ordinary shares	7	4.40			

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

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Statements of financial position as at 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Current assets					
Cash assets	9	5,993,720	5,541,783	867,424	2,335,935
Receivables	10	13,865,594	9,096,721	685,873	523,358
Other	11	1,571,657	634,746	71,222	65,014
Total current assets		21,430,971	15,273,250	1,624,519	2,924,307
Non-current assets					
Receivables	10	-	100,000	4,703,995	2,261,156
Investments accounted for using the equity method	12	484,504	540,751	-	-
Other financial assets	13	178,925	60,376	69,512,741	9,019,563
Intangible assets	14	67,732,922	10,714,685	-	-
Property, plant and equipment	15	2,772,315	1,092,109	18,464	12,674
Deferred tax assets	5(d)	888,072	194,306	680,843	-
Other	11	236,443	37,815	113,195	-
Total non-current assets		72,293,181	12,740,042	75,029,238	11,293,393
Total assets		93,724,152	28,013,292	76,653,757	14,217,700
Current liabilities					
Payables	16	12,450,399	9,662,884	4,281,431	1,797,573
Interest bearing liabilities	17	2,498,365	136,514	2,000,000	-
Current tax liabilities	5(b)	3,059,253	368,328	279,771	-
Provisions	18	1,740,806	931,087	13,731	61,131
Total current liabilities		19,748,823	11,098,813	6,574,933	1,858,704
Non-current liabilities					
Payables	16	-	531,098	-	-
Interest bearing liabilities	17	12,468,280	70,824	12,000,000	-
Deferred tax liabilities	5(c)	113,108	151,370	126,246	-
Provisions	18	245,309	103,124	7,891	-
Total non-current liabilities		12,826,697	856,416	12,134,137	-
Total liabilities		32,575,520	11,955,229	18,709,070	1,858,704
Net assets		61,148,632	16,058,063	57,944,687	12,358,996
Equity					
Contributed equity	19	62,189,537	17,927,500	62,189,537	17,927,500
Accumulated losses	21	(4,308,284)	(5,595,265)	(4,244,850)	(5,568,504)
Reserves	20	10,286	(3,073)	-	-
Total parent entity interest		57,891,539	12,329,162	57,944,687	12,358,996
Outside equity interests	22	3,257,093	3,728,901	-	-
Total equity		61,148,632	16,058,063	57,944,687	12,358,996

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.

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Statements of cash flows
for the year ended 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Cash flows from operating activities					
Cash receipts in the course of operations		32,272,657	21,226,126	702,308	319,229
Cash payments in the course of operations		(26,710,725)	(17,182,274)	(1,809,170)	(1,116,479)
Dividends received		-	-	983,665	519,120
Interest received		227,274	174,594	109,759	78,524
Borrowing costs paid		(506,097)	(220,370)	(467,516)	(189,660)
Income taxes paid		(1,658,849)	(797,083)	-	-
Net cash provided by/(used in) operating activities	29	3,624,260	3,200,993	(480,954)	(389,266)
Cash flows from investing activities					
Payments for property, plant & equipment		516,667	(294,888)	516,667	(1,470)
Payments for investments (net of cash acquired)		(33,743,092)	(2,460,134)	(34,781,845)	(3,199,541)
Repayment of loans by related parties		284,845	-	-	679,709
Loans to related parties		(2,486,701)	-	(14,978)	-
Net cash used in investing activities		(35,428,281)	(2,755,022)	(34,280,156)	(2,521, 302)
Cash flows from financing activities					
Proceeds from issue of shares		21,265,000	3,922,500	21,265,000	3,922,500
Transaction costs from issue of shares		(1,972,401)			
Proceeds from borrowings		25,000,000	2,531,098	(1,972,401)	-
Repayment of borrowings		(11,274,252)	(4,300,600)	25,000,000	-
Dividends paid to outside equity interest in controlled entities		(762,389)	(489,482)	(11,000,000)	-
Net cash provided by financing activities		32,255,958	1,663,516	33,292,599	3,922,500
Net increase (decrease) in cash held		451,937	2,109,487	(1,468,511)	1,011,932
Cash at the beginning of the financial year	29	5,541,783	3,432,296	2,335,935	1,324,003
Cash at the end of the financial year	29	5,993,720	5,541,783	867,424	2,335,935

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 est imated 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 un conditional 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 reason able 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 asset s 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:

	2004		2003	
	Prime Cost	**Diminishing Value**	**Prime Cost**	**Diminishing Value**
Property, plant and equipment				
Computer equipment	25% - 40%	20% - 40%	25% - 40%	20% - 40%
Office furniture and equipment	5% - 25%	5% - 40%	5% - 25%	5% - 40%
Plant and equipment	10% - 25%	-	-	-
Leasehold improvements	10% - 33.33%	-	10% - 33.33%	-
Equipment under finance lease	25%	-	25%	-
Intangibles				
Goodwill	20 years		20 years	

(q) Payables

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

(r) Interest bearing liabilities

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

(s) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave 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.

1 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 consist ent 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.

Notes to the financial statements for the year ended 30 June 2004

2 Revenue from ordinary activities

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Rendering services from operating activities	33,355,843	21,536,657	489,188	436,178
Other revenues:				
From operating activities				
Interest:				
Related parties	-	-	8,458	32,327
Other parties	227,274	174,594	101,301	78,524
Dividends:				
Related parties	-	-	886,665	561,000
From outside operating activities				
Gross proceeds on sale of non-current assets	284,845	273	-	273
Profit on sale of investments	264,276	-	183,334	-
Trade Grants	124,191	161,266	-	-
Other	78,072	48,289	34,754	-
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:***

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
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)	-	(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)

Notes to the financial statements for the year ended 30 June 2004

3 Profit from ordinary activities before income tax expense (continued)

(b) Revision of accounting estimate

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

4 Auditors' Remuneration

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Audit services:				
Auditors of the Company – KPMG Australia	130,000	98,000	44,422	80,000
Other auditors:				
Audit and review of financial reports	15,000	-	-	-
Other services:				
Transaction and due diligence services:				
Auditors of the Company – KPMG Australia	992,000	-	992,000	-
Taxation services:				
Auditors of the Company – KPMG Australia	27,000	30,256	10,000	16,756
	1,164,000	128,256	1,046,422	96,756

5 Taxation

(a) Income tax expense

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Prima facie income tax expense calculated at 30% on the profit from ordinary activities		1,008,465	407,500	314,648	(380,868)
Increase in income tax expense due to:					
Amortisation of goodwill		412,768	460,801	-	-
Other non-deductible expenses		80,664	87,669	27,309	34,156
Write-off of investment		-	-	-	380,513
Effect of higher tax rate on overseas incomes		7,846	7,194	-	-
Decrease in income tax expense due to:					
Share of joint venture entities' net profit		(94,901)	(28,135)	-	-
Franking credits on dividends received		-	-	(266,000)	(168,300)
Other non-assessable income		(1,048)	(59,215)	(298,285)	-
Under/(over) provision for tax in previous year		(7,933)	(14,556)	-	-
Realisation of tax losses not previously brought to account		(364,405)	(169,747)	-	-
Net tax balances recognised by head entity in relation to wholly-owned subsidiaries within the tax consolidated group upon implementation of tax consolidation		-	-	(274,826)	-
Tax losses not brought to account		276,429	282,529	222,328	134,499
Income tax expense attributable to profit from ordinary activities		1,317,885	974,040	(274,826)	-

(b) Current tax liabilities

Provision for current income tax	3,017,100	334,305	279,771	-
Provision for deferred tax instalments	42,153	34,023	-	-
	3,059,253	368,328	279,771	-

(c) Deferred tax liabilities

Provision for deferred instalments	37,441	79,420	126,246	-
Provision for deferred income tax	75,667	71,950	-	-
	113,108	151,370	126,246	-

5 Taxation (continued)

(d) Deferred tax assets

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Tax losses carried forward	110,511	-	110,511	-
Other timing differences	777,561	194,306	570,332	-
	888,072	194,306	680,843	-

Future income tax benefit not taken into account

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
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

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

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

6 Dividends

Dividend franking account

	The Company 2004 $	The Company 2003 $
30% franking credits available to shareholders of Photon Group Limited for subsequent financial years	5,521,277	287,772

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.

	Consolidated 2004 $
Earnings reconciliation	
Net profit	2,043,667
Net profit attributable to outside equity interests	(757,686)
Basic earnings	1,286,981
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
	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.

	Australia		Other		Consolidated	
Secondary reporting - Geographical segments	**2004 $**	**2003 $**	**2004 $**	**2003 $**	**2004 $**	**2003 $**
External segment revenue by location of assets	31,456,194	20,604,712	2,878,307	1,316,367	34,334,501	21,921,079
Segment assets by location of assets	92,702,899	26,461,797	1,021,253	1,551,495	93,724,152	28,013,292
Acquisition of non-current assets	58,192,114	3,333,572	1,092,665	1,551,495	59,284,779	4,885,067

9 Cash Assets

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Cash at bank and on hand	5,866,393	3,930,403	867,424	1,335,935
Bank short term deposits	127,327	1,611,380	-	1,000,000
	5,993,720	5,541,783	867,424	2,335,935

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

Current				
Trade debtors	11,412,909	9,061,374	228,700	420,044
Less: Provision for doubtful trade debtors	(113,425)	(73,385)	-	-
	11,299,484	8,987,989	228,700	420,044
Other debtors	2,566,110	108,732	452,173	1,314
Dividends receivable	-	-	5,000	102,000
	2,566,110	108,732	457,173	103,314
	13,865,594	9,096,721	685,873	523,358
Non-current				
Loans to related parties	-	100,000	4,703,995	2,261,156
	-	100,000	4,703,995	2,261,156

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

Current				
Work in progress	1,175,205	512,486	-	-
Prepayments	325,934	119,670	6,305	65,014
Other	70,518	2,590	64,917	-
	1,571,657	634,746	71,222	65,014
Non-current				
Deposits	106,020	37,815	-	-
Other	130,423	-	113,195	-
	236,443	37,815	113,195	-

12 Investments accounted for using the equity method

Joint venture entities	27	-	540,751	-	-
Associated entities	27	484,504	-	-	-

13 Other financial assets

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Non-current					
Deposits – interest bearing		175,197	56,648	-	-
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%)					
Investments in controlled entities – at cost	27	-	-	70,114,452	10,340,974
Less: Provision for diminution in value		-	-	(1,268,378)	(1,768,378)
		-	-	68,846,074	8,572,596
Investments in joint venture entities/ associated entities – at cost	28	-	-	666,667	1,022,195
Less: Provision for diminution in value		-	-	-	(575,228)
		-	-	666,667	446,967
Shares in listed entity – at cost		3,728	3,728	-	-
		178,925	60,376	69,512,741	9,019,563

14 Intangibles

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Goodwill	70,909,389	12,460,314	-	-
Less: accumulated amortisation	(3,176,467)	(1,745,629)	-	-
	67,732,922	10,714,685	-	-

15 Property, plant and equipment

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Computer equipment				
At cost	2,099,676	1,518,191	29,743	17,273
Accumulated depreciation	(1,395,046)	(1,084,790)	(15,345)	(7,962)
	704,630	433,401	14,398	9,311
Office furniture & equipment				
At cost	2,074,255	1,622,337	9,280	6,772
Accumulated depreciation	(1,191,125)	(1,072,232)	(5,214)	(3,409)
	883,130	550,105	4,066	3,363
Plant and equipment				
At cost	1,674,146	-	-	-
Accumulated amortisation	(867,237)	-	-	-
	806,909	-	-	-
Leasehold Improvements				
At cost	315,085	99,751	-	-
Accumulated amortisation	(96,991)	(38,025)	-	-
	218,094	61,726	-	-
Plant & equipment under finance lease				
At cost	257,692	101,322	-	-
Accumulated amortisation	(98,140)	(54,445)	-	-
	159,522	46,877	-	-
Total property plant and equipment, net book value	2,772,315	1,092,109	18,464	12,674

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Notes to the financial statements for the year ended 30 June 2004

15 Property, plant and equipment (continued)

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Reconciliations				
Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:				
Computer equipment				
Carrying amount at the beginning of the year	433,401	198,519	9,311	7,157
Acquisitions through entity acquired	110,953	-	-	-
Additions	393,911	382,849	12,470	8,381
Depreciation	(227,224)	(148,009)	(7,383)	(6,227)
Net foreign currency differences on translation of self-sustaining operations	603	42	-	-
Disposals	(7,014)	-	-	-
Carrying amount at the end of the year	704,630	433,401	14,398	9,311
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	-	-

15 Property, plant and equipment (continued)

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Leased plant & equipment					
Carrying amount at the beginning of the year		46,877	68,042	-	-
Acquisitions through entity acquired		146,550	4,955	-	-
Amortisation		(33,875)	(26,120)	-	-
Carrying amount at the end of the year		159,552	46,877	-	-

16 Payables

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
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	831,514	1,631,452
Payable to related parties		-	-	2,468,029	-
Loans from directors		259,359	-	-	-
		12,450,399	9,662,884	4,281,431	1,797,573
Non current					
Loans from directors		-	531,098	-	-

17 Interest bearing liabilities

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Current					
Bank loans – secured		2,034,565	-	2,000,000	-
Lease liabilities - hire purchase		425,075	101,866	-	-
- finance lease	24	38,725	34,648	-	
		2,498,365	136,514	2,000,000	-
Non-current					
Bank loans – secured		12,132,634		12,000,000	
Lease liabilities - hire purchase		229,639	64,001	-	-
- finance lease	24	106,007	6,823	-	
		12,468,280	70,824	12,000,000	-

17 Interest bearing liabilities (continued)

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Financing arrangements					
The consolidated entity has access to the following lines of credit:					
Total facilities available:					
Bank overdrafts		400,000	810,000	-	-
Fixed/ variable rate fully drawn advance facility		25,000,000	7,000,000	25,000,000	7,000,000
Mortgage loan facility		167,199	-	-	-
Interest rate swap facility		280,000	-	280,000	-
Lease finance facility		500,000	-	500,000	-
		26,347,199	7,810,000	25,780,000	7,000,000
Facilities used at reporting date:					
Bank overdrafts		-	-	-	-
Fixed/ variable rate fully drawn advance facility		14,000,000	-	14,000,000	-
Mortgage loan facility		167,199	-	-	-
Interest rate swap facility		-	-	-	-
Lease finance facility		-	-	-	-
		14,167,199	-	14,000,000	-
Facilities not utilised at reporting date:					
Bank overdraft		400,000	810,000	-	-
Fixed/ variable rate fully drawn advance facility		11,000,000	7,000,000	11,000,000	7,000,000
Interest rate swap facility		280,000	-	280,000	-
Lease finance facility		500,000	-	500,000	-
		12,180,000	7,810,000	11,780,000	7,000,000

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

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Current					
Employee benefits	29	1,623,738	931,087	13,731	61,131
Lease incentive		117,068	-	-	-
		1,740,806	931,087	13,731	61,131
Non-current					
Employee benefits	29	245,309	103,124	7,891	-

Reconciliations

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

Lease incentive	
Carrying amount at beginning of year	-
Provisions made during the year	56,410
Increase through acquisition of entity	80,000
Payments made during year	(19,342)
Carrying amount at end of year	117,068

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Notes to the financial statements for the year ended 30 June 2004

19 Contributed equity

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Share capital				-
49,036,632 (2003: 21,149,722) ordinary shares, fully paid	62,189,537	17,927,500	62,189,537	17,927,500

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.

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Ordinary shares				
Movements during the year				
Balance at beginning of year 21,149,722 (2003: 12,005,000) shares	17,927,500	12,005,000	17,927,500	12,005,000
Shares issued:				
-4,000,000 shares (2002: Nil) issued for the exercise of options:				
January 2006 options at $0.75	2,250,000	-	2,250,000	-
January 2006 options at $1.00	1,000,000	-	1,000,000	-
-8,498,850 shares issued pursuant to acquisition of Barimos (“the Bailey Group”) for $1.80 per share	15,297,930	-	15,297,930	-
-5,373,060 shares issued pursuant to acquisition agreements for the minority interest s in controlled entities for $1.80 per share	9,671,508	-	9,671,508	-
-10,000,000 shares issued for cash pursuant to prospectus for $1.80 per share	18,000,000	-	18,000,000	
- 15,000 shares (2002: 3,922,500) issued for cash for $1 per sh are	15,000	3,922,500	15,000	3,922,500
- 2,222,222 issued for debt to equity conversion for $0.90 per share	-	2,000,000	-	2,000,000
Transaction costs arising from share issue under Prospectus and shares issued for acquisition of minority interests in controlled entities	(1,972,401)	-	(1,972,401)	-
Balance at end of year	62,189,537	17,927,500	62,189,537	17,927,500

20 Reserves

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Foreign currency translation				
Balance at beginning of year	(3,073)	-	-	-
Exchange difference on net investment in foreign operations net of tax	13,359	(3,073)	-	-
Balance at end of year	10,286	(3,073)	-	-

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

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Accumulated losses at beginning of year	(5,595,265)	(4,957,109)	(5,568,504)	(4,298,943)
Net profit/(loss) attributable to members of the parent entity	1,286,981	(638,156)	1,323,654	(1,269,561)
Accumulated losses at end of year	(4,308,284)	(5,595,265)	(4,244,850)	(5,568,504)

22 Outside equity interests

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

23 Dividends

Subsequent events

	Cents per share	Total amount $	Date of payment	Franked/ unfranked
Since the end of the financial year, the directors declared the following dividend:				
Final – Ordinary shares	2.0c	980,733	11 October 2004	Franked

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:

	Note	Weighted average interest rate	Floating interest rate $	Fixed rate maturing in 1 year or less $	Fixed rate maturing in 1 to 5 years $	Non-interest bearing	Total $
2004							
Financial assets							
Cash assets	9	3.45%	5,835,547	127,327	-	30,846	5,993,720
Receivables	10	-	-	-	-	13,865,594	13,865,594
Other financial assets	13	5.24%	-	175,197	-	3,728	178,925
			5,835,547	302,524	-	13,900,168	20,038,239
Financial liabilities							
Payables	16	-	-	-	-	12,450,399	12,450,399
Bank loans	17	5.65%	7,000,000	7,167,199	-	-	14,167,199
Lease liabilities	17	8.91%	-	463,800	335,646	-	799,446
Employee benefits	18	5.87%	1,869,047	-	-	-	1,869,047
			8,869,047	7,630,999	335,646	12,450,399	29,286,091
2003							
Financial assets							
Cash assets	9	3.81%	3,921,019	1,611,380	-	9,384	5,541,783
Receivables	10	-	-	-	-	9,196,721	9,196,721
Other financial assets	13	3.88%	-	56,648	-	3,728	60,376
			3,921,019	1,668,028	-	9,209,833	14,798,880
Financial liabilities							
Payables	16	-	-	-	-	10,193,982	10,193,982
Lease liabilities	17	-	-	136,514	70,824	-	207,338
Employee benefits	18	5.00%	1,034,211	-	-	-	1,034,211
			1,034,211	136,514	70,824	10,193,982	11,435,531

(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 recognisedon the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

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

(c) Net fair values of assets and liabilities

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

Notes to the financial statements for the year ended 30 June 2004

25 Commitments

	Note	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Non cancellable operating lease expense commitments					
Future operating lease not provided for in the financial statements and payable:					
Within one year		2,064,646	1,552,768	-	-
One year or later and no later than five years		3,224,160	1,580,587	-	-
Later than five years		693,172	203,649	-	-
		5,981,978	3,337,004	-	-

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

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Finance lease payable commitments				
Finance lease commitments are payable:				
Within one year	50,584	37,192	-	-
One year or later and no later than five years	121,014	7,056	-	-
	171,598	44,248	-	-
Less: Future lease finance charges	(26,866)	(2,777)	-	-
	144,732	41,471	-	-
Lease liabilities provided for in the financial statements				
Current	38,725	34,648	-	-
Non-current	106,007	6,823	-	-
Finance lease commitments are payable:	144,732	41,471	-	-

26 Contingent liabilities and contingent assets

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

Contingent liabilities– not considered remote

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 det ermination 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.

Photon 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.

26 Contingent liabilities and contingent assets (continued)

	Consolidated 2004 $	Consolidated 2003 $	The Company 2004 $	The Company 2003 $
Guarantees				
The Company has guaranteed rental facilities of certain controlled or associated entities:				
Ideassociates Pty Limited	-	48,965	-	48,965
Returnity Pty Limited	-	20,211	-	20,211
	-	69,176	-	69,176

27 Controlled entities

(a) Particulars in relation to controlled entities:

Name	Ordinary Share Consolidated Entity Interest 2004 %	2003 %
Parent entity		
Photon Group Limited		
Controlled entities		
AdPartners Group Partnership	100	51
Australian Business Theatre Group Pty Limited	100	51
The Artel Group Pty Limited	60	-
Brass Tacks Pty Limited	100	51
Barimos Pty Limited	100	-
CPR Communications and Public Relations Pty Limited (“CPR”)	100	51
IDEAssociates Pty Limited	100	51
ImageBox Group Pty Limited	51	-
Love Pty Limited	100	75
Photon (APG) Pty Limited	100	100
The Precinct Group Pty Limited	51	51
Returnity Pty Limited	100	50
Robbins Brandt Richter Limited (i)	100	51
Australian Research Group Pty Limited	100	26.52
Bay Street Mediaworks Partnership	100	-
Precinct Ltd (ii)	100	51
The Artel Group Marketing Services Pty Limited	60	-
Kolorart Graphics Pty Limited	60	-
POP Productions Pty Limited	60	-
The Bailey Group Pty Limited	100	-
Powerforce Total Merchandising Pty Limited	100	-
Retail * Facts Pty Limited	100	-

27 Controlled entities (continued)

(a) Particulars in relation to controlled entities:

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

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

All other controlled entities were incorporated in Australia

(b) Acquisition of controlled entities

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

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

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

(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:

	Consolidated 2004 $	2003 $	Company 2004 $	2003 $
Total consideration	64,283,980	5,228,014	59,751,283	3,199,541
Consideration (scrip)	24,969,438	-	24,969,438	-
Cash acquired	(5,571,450)	(739,407)	-	-
Outflow of cash	33,743,092	4,488,607	34,781,845	3,199,541
Fair value of net assets of entity acquired:				
Cash assets	5,571,450	739,407	5,576,391	739,407
Receivables	19,501,042	2,749,188	17,390,701	2,749,188
Work in progress	1,950,963	-	131,813	-
Deferred tax asset	687,825	58,992	624,387	58,992
Property, plant & equip	3,176,999	507,812	2,954,768	507,812
Bank loans	(140,712)	-	(140,712)	-
Payables	(14,653,598)	(1,996,055)	(11,073,924)	(1,996,055)
Provisions	(6,487,868)	(554,699)	(5,985,049)	(554,699)
	9,606,101	1,504,645	9,478,375	1,504,645
Interests acquired prior	(5,512,180)	-	(3,576,439)	-
Outside equity interests at acquisition	(3,494,553)	(737,276)	(3,494,553)	(737,276)
	599,368	767,369	2,407,383	767,369
Goodwill on acquisition	58,113,162	4,058,929	57,343,900	2,432,172
Consideration (cash)	33,743,092	4,488,607	34,781,845	3,199,541
Consideration (scrip)	24,969,438	-	24,969,438	-

28 Investments accounted for using the equity method

Interest in joint venture entities and associated entities

Name	Principal Activity	Ownership Interest 2004 %	2003 %	Consolidated 2004 $	2003 $	Company 2004 $	2003 $
Bellamyhayden Pty Limited	Media Strategy	40	50	484,504	534,727	666,667	442,272
Returnity Pty Limited	Email Marketing	-	50	-	6,024	-	4,695
				484,504	540,751	666,667	446,967

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.

28 Investments accounted for using the equity method (continued)

	Consolidated	
	2004	**2003**
	$	**$**
Movements in carrying amount of joint venture/ associated entities		
Carrying amount at the beginning of the year	540,751	442,272
Investment in joint venture entity during the year	-	4,695
Share of joint venture gain – Bellamyhayden Pty Limited	202,168	93,784
Share of joint venture gain – Returnity Pty Limited	112,840	-
Disposal of joint venture entity that became a wholly-owned subsidiary	(118,864)	-
Sale of part interest in joint venture entity during year through selective company buyback	(252,391)	-
Carrying amount at the end of the year	484,504	540,751
Results of joint venture entities/ associated entities		
The Company's and the consolidated entity's share of the joint venture entities' results consists of:		
Revenue from ordinary activities	1,732,713	843,535
Expenses from ordinary activities	(1,335,935,)	(639,002)
Profit/(loss) from ordinary activities before income tax expense	396,778	204,533
Share of accumulated losses	-	(66,124)
Income tax expense relating to ordinary activities	81,770	(44,625)
Net profit – accounted for using the equity method	315,008	93,784
Statement of financial position		
The consolidated entity's share of the joint venture entities' results consists of:		
Current assets	445,568	759,081
Non-current assets	51,650	126,211
Total assets	497,218	885,292
Current liabilities	116,163	242,157
Non-current liabilities	2,218	102,384
Total liabilities	118,381	344,541
Net assets – accounted for using the equity method	378,837	540,751
Share of post-acquisition retained profits attributable to joint venture entities/ associated entities		
Share of joint venture entity's retained profits/(losses) at beginning of year	35,955	(57,829)
Share of joint venture entities' net profit	315,008	93,784
Disposal of joint venture entity on acquisition of remaining 50% share of company	(112,840)	-
Disposal of part interest in joint venture entity	(60,183)	-
Share of joint venture entities' retained profits/(losses) at end of year	177,940	35,955

29 Notes to the statement of cash flows

	Consolidated		The Company	
	2004	**2003**	**2004**	**2003**
	$	**$**	**$**	**$**
(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				
Profit/(loss) from ordinary activities after income tax	2,043,667	384,294	1,323,654	(1,269,561)
Add/(less) items classified as investing/financing:				
Profit on sale of non-current assets	99,199	240	-	240
Add/(less) non-cash items:				
Depreciation and amortisation	1,952,574	1,833,266	9,188	8,055
Write-down/(back) of investment to recoverable amount	-	-	(1,075,228)	1,268,378
Share of profits/(losses) of joint venture entities	(315,008)	(93,784)	-	-
Increase/ (decrease) in income taxes payable	2,690,925	218,374	279,771	-
Profit on part disposal of joint venture entities	(264,276)	-	(183,334)	-
Increase/ (decrease) in deferred tax liabilities	(38,262)	(8,374)	126,246	-
(Increase)/ decrease in deferred tax assets	(693,766)	(73,308)	(680,843)	-
Net cash provided by operating activities before change in assets and liabilities	5,475,053	2,261,082	(200,546)	7,112
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year::				
(Increase)/ decrease in receivables	(4,768,872)	(2,281,299)	(162,515)	(187,850)
(Increase)/ decrease in work in progress	(662,719)	(352,566)	-	-
(Increase)/ decrease in prepayments	(206,264)	(59,889)	58,709	(13,406)
(Increase)/ decrease in other assets	(385,106)	(18,498)	(178,112)	-
Increase/ (decrease) in payables	2,186,754	2,630,086	2,483,858	(52,752)
Increase / (decrease) in deferred income	341,402	558,283	-	-
Increase/ (decrease) in borrowings	592,108	128,910	-	(185,199)
Increase/ (decrease) in provisions	951,904	334,884	(39,509)	42,829
Increase/ (decrease) in related party accounts	100,000	-	(2,442,839)	-
	3,624,260	3,200,993	(480,954)	(389,266)

30 Employee benefits

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Aggregate liability for employee benefits, including on-costs				
Current				
Employee benefits provision	1,623,738	931,807	13,731	61,131
Non-current				
Employee benefits provision	245,309	103,124	7,981	-

	Consolidated		The Company	
	2004	2003	2004	2003
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
Number of employees				
Number of employees at year end	300	176	4	3

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

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

31 Director and Executive disclosures (continued)

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

		Primary			Post-employment	Equity Compensation	Other compensation	
Name		**Salary & fees**	**Bonus**	**Non-monetary benefits**	**Superannuation**	**Value of options**	**Insurance premiums**	**TOTAL**
		$	**$**	**$**	**$**	**$**	**$**	**$**
Specified directors								
Non executive								
Susan McIntosh	2004	25,000	-	-	2,250	-	-	27,250
Brian Bickmore #	2004	10,000	-	-	900	-	-	10,900
Paul Gregory #	2004	10,000	-	-	900	-	-	10,900
Tim Tighe #	2004	10,000	-	-	900	-	-	10,900
Executive								
Tim Hughes (Chairman)	2004	75,000	-	-	6,125	14,605	-	95,730
Matthew Bailey (CEO) #	2004	69,838	-	22,200	11,438	5,761	4,436	113,673
Anthony Armstrong	2004	288,592	-	50,406	11,002	9,299	-	359,299
Siimon Reynolds	2004	345,872	-	-	28,128	-	-	374,000

For period from 1 April 2004 to 30 June 2004

Notes to the financial statements for the year ended 30 June 2004

31 Director and Executive disclosure (continued)

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

		Primary		Post Employment	Equity Compensation	Other compensation		
Name		**Salary & fees**	**Bonus**	**Non-monetary benefits**	**Superannuation**	**Value of options**	**Insurance Premiums**	**TOTAL**
		$	**$**	**$**	**$**	**$**		**$**
Specified executives								
Julian Martin	2004	244,918	-	55,082	24,000	-	-	324,000
Adam Kilgour	2004	165,000	-	24,706	14,811	-	-	204,517
Geoff Nesbitt	2004	120,000	-	16,498	11,002	2,805	-	150,305
Terry Carman	2004	135,000	-	17,499	17,500	-	-	169,999
Stewart Bailey #	2004	27,798	-	10,500	3,016	-	2,640	43,954

For period from 1 April 2004 to 30 June 2004

31 Director and Executive disclosure (conti nued)

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:

		Number of options granted during the year	Number of options vested during the year
Specified directors			
Tim Hughes	Nov 08 options	250,000	-
Tim Hughes	Apr 09 options	300,000	-
Matthew Bailey	Apr 09 options	300,000	-
Anthony Armstrong	Nov 08 options	100,000	-
Anthony Armstrong	Apr 09 options	300,000	-
Specified executives			
Geoff Nesbitt	Nov 08 options	25,000	-
Geoff Nesbitt	Apr 09 options	100,000	-

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.

		Number of shares	Amount paid per share
Specified directors			
Tim Hughes	Jan 06 options	384,000	$0.75
Siimon Reynolds	Jan 06 options	1,000,000	$1.00
Anthony Armstrong	Jan 06 options	30,000	$0.75
Susan McIntosh	Jan 06 options	60,000	$0.75
Greg Bundy (resigned 1 July 2003)	Jan 06 options	90,000	$0.75
Specified executives			
Nil			

Option holdings

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

	Held as at 1 July 2003	Granted as remuneration	Exercised	Held at 30 June 2004	Vested and exercisable as at 30 June 2004
Specified director					
Tim Hughes	624,000	550,000	(384,000)	790,000	240,000
Siimon Reynolds	1,000,000	-	(1,000,000)	-	-
Anthony Armstrong	270,000	400,000	(30,000)	640,000	240,000
Susan McIntosh	140,000	-	(60,000)	80,000	80,000
Greg Bundy (resigned 1 July 2003)	90,000	-	(90,000)	-	-
Matthew Bailey	-	300,000	-	300,000	-
John Falconer (resigned 1 July 2003)	40,000	-	-	40,000	40,000

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:

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

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 Co mpany 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:

Specified directors	Transaction	Note	Consolidated 2004 $	Consolidated 2003 $
S Reynolds	Consultancy		50,000	50,000
S Reynolds	Marketing services	(i)	28,332	-
T Hughes, S McIntosh & B Bickmore	Sales: Design services	(ii)	35,308	33,503
P Gregory		(iii)	11,227	-

(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 Execut ive 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.

Notes to the financial statements for the year ended 30 June 2004

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.

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions with non-director related parties are:				
Interest revenue				
Wholly-owned controlled entities	-	-	4,964	-
Partly-owned controlled entities	-	-	3,494	32,327
Dividend revenue				
Wholly-owned controlled entities	-	-	886,665	-
Partly-owned controlled entities	-	-	-	561,000
Management fees				
Wholly-owned controlled entities	-	-	348,188	60,000
Partly-owned controlled entities	-	-	75,000	277,793
Commonly controlled entities	-	-	-	37,000
Other				
Profit on disposal of joint venture entity	264,276	-	264,276	-

Notes to the financial statements for the year ended 30 June 2004

32 Non-director related parties (continued)

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Loans advanced to				
Partly -owned controlled entities	-	-	323,495	2,161,156
Commonly controlled entities	-	100,000	-	100,000
Wholly owned entities	-	-	4,380,500	-
Receivables				
Aggregate amounts receivable from non-director related parties including trade debtors				
Wholly-owned controlled entities	-	-	79,469	-
Payables				
Aggregate amounts payable to non-director related parties other than trade creditors				
Wholly-owned controlled entities	-	-	3,826,407	-
Partly -owned controlled entities	-	-	-	1,665,358

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;

33 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 to consolidated entity to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

Except 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.

33 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 strict test 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 their cash flows, for the year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pays 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:

Tim Hughes
Director

KPMG

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 55). 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

KPMG

P J Done
Partner

Sydney,

24th August 2004

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