

Photon Group Limited
ABN 97 091 524 515
Appendix 4E
Preliminary final report
Year ended 30 June 2008

Results for Announcement to the Market

Rule 4.3A

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

The previous corresponding reporting period is 1 July 2006 to 30 June 2007.

Key information

Australian dollar '000's

Revenues from ordinary activities	up	86.89%	to 574,374
Profit after tax attributable to members	up	32.86%	to 21,690
Net profit for the period attributable to members	up	32.86%	to 21,690

Dividends

	Amount per security	Franked amount per security
Interim dividend – paid 8 April 2008	11.5 cents	11.5 cents
Final dividend – payable 7 October 2008	17.0 cents	17.0 cents

Total amount per share	28.5 cents	28.5 cents
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The record date for determining entitlements to the final dividend is 29 September 2008.

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

The remainder of the information requiring disclosure to comply with listing rule 4.3A is contained in the attached audited 2008 Annual Report and the additional information set out below.

Additional Information

NTA backing	2008	2007
Net tangible asset backing per ordinary share	(4.12)	(1.41)

Explanation of results

Please refer to the attached 2008 Annual Report and Market Presentation for commentary and further information with respect to the results.

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

**Annual report
30 June 2008**

Photon Group Limited
ABN 97 091 524 515

Directors' report

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Directors' report

Corporate Governance Statement

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

The table below sets down each of the recommendations made in the ASX Guidelines and indicates where the relevant disclosure can be found in this report. Photon considers that its governance practices are consistent with all but three of the Recommendations contained in the ASX Guidelines. The Chair of Photon is not an independent director (Recommendation 2.3) and a majority of the Board members are not independent directors (Recommendation 2.1). Photon also has not established a formal Nomination Committee at this time (Recommendation 2.4). An explanation for the departure from these ASX Recommendations is provided in the Corporate Governance Statement.

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

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

Directors's report (continued)

Corporate Governance (continued)

Corporate Governance Statement

Principle 1: Lay solid foundations for management and oversight

1.1 Functions of the Board and management

1.1.1 Role of the Board and management

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

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

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

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

1.1.2 Conflicts of interest

Directors must:

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

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

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

1.1.3 Related party transactions

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

1.2 Evaluation of Senior Executives

1.2.1 Induction of senior executives

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

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

1.2.2 Performance evaluation of senior executives

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

Photon's performance management framework requires the setting for all senior executives key performance indicators (including financial and non-financial measures). Each senior executive's performance is reviewed, at least annually, against the relevant performance indicators.

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

Principle 2: Structure the Board to add value

2.1 Independent directors

The names of the directors of the Company in office at the date of this report are set out in the Directors' report on 13 of this report. The constitution of the Company provides that the number of directors must not be less than 3 and not more than 13. There are currently 5 directors each of whose skills, experience and expertise is described in their Director Profiles on page 13. There are 2 executive directors and 3 non-executive directors.

Only two members of the Board, Brian Bickmore and Paul Gregory, are independent according to the definition in the ASX Guidelines. This means that the Board does not currently meet the ASX Corporate Governance Council's recommendation that a majority of the Board should be independent. The Board, however, believes that its current composition has the required skills and independence of thought and judgement to ensure that decisions are made by the Board in the best interests of the Company. Further, to facilitate all directors bringing an independent judgement to bear on all Board decisions, each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

The Board regularly assesses whether each non-executive director is independent.

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Directors's report (continued)

Corporate Governance (continued)

2.2 Independent Chair

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

2.3 Role of the Chair and CEO

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

2.4 Establishment of Nomination Committee

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

2.5 Performance evaluation of the Board, committees and directors

2.5.1 Induction and education

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

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

2.5.2 Performance review

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

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

In addition, each Board Committee undertakes an annual self assessment on the performance of the committee and achievement of committee objectives. The performance of the CEO is reviewed annually by the Remuneration Committee and the Board. The performance of the CEO is reviewed annually against set performance goals and competencies.

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

Principle 3: Promote ethical and responsible decision-making

3.1 Company Code of Conduct

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

Responsibilities to shareholders and the financial community generally

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

Responsibilities to clients, customers and consumers

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

Employment practices

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations relative to fair trading and dealing

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

Conflicts of interest

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

How the Company complies with legislation affecting its operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company monitors and ensures compliance with its Code

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

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

3.2 Company Securities Trading Policy

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

- 8 weeks prior to the release by the consolidated entity of its half-yearly results to the ASX and concluding 24 hours after such release; and
- 8 weeks prior to the release by the consolidated entity of its annual results to the ASX and concluding 24 hours after such release.

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

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Directors's report (continued)

Corporate Governance (continued)

Notice of an intention to trade must be given to the company secretary prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director or member of senior management must also be notified to the Company Secretary who in turn advises the ASX.

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

Principle 4: Safeguard integrity in financial reporting

4.1 Establishment of Audit Committee

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

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

The committee has also adopted a policy on the provision of non-audit services and complies with the statutory requirements regarding the rotation of external audit personnel. All non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor. The non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

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

4.2 Structure of Audit Committee

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

Details of the number of meetings of the Audit Committee and the names of attendees can be found in the Directors' Report on 17. The Audit Committee meets with an external auditor at least twice a year.

4.3 Audit Committee Charter

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

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

Principle 5: Make timely and balanced disclosure

5.1 Policy for compliance with continuous disclosure

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

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

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

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

Principle 6: Respect the rights of shareholders

6.1 Communications strategy

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

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

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

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

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

Principle 7: Recognise and manage risk

7.1 Policies on risk oversight and management

Photon recognises that risk management and internal compliance are key elements of good corporate governance. Photon has therefore established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the consolidated entity. The Risk Management System, adopted by the company includes:

- guidelines and limits for approval of capital expenditure and investments;
- a group compliance programme supported by approved guidelines and standards covering legal liability, risk identification, quantification and reporting, and financial controls;
- a comprehensive annual insurance programme including external risk surveys;

Directors's report (continued)

Corporate Governance (continued)

- policies and procedures for the management of financial risk and treasury operations, including exposures to foreign currencies and movements in interest rates;
- annual budgeting and monthly reporting systems for all businesses, which enable the monitoring of progress against performance targets and the evaluation of trends;
- appropriate due diligence procedures for acquisitions; and
- crisis management systems for all key businesses in the group.

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

7.2 Risk management roles and responsibilities

The Board is responsible for overseeing the consolidated entity's Risk Management System. The Audit Committee assists the Board in fulfilling its responsibilities by reviewing and monitoring the financial and reporting aspects of the consolidated entity's risk management and control framework.

Risk exposures for the consolidated entity include:

- **Business risks.** The Board requires managers of Photon's businesses to design, implement and review policies for managing Photon's exposure to material business risks. This responsibility includes providing assurances and reports to the Board as to the effectiveness of the policy.
- **Financial risks.** The Board has approved policies to manage financial risks of exposures to foreign currencies and interest rates. The Audit Committee reports to the Board on the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.
- **Financial integrity and reporting risks.** The Board has approved policies and procedures to ensure the integrity of its accounting and financial reporting. The Audit Committee oversees the adequacy of these controls and the integrity of the external audits. Photon undertakes an annual review of its financial integrity and reporting systems.
- **Legal compliance risks.** The Board ensures compliance with all major legal requirements in the conduct of Photon's businesses.

The Board reviews the effectiveness of the Company's Risk Management System at least annually and receives regular reports from management on the effectiveness of the consolidated entity's management of its material business risks.

7.3 Statement of CEO and CFO in relation to systems

In accordance with the Board's policy, the CEO and CFO have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that, in their opinion, the financial statements and notes give a true and fair view and comply with accounting standards, and the Company's Risk Management System is operating effectively in all material respects in relation to financial reporting risks.

Directors's report (continued)

Corporate Governance (continued)

Principle 8: Remunerate fairly and responsibly

8.1 Establishment of Remuneration Committee

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

8.1.1 Role

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

The objectives of the committee include to:

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

8.1.2 Composition

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

Details of the number of meetings of the Remuneration Committee and the names of the attendees can be found in the Directors' Report on page 17.

8.1.3 Responsibilities

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

8.2 Executive and Non-Executive Director remuneration

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

8.2.1 Senior Executive remuneration policy

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

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

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

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Directors's report (continued)

Corporate Governance (continued)

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

8.2.2 Non-Executive Director remuneration policy

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

Non-Executive Directors are entitled to statutory superannuation.

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

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Directors' report

For the year ended 30 June 2008

The directors present their report together with the financial report of Photon Group Limited ("the Company") and of the consolidated entity, being the Company and its controlled entities and the Company's interest in associates, for the year ended 30 June 2008 and the auditor's report thereon.

Directors

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

Tim Hughes- Executive chairman

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

Matthew Bailey- Chief executive officer /Executive director

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

Susan McIntosh- Non-executive director

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

Brian Bickmore- Independent non-executive director

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

Paul Gregory – Independent non-executive director

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

Tony Rowlinson – Executive director

Tony was appointed a director of the Company on 22 February 2006. Tony resigned as director of the Company on 17 July 2007 and was the Managing Director of the Integrated Communications and Digital Division until March 2008.

Siimon Reynolds- Executive director

Siimon was appointed a director of the Company on 9 December 2000. Siimon resigned as director of the Company on 7 November 2007, however continues as a strategic creative advisor of Love Communications and Chairman of the Photon Foundation.

Company secretary

Clare Battellino was appointed Company Secretary on 31 August 2007, replacing Geoff Nesbitt who resigned from the position on the 31 August 2007. She is also Executive Director – Corporate Finance & Treasury of the Company and the consolidated entity. Prior to joining Photon, Clare worked in corporate finance at Macquarie Group. She has Bachelor of Finance and Bachelor of Law degrees from University of Sydney.

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Directors' report (continued)
For the year ended 30 June 2008

Principal activities

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

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

Review and result of operations

The consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) grew 74% to \$78,244,031 (2007:\$45,053,633). The consolidated net profit from ordinary activities after income tax attributable to the members of the parent entity amounted to \$21,690,838 (2007: \$16,325,503). Annual growth was attributable from a combination of acquisitions and organic growth in existing companies.

Acquisitions

During the year ended 30 June 2008, the Company acquired interests in the following entities:

Acquisition of wholly-owned entities

- On 17 July 2007, the Company acquired 100% of the issued capital of Messagenet Pty Limited (Messagenet), an SMS communication specialist company.
- On 30 July 2007, the Company acquired 100% of the issued capital of ISS Consolidated Pty Limited (ISS Marketing), a promotional and marketing agency.
- On 1 August 2007, the Company acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited (Markson Sparks), a public relations company.
- On 2 August 2007, the Company acquired 100% of the issued capital of Resource Experience Limited (REL Field Marketing), a field marketing company.
- On 29 August 2007, the Company acquired the remaining 60% of the issued capital of Bellamy Hayden Pty Limited (Bellamy Hayden), taking the Company's ownership to 100%.
- On 3 September 2007, the Company acquired 100% of the issued capital of Club Sales and Merchandising Pty Limited and Club Food Brokerage Pty Limited (Club Sales), a sales and merchandising businesses.
- On 11 September 2007, the Company acquired 100% of the issued capital of Lorica Group Limited (Corporate Edge), a corporate communications and brand marketing business.
- On 17 September 2007, the Company acquired 100% of the issued capital of BMF Advertising Pty Limited and 100% of the units of The BMF Unit Trust (BMF Advertising), an independent advertising agency.
- On 2 October 2007, the Company acquired the remaining 49% of the issued capital of Found Agency Pty. Limited (Found Agency), a search engine marketing agency.
- On 10 October 2007, the Company acquired 100% of the issued capital of Frank Public Relations Limited (Frank PR), a public relations agency.

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Directors' report (continued)
For the year ended 30 June 2008

Review and result of operations

Acquisitions

- On 1 November 2007, the Company acquired 100% of the issued capital of North By Northwest Group Limited (Hotwire Group), a public relations agency.
- On 20 November 2007, the Company acquired 100% of the issued capital of Sledge Limited (Sledge), a brand experience agency.
- On 5 December 2007, the Company acquired 100% of the issued capital of Findology Interactive Media Inc. and Way Internet Inc. (Findology), a search engine and online advertising agency.
- On 19 December 2007, the Company acquired 100% of the issued capital of Retail Insight Limited (Retail Insight), a data and supply chain analyst agency.
- On 5 February 2008, the Company acquired 100% of the issued capital of Naked Communications Limited (Naked), a media and communications planning agency.

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

Issue of shares and share options

On 2 August 2007, the Company issued 158,228 ordinary shares to the vendors of ISS Marketing, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting on 20 November 2007.

On 2 August 2007, the Company issued 1,420,000 options, and on 15 October 2007 the company issued 130,000 options, to employees under the Company's Executive Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise price of these options is \$5.94, being the VWAP for the 30 days prior to 30 June 2007.

On 29 August 2007, the Company issued 45,000 ordinary shares to the vendors of Bellamy Hayden, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting on 20 November 2007.

On 3 September 2007, the Company issued 100,000 ordinary shares to the vendors of Club Sales, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting on 20 November 2007. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date and rank equally with existing shareholders.

On 17 September 2007, the Company issued 600,000 ordinary shares to the vendors of BMF Advertising, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting on 20 November 2007. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date and rank equally with existing shareholders.

On 25 September 2007, the Company issued 741,562 ordinary shares to employees exercising options under the ESOS and the Company's Employee Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise prices of the options were as follows:

- 320,000 options at \$1.80 per share
- 333,333 options at \$2.87 per share
- 88,229 options at \$2.99 per share

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Directors' report (continued)
For the year ended 30 June 2008

Issue of shares and share options (continued)

These shares rank equally with existing shareholders.

On 10 October 2007, the Company issued 250,000 options subject to performance hurdles based one earnings per share growth and employment conditions for no consideration to Mr Matthew Bailey. The exercise price of the options is \$5.94, being the VWAP for the 30 days prior to 30 June 2007, under a scheme approved by shareholders at the Company's Annual General Meeting on 17 October 2006.

On 20 November 2007, the Company issued 71,495 ordinary shares for no consideration, to certain employees of Photon and its subsidiaries pursuant to an incentive based bonus scheme. These shares rank equally with existing shareholders.

On 5 December 2007, the Company issued 516,590 ordinary shares to the vendors of Findology, as part payment of the purchase price. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date. These shares rank equally with existing shareholders.

On 21 December 2007, the Company issued 1,000,000 options for no consideration to Mr Timothy Hughes pursuant to his service agreement, which was approved by shareholders at the Company's Annual General Meeting on 20 November 2007. The exercise price for the options is \$6.00, being an amount which is referable to the market value at the time when the Remuneration Committee approved the extension of his service agreement.

On 29 February 2008, the Company issued 300,000 options, on 1 April 2008, the Company issued 55,000 options and on 1 June 2008, the Company issued 100,000 options to employees under the ESOS, which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise price of the options, being the referable VWAP for the 30 days prior to the issue date, is as follows;

- 300,000 options at an exercise price of \$5.58
- 55,000 options at an exercise price of \$4.21
- 100,000 options at an exercise price of \$3.48.

On 18 March 2008, the Company issued 27,669 ordinary shares for no consideration to certain executives of Photon and its subsidiaries pursuant to an incentive based bonus scheme. These shares rank equally with existing shareholders.

On 28 March 2008, the Company issued 109,981 ordinary shares to employees exercising options under the ESOS, which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise prices of the options were as follows:

- 100,000 options at \$1.80 per share
- 9,981 options at \$2.99 per share

These shares rank equally with existing shareholders.

Dividends

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

Type	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
<i>Declared and paid during the year</i>				
Final 2007 – Ordinary shares	13.0c	9,765	18 th October 2007	Franked
Interim 2008 – Ordinary shares	11.5c	8,808	8 th April 2008	Franked
<i>Declared after year end</i>				
Final 2008 – Ordinary shares	17.0c	17,360	7 th October 2008	Franked
Note				
<i>Dealt with in the financial report as:</i>				
-Dividends	22			
-Noted as a subsequent event	22			

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

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Directors' report (continued)
For the year ended 30 June 2008

State of affairs

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

- acquired 100% of the issued capital of Messagenet Pty Limited,
- acquired 100% of the issued capital of ISS Consolidated Pty Limited and its controlled entities,
- acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited
- acquired 100% of the issued capital of Resource Experience Limited and its controlled entities,
- acquired the remaining 60% of the issued capital of Bellamyhayden Pty Limited,
- acquired 100% of the issued capital of Lorica Group Limited and its controlled entities,
- acquired the remaining 49% of the membership interest of Found Agency Pty Limited and its controlled entity,
- acquired 100% of the issued capital of Frank Public Relations Limited,
- acquired 100% of the issued capital of North By Northwest Group Limited and its controlled entities,
- acquired 100% of the issued capital of Sledge Limited,
- acquired 100% of the issued capital of Findology Interactive Media Inc. and its controlled entity,
- acquired 100% of the issued capital of Retail Insight Limited, and
- acquired 100% of the issued capital of Naked Communications Limited and its controlled entities.

Refer note 26, Controlled Entities, and note 27, Acquisitions of subsidiaries and minority interests, for further details.

Directors' meetings

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

Director	Board meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Tim Hughes	12	12	-	-	3	3
Matthew Bailey	12	12	-	-	-	-
Susan McIntosh	12	12	4	4	-	-
Brian Bickmore	11	12	4	4	3	3
Paul Gregory	11	12	3	4	3	3
Siimon Reynolds	4	4	-	-	-	-
Anthony Rowlinson	1	1	-	-	-	-

A – Number of meetings attended

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

Directors' interests

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

Director	Ordinary shares	Options over ordinary shares
Tim Hughes	4,165,181	2,100,000
Matthew Bailey	4,031,724	500,000
Susan McIntosh	325,926	Nil
Brian Bickmore	208,234	Nil
Paul Gregory	160,000	Nil
Total	8,891,065	2,600,000

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Directors' report (continued)
For the year ended 30 June 2008
Share Options

Unissued shares under option

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

Expiry date	Number of options	Exercise price
1 April 2009 (i)	346,667	\$1.80
31 May 2010	666,667	\$2.87
29 July 2010	437,288	\$2.99
29 July 2010	1,000,000	\$2.99
30 August 2010	1,213,000	\$4.91
30 September 2011	250,000	\$4.91
1 July 2012	1,365,500	\$5.94
26 August 2012	100,000	\$6.25
30 September 2012	250,000	\$5.94
31 March 2012 (ii)	6,522,950	\$6.00
20 December 2012	1,000,000	\$6.00
28 February 2013	300,000	\$5.58
31 March 2013	55,000	\$4.21
1 April 2013 (ii)	450,000	\$6.00
31 May 2013	100,000	\$3.48
2 June 2013 (ii)	400,000	\$6.00
Total	14,457,072	
SEOP options (ii)	(7,372,950)	
Total unissued shares (ii)	7,084,122	

- (i) 180,000 options with the exercise price of \$1.80 will expire on the above listed date and are held by a non employee. Remaining options expire on the earlier of their expiry date or termination of the employee's contract. For options issued after 25 March 2004, the ability to exercise the options is conditional upon employment service conditions. Further details are included in the Remuneration report.
- (ii) Represents options granted under the SEOP as at 30 June 2008. SEOP options are not issued as at 30 June 2008.

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

Shares issued on exercise of options

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

Number of shares	Amount paid per share
420,000	\$1.80
333,333	\$2.87
98,210	\$2.99
851,543	

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Directors' report (continued)
For the year ended 30 June 2008

Events subsequent to balance date

Dividends

For dividends declared after 30 June 2008, see note 22.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2008.

On 15 July 2008, the Company raised \$76.6 million through the issue of 25.53 million shares at \$3.00 per share following the completion of its rights issue announced on 4 June 2008. The financial effects of this transaction have not been brought to account in the financial statements for the year ended 30 June 2008.

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

Likely Developments

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

Indemnification and insurance of officers

Indemnification

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

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

Insurance premiums

During the financial year the Company has paid insurance premiums in respect of directors' and officers' liabilities, for current directors and officers covering the following:

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

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

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Directors' report (continued)
For the year ended 30 June 2008

Non Audit Services

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

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

- All non-audit services were subject to the corporate governance procedures adopted by the company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is on page 116 of this annual report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed in Note 5 to the financial statements.

<i>Services other than statutory audit:</i>	Consolidated		The Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Other services:				
<i>Migration services work:</i>				
Auditors of the Company – KPMG Australia	62,138	43,564	-	-
<i>Taxation compliance services</i>				
Auditors of the Company – KPMG Australia	195,750	100,620	195,750	100,620
Auditors of the Company – Overseas KPMG firms	42,232	12,134	-	12,134
<i>Transaction and due diligence services:</i>				
Auditors of the Company – KPMG Australia	2,248,111	325,253	2,248,111	325,523
Auditors of the Company – Overseas KPMG firms	701,156	-	701,156	-
Total services other than statutory audit	3,249,387	481,571	3,145,017	438,277

Rounding off

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

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report - Audited

1. Principles of remuneration

Compensation is referred to as remuneration throughout this report.

(a) Remuneration policies

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, comprise the directors of the Company and executives of the Company and the consolidated entity, including the 5 most highly remunerated Company and consolidated entity executives.

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

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

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

Remuneration packages contain a mix of fixed and variable remuneration and equity-based remuneration.

(b) Fixed remuneration

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

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

(c) Performance-linked remuneration

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

Short-term incentive

Short term incentives for divisional managing directors are assessed based on the financial performance of their respective division and paid in cash based on 2% of the divisional EBITDA achieved, capped at a level stipulated in their individual service agreements. Short term incentives for company CEO's and senior staff are linked to financial achievements over individual company budgets and are payable in cash or payable 50% in cash and 50% in shares. The share component of the STI is issued over two years from the end of the financial year to which the STI relates.

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Directors' report (continued)
For the year ended 30 June 2008

1 Principles of Remuneration (continued)

(c) Performance-linked remuneration (continued)

Long term incentive

Long term incentives are designed to link executive remuneration with long term shareholder wealth and the performance of the business. Options issued on or after 25 March 2004 are issued under the ESOS. The plan allows for the Board to determine who is entitled to participate in the ESOS and may grant options accordingly. Photon's remuneration committee may determine whether or not the grant or exercise of options is conditional on the achievement of performance hurdle, and if so, the nature of such performance hurdles. The exercise of an option will entitle the option holder to subscribe for one share. All options will be granted at an exercise price being the average of the daily volume weighted average sale price (VWAP) of the Company shares on each of the 30 business days prior to the issue date. As at 30 June 2008, 4,404,122 options over unissued shares are outstanding which have been issued under the ESOS.

In addition to the ESOS options, one million options, being those granted to Tim Hughes in 2005, sit marginally outside the usual ESOS conditions as the board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date all options may be exercised without percentage restrictions. As at 30 June 2008 these one million options remain outstanding.

A further one million of those options, granted to Tim Hughes on 20 November 2007, also sit marginally outside the ESOS conditions as the board has issued them on the basis that no options may be exercised until 1 July 2010, which is 3 years from the grant date, and after that date all options may be exercised without percentage restrictions subject to service conditions being met. As at 30 June 2008 these one million options remain outstanding.

One million options, being those granted to Matthew Bailey in 2006, sit marginally outside the usual ESOS conditions as the board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date, all options may be exercised without percentage restrictions. The options are to be issued in four tranches of 250,000 options. No performance hurdle applies to the initial tranche. In respect of each subsequent tranche, the number of options to be issued to Matthew Bailey is determined by the reported EPS growth of the consolidated entity for the relevant year. As at 30 June 2008, 500,000 options have been issued to Matthew Bailey under the conditions and remain outstanding.

In July 2007, the Company introduced a Senior Executive Option Plan (SEOP), designed to incentivise the Company's executive directors, division leaders and other senior management. The plan allows for the Board to determine who is entitled to participate in the SEOP and may grant options accordingly. The exercise of the options will entitle the option holder to subscribe for one share. The options are granted at the date of the shareholder approval, being the Company's AGM on the 20 November 2007 at an exercise price of \$6.00. The granted options have both a service condition and a performance hurdle. Options are only issued in satisfaction of performance hurdles and service conditions. As at 30 June 2008 no SEOP options had been issued as performance hurdles required to be achieved relate to the year ended 30 Jun 2008 and years ending 30 June 2009 and 30 June 2010.

Refer Directors report section 2(d) for further information regarding the ESOS and SEOP.

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

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

1 Principles of Remuneration (continued)

(c) Performance-linked remuneration (continued)

(d) Service contracts

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

The service agreements outline the components of remuneration paid to the key management personnel and prescribes that the remuneration levels are modified based on inflation or performance criteria individually agreed. Remuneration levels are reviewed annually by the Remuneration Committee.

(e) Non-executive directors

The Company 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 2008 but shareholder approval will be sought at the 2008 AGM to increase this amount to \$900,000. The remuneration of non-executive Directors must not include a commission on, or percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending to the Company's affairs. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes special exertions for the benefit of the Company.

(f) Consequences of performance on shareholder wealth

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

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named Company executives and relevant Group executives, who are all key management personnel and receive the highest remuneration.

		Salary and fees	Cash bonus (i)	Non-cash benefits	Post-employment Super contributions	Other long term	Other compensation Termination benefits	TOTAL Cash and other compensation	Proportion of total remuneration performance related (x) %
		\$	\$	\$	\$	\$	\$	\$	
Directors									
Non executive									
Susan McIntosh	2008	75,000	-	-	6,750	-	-	81,750	-
	2007	75,000	-	-	6,750	-	-	81,750	-
Brian Bickmore	2008	75,000	-	-	6,750	-	-	81,750	-
	2007	75,000	-	-	6,750	-	-	81,750	-
Paul Gregory	2008	75,000	-	-	-	-	-	75,000	-
	2007	75,000	-	-	-	-	-	75,000	-
Executive									
Tim Hughes	2008	565,000	-	-	13,129	-	-	578,129	-
	2007	200,000	-	-	12,686	-	-	212,686	-
Matthew Bailey	2008	613,479	233,800	-	50,000	1,972	-	899,251	13.90%
	2007	605,456	-	-	44,246	10,046	-	659,748	-
Anthony Rowlinson (iii)	2008	319,940	-	19,532	9,847	-	225,000	574,319	-
	2007	465,575	-	32,510	42,385	1,226	-	541,696	-
Siimon Reynolds (iv)	2008	94,944	-	-	1,094	-	-	96,038	-
	2007	443,526	-	-	12,686	-	-	456,212	-

Refer to page 28 for footnote details

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named Company executives and relevant Group executives, who are all key management personnel and receive the highest remuneration.

		Salary and fees	Cash bonus (i)	Non-cash benefits	Post-employment Super contributions	Other long term	Other compensation Termination benefits	Total Cash and other compensation	Proportion of remuneration performance related (x) %
		\$	\$	\$	\$	\$	\$	\$	%
Relevant group and company executives									
Nigel Long, Managing Director Strategic Intelligence Division (vi)	2008	95,288	22,988	504	-	-	-	118,780	19.35%
	2007	-	-	-	-	-	-	-	-
Andrew Davie, Managing Director Integrated Communications & Digital Division (vii)	2008	26,372	-	-	1,094	16	-	27,482	-
	2007	-	-	-	-	-	-	-	-
Stewart Bailey, Managing Director Experiential & Field Marketing Division	2008	410,777	-	-	24,574	3,007	-	438,358	-
	2007	263,794	112,431	-	24,512	8,807	-	409,544	27.45%
Caitlin Millar Jack, Managing Director Internet Marketing & Communications Division (v)	2008	188,033	-	-	7,659	126	-	195,818	-
	2007	-	-	-	-	-	-	-	-
Adam Kilgour, Managing Director Specialised Communications Division	2008	398,785	-	-	13,129	4,020	-	415,934	-
	2007	207,665	85,000	-	19,864	4,616	-	317,145	26.80%

Refer page 28 for footnote details

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named Company executives and relevant Group executives, who are all key management personnel and receive the highest remuneration.

		Share based payments – Accounting value at Grant Date					Share based payments – Supplemental Market Value at End of Year (ix)		
		Value of options under ESOS(ii)	Value of options under SEOP(ii) (viii)	Value of shares	Total Equity based remuneration	Proportion of equity remuneration performance related %	Value of options proportion of total remuneration (x)	Value of options under ESOS(ii)	Value of options under SEOP(i) (viii)
		\$	\$	\$	\$	%	%	\$	\$
		Accounting value at grant date	Accounting value at grant date		Accounting value at grant date	Accounting value at grant date	Accounting value at grant date	Supplemental Market value at end of year	Supplemental Market value at end of year
Directors									
Non executive									
Susan McIntosh	2008	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-
Brian Bickmore	2008	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-
Paul Gregory	2008	-	-	-	-	-	-	-	-
	2007	-	-	-	-	-	-	-	-
Executive									
Tim Hughes	2008	685,206	1,127,500	-	1,812,706	100%	75.82%	106,930	5,000
	2007	267,915	-	-	267,915	100%	55.75%	1,532,524	-
Matthew Bailey	2008	445,370	338,250	-	783,620	100%	46.60%	117,794	1,500
	2007	268,043	-	-	268,043	100%	28.89%	477,368	-
Anthony Rowlinson (iii)	2008	135,353	-	-	135,353	100%	19.10%	66,168	-
	2007	97,280	-	-	97,280	100%	15.22%	978,861	-
Siimon Reynolds (iv)	2008	-	-	-	-	100%	-	-	-
	2007	-	-	-	-	100%	-	-	-

Refer page 28 for footnote details

Photon Group Limited
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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

		Share based payments – Accounting value at Grant Date					Share based payments – Supplemental Market Value at End of Year		
		Value of options under ESOS(ii)	Value of options under SEOP(ii) (viii)	Value of shares	Total Equity based remuneration	Proportion of equity remuneration performance related	Value of options proportion of remuneration (x)	Value of options under ESOS(ii)	Value of options under SEOP(i) (viii)
		\$	\$	\$	\$	%	%	\$	\$
		Accounting value at grant date	Accounting value at grant date	Accounting value at grant date	Accounting value at grant date	Accounting value at grant date	Accounting value at grant date	Supplemental Market value at end of year	Supplemental Market value at end of year
Relevant group and company executives									
Nigel Long, Managing Director Strategic Intelligence Division (vi)									
	2008	2,191	2,066	-	4,257	100%	3.46%	967	351
	2007	-	-	-	-	-	-	-	-
Andrew Davie, Managing Director Integrated Communications & Digital Division (vii)									
	2008	4,399	641	-	5,040	100%	15.50%	2,786	107
	2007	-	-	-	-	-	-	-	-
Stewart Bailey, Managing Director Experiential & Field Marketing Division									
	2008	75,627	131,000	417,502	624,129	100%	19.45%	5,249	1,000
	2007	15,780	-	43,750	59,530	100%	3.36%	41,698	-
Caitlin Millar Jack, Managing Director Internet Marketing & Communications Division (v)									
	2008	-	183,918	-	183,918	100%	48.43%	-	1,000
	2007	-	-	-	-	-	-	-	-
Adam Kilgour, Managing Director Specialised Communications Division									
	2008	83,088	131,000	-	214,088	100%	33.98%	5,771	1,000
	2007	17,689	-	-	17,689	100%	5.28%	49,454	-

Refer page 28 for footnote details

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

- (i) The short-term, incentive bonus is for performance during the 30 June 2008 financial year using the criteria set out on page 21.
- (ii) The fair value of the ESOS are calculated at the date of grant using either the Black Scholes model or Binomial option pricing model, and SEOP options are calculated at the date of grant using a Monte Carlo Simulation Model 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. In valuing options, market conditions have been taken into account. The factors and assumptions used in determining the fair value of options on grant date are discussed in Note 19 Employee Benefits.
- (iii) Resigned as a Director in July 2007 and from July 2007 to March 2008 Anthony Rowlinson was the Managing Director of Integrated Communications & Digital Division.
- (iv) Resigned as a Director in November 2007
- (v) Appointed Managing Director of Internet Marketing & Communications Division in November 2007.
- (vi) Appointed Managing Director of Strategic Intelligence Division in April 2008
- (vii) Appointed Managing Director of Integrated Communications & Digital Division in June 2008
- (viii) Options granted under SEOP are of minimal fair value to the option holders at 30 June 2008 due to the significant decline in the share price since issue. SEOP options granted have a strike price of \$6.00 and require year on year share price growth of 18% to vest in full. The options have been granted in accordance with AASB 2 Share Based Payments and valued based on the date of approval by shareholders at the Company's AGM, being 20 November 2007 or the date agreed between the Company and the respective employee. Due to the fair value of the granted options being based on the prevailing share price at grant date or shareholder approval date for directors (Tim Hughes and Matthew Bailey), and subsequent significant fall in the share price of the Company, the disclosed total remuneration value SEOP is greater than the current underlying value of the granted options, which are "out of the money" options having minimal fair value as at 30 June 2008.
- (ix) As share based payments are valued at grant date no allowance is made for the movement of the share price before vesting conditions are met. The accounting value of share based payments, which are expensed over the vesting period, are determined by reference to the share price at grant date. Supplemental information has been provided for equity based remuneration regarding the fair value of the option granted based on the share price at 30 June 2008 and 30 June 2007 as it is deemed relevant to understanding the remuneration of Directors and Key Management Personnel relative to changes in shareholder wealth. For example, options granted under SEOP terms during the year ended 30 June 2008 had a price at grant date between \$3.70 and \$6.93. The fair value of SEOP as at 30 June 2008 was between NIL and \$0.02 (30 June 2007 NIL). The accounting value of share based payments are expensed in the profit and loss of the consolidated group over the vesting period whether or not the vesting conditions are met. SEOP options will not vest unless the share price grows between 8-18% year-on-year for the three year ending 30 June 2010. The growth is measured from the volume weighted average price (VWAP) of Photon shares for the quarter ended 30 June 2007, being \$5.89. Additionally, for Directors, although the SEOP terms were agreed between the Company and Tim Hughes and Matthew Bailey in June 2007 and the SEOP scheme term announced to the market on 12 July 2007, ASX listing rules require option grants to directors to be approved by shareholders. If a grant of equity remuneration is required to be approved by shareholders, the accounting standards stipulate that the accounting value be determined on that date. As such, although the SEOP scheme was agreed with the directors on 20 June 2007, when the share price was \$5.90, the accounting value is determined with reference to the share price on the date shareholder approval was granted at the Company's AGM on 20 November 2007, being \$6.93. Since then the share price fell \$2.87 as at 30 June 2008.
- (x) Percentages are based on total remuneration including equity, cash, post employment and other long term remuneration.

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

2(b) Details of performance related remuneration

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

2(c) Analysis of bonuses included in remuneration

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

	Short term incentive bonus(i)	
	Included in remuneration	% vested in year
	\$	
Relevant group executives		
Nigel Long	22,988	100%
Stewart Bailey	417,502	100%

Other key management personnel did not receive an STI.

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of satisfaction of specified performance criteria being above budget performance. Stewart Bailey elected to have 100% of the short term incentive bonus, which vested during the year, issued as shares in the Company.

2(d) Directors' and senior executives' remuneration

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

Grant date	Expiry date	Value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield	Expected life (years)
1 July 2007 (i)	1 July 2012	\$1.28 - \$1.40	\$5.94	\$6.03	25%	6.33%	3.8%	3.5 – 4.5
20 June 2007 (ii)	31 March 2011 – 31 March 2012	\$0.72 - \$0.84	\$6.00	\$5.90	25%	6.32% - 6.34%	3.8%	3.2 – 4.2
27 August 2007 (ii)	31 March 2011 – 31 March 2012	\$0.87 - \$0.95	\$6.00	\$6.25	25%	6.08% - 6.12%	3.9%	3 – 4
27 August 2007 (i)	26 August 2012	\$1.34	\$6.26	\$6.25	25%	6.33%	3.8%	3.5 – 4.5
19 November 2007 (ii)	31 March 2011 – 31 March 2012	\$1.28 - \$1.34	\$6.00	\$6.85	25%	6.14% - 6.30%	3.7%	2.8 – 3.8
20 November 2007 (iii)	20 December 2012	\$1.83	\$6.00	\$6.93	25%	6.29%	3.7%	3.8
20 November 2007 (ii)	31 March 2011 – 31 March 2012	\$1.32 - \$1.38	\$6.00	\$6.93	25%	6.14% - 6.30%	3.7%	2.8 – 3.8
5 February 2008 (i)	28 February 2013	\$0.50	\$5.58	\$5.75	20 – 30%	6.41%	7.2%	2 – 5
1 April 2008 (ii)	31 March 2011 – 31 March 2012	\$0.00 – \$0.09	\$6.00	\$3.70	30%	6.11% - 6.14%	7.3%	2.4 – 3.4
1 April 2008 (i)	31 March 2013	\$0.45	\$4.21	\$3.70	20 – 30%	5.85%	7.2%	3 – 5
2 June 2008 (ii)	31 March 2011 – 31 March 2012	\$0.00 – \$0.11	\$6.00	\$3.87	30%	6.54% - 6.61%	7.0%	2.2 – 3.2
2 June 2008 (i)	2 June 2013	\$0.49	\$3.48	\$3.87	20 – 30%	6.59%	7.2%	4 – 5

Refer to footnotes on page 30.

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

- (i) As set out in the Company's ESOS, the exercise price of options granted after 25 March 2004 is calculated with reference to the volume weighted average price (VWAP) of the Company's ordinary shares for 30 business days prior to the issue date.
- (ii) Options granted under SEOP have not been issued as at 30 June 2008, are not issued until certain performance hurdles are met.
- (iii) Options granted to Tim Hughes vest over three years from 1 July 2007 to 30 June 2010 and expire 30 June 2012.

All issued options outstanding under all option plans in the Company, with the exception of the 166,667 options at \$1.80, are 'out of the money' as at 30 June 2008 and provide minimal value or incentive to employees who hold the options.

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 or after 1 April 2004, under the ESOS, are exercisable by the option holder as follows:

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

One million of the options granted on the 29 July 2005, being those granted to Tim Hughes sit marginally outside the usual ESOS conditions as the board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date all options may be exercised without percentage restrictions. A further one million of those options, granted to Tim Hughes on 20 November 2007, also sit marginally outside the ESOS conditions as the board has issued them on the basis that no options may be exercised until 1 July 2010, which is 3 years from the grant date, and after that date all options may be exercised without percentage restrictions subject to service conditions being met.

One million options, being those granted to Matthew Bailey in 2006, sit marginally outside the usual ESOS conditions as the board has issued them under the basis that no options may be exercised in the period which is two years from the issue date, and that after that date, all options may be exercised without percentage restrictions. The options are to be issued in four tranches of 250,000 options. No performance hurdle applies to the initial tranche. In respect of each subsequent tranche, the number of options to be issued to Matthew Bailey is determined by the reported EPS growth of the consolidated entity for the relevant year. As at 30 June 2008, 500,000 options have been issued to Matthew Bailey under the conditions.

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

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

As at 30 June 2008, no SEOP options had been issued.

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

2(e) Options granted during 2008 as remuneration to directors' and senior executives

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

Executive	Number of options granted	Grant date	Exercise price
Adam Kilgour	100,000	1 July 2007	\$5.94
Stewart Bailey	100,000	1 July 2007	\$5.94
Anthony Rowlinson	100,000	1 July 2007	\$5.94
Nigel Long	55,000	1 April 2008	\$4.21
Andrew Davie	100,000	2 June 2008	\$3.48

The following options were approved by shareholders at the Company's Annual General Meeting on the 20 November 2007 under the Senior Executive Option Plan (SEOP) for no consideration. The exercise price of the options will be \$6.00, as determined by the remuneration committee and approved by the Board of Directors. The shareholders approve the SEOP scheme at the Annual General Meeting held on the 20 November 2007.

Executive	Number of options granted	Grant date	Exercise price
Tim Hughes	3,000,000	20 November 2007	\$6.00
Matthew Bailey	900,000	20 November 2007	\$6.00
Adam Kilgour	600,000	20 June 2007	\$6.00
Stewart Bailey	600,000	20 June 2007	\$6.00
Caitlin Millar-Jack	522,950	19 November 2007	\$6.00
Nigel Long	450,000	1 April 2008	\$6.00
Andrew Davie	400,000	2 June 2008	\$6.00

On 20 November 2007, 1,000,000 options were granted by the Company for no consideration to Mr Tim Hughes which was approved by shareholders at the Company's Annual General Meeting on the 20 November 2007. The exercise price of the options will be \$6.00, being an amount which is referable to the market value at the time when the remuneration committee approved the granting of the options.

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

3 (a) Options over equity instruments granted as remuneration

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

	Type of option granted during 2008	Number of options granted during 2008	Grant Date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2008
Directors							
Matthew Bailey	ESOS	-	01 April 2004	\$0.30	\$1.80	01 April 09	100,000
Tim Hughes	ESOS	-	01 April 2004	\$0.30	\$1.80	01 April 09	100,000
Tim Hughes	ESOS	-	29 July 2005	\$0.51	\$2.99	25 October 2010	1,000,000
Tim Hughes	ESOS	1,000,000	20 November 2007	\$1.83	\$6.00	19 December 2012	-
Tim Hughes	SEOP	3,000,000	20 November 2007	\$1.32-\$1.38	\$6.00	31 March 2011 – 31 March 2012	-
Matt Bailey	SEOP	900,000	20 November 2007	\$1.32 - \$1.38	\$6.00	31 March 2011 – 31 March 2012	-
Executives							
Anthony Rowlinson	ESOS	-	31 May 2005	\$0.47-\$0.50	\$2.87	31 March 2010	333,333
Stewart Bailey	ESOS	-	29 July 2005	\$0.51	\$2.99	02 September 2010	6,667
Adam Kilgour	ESOS	-	29 July 2005	\$0.51	\$2.99	02 September 2010	1,667
Adam Kilgour	ESOS	100,000	01 July 2007	\$1.28	\$5.94	01 July 2012	-
Andrew Davie	ESOS	100,000	02 June 2008	\$0.49	\$3.48	31 May 2013	-
Anthony Rowlinson	ESOS	100,000	01 July 2007	\$1.28	\$5.94	01 July 2012	-
Nigel Long	ESOS	55,000	01 April 2008	\$0.45	\$4.21	31 March 2013	-
Stewart Bailey	ESOS	100,000	01 July 2007	\$1.28	\$5.94	01 July 2012	-
Stewart Bailey	SEOP	600,000	1 July 2007	\$0.72 - \$0.84	\$6.00	31 March 2011 - 31 March 2012	-
Adam Kilgour	SEOP	600,000	1 July 2007	\$0.72 - \$0.84	\$6.00	31 March 2011 - 31 March 2012	-
Caitlin Millar-Jack	SEOP	522,950	19 November 2007	\$1.28 - \$1.34	\$6.00	31 March 2011 - 31 March 2012	-
Nigel Long	SEOP	450,000	01 April 2008	\$0.00 - \$0.09	\$6.00	31 March 2011 - 31 March 2012	-
Andrew Davie	SEOP	400,000	02 June 2008	\$0.04 - \$0.11	\$6.00	31 March 2011 - 31 March 2012	-

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

Details of the vesting profile of the options granted as remuneration to each director of the Company and each of the five named Company executives and relevant group of executives, who are all key management personnel, is detailed below:

	Options Granted						Vesting Date(i)
	Number of options granted	Type of option granted	Date of options granted	% vested in year	% forfeited in year	% remaining to vest	
Directors							
Tim Hughes	300,000	ESOS	1 April 2004	33½%	-	0%	1 April 08
	1,000,000	ESOS	29 July 2005	100%	-	0%	29 July 2007
	1,000,000	ESOS	20 November 2007	0%	-	100%	1 July 2010
	3,000,000	SEOP	20 November 2007	0%	-	100%	1 July 2011
Matthew Bailey	300,000	ESOS	1 April 2004	33½%	-	0%	1 April 2009
	1,000,000(ii)	ESOS	17 October 2006	0%	-	100%	30 September 2011
	900,000	SEOP	20 November 2007	0%	-	100%	1 July 2011
Company executives							
Anthony Rowlinson	1,000,000	ESOS	31 May 2005	33½%	-	66½%	31 May 2009
	100,000	ESOS	1 July 2007	0%	-	100%	1 July 2011
Stewart Bailey	20,000	ESOS	29 July 2005	33½%	-	66½%	29 July 2009
	80,000	ESOS	30 August 2006	0%	-	100%	30 August 2010
	100,000	ESOS	1 July 2007	0%	-	100%	1 July 2011
	600,000	SEOP	20 November 2007	0%	-	100%	1 July 2011
Adam Kilgour	5,000	ESOS	29 July 2005	33½%	-	66½%	29 July 2009
	100,000	ESOS	30 August 2006	0%	-	100%	30 August 2010
	100,000	ESOS	1 July 2007	0%	-	100%	1 July 2011
	600,000	SEOP	20 November 2007	0%	-	100%	1 July 2011
Nigel Long	55,000	ESOS	1 April 2008	0%	-	100%	1 April 2012
	450,000	SEOP	1 April 2008	0%	-	100%	1 July 2011
Andrew Davie	100,000	ESOS	2 June 2008	0%	-	100%	2 June 2012
	400,000	SEOP	2 June 2008	0%	-	100%	2 June 2012

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

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

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

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

3 (c) Exercise of options granted as remuneration

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

2008		
	Number of shares	Amount paid \$/ share
Directors		
Tim Hughes	100,000	1.80
Matthew Bailey	200,000	1.80
Executives		
Adam Kilgour	1,666	2.99
Anthony Rowlinson	333,333	2.87

There are no amounts unpaid on the shares issued as a result of the exercise of options in the 2008 financial year.

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

3 (d) Analysis of movements in options

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

	Value of Options			
	Granted	Type of option	Exercised in	Forfeited in
	in year	granted in year	year	year
	\$(A)		\$(B)	\$
Directors				
Tim Hughes	1,830,000	ESOS	440,000	-
Matthew Bailey	282,500	ESOS	625,000	-
Tim Hughes	3,930,600	SEOP	-	-
Matthew Bailey	1,179,000	SEOP	-	-
Company executives				
Stewart Bailey	128,000	ESOS	-	-
Anthony Rowlinson	128,000	ESOS	1,109,999	-
Adam Kilgour	128,000	ESOS	5,348	-
Nigel Long	24,658	ESOS	-	-
Andrew Davie	49,467	ESOS	-	-
Adam kilgour	476,000	SEOP	-	-
Stewart Bailey	476,000	SEOP	-	-
Andrew Davie	30,000	SEOP	-	-
Caitlin Millar-Jack	682,753	SEOP	-	-
Nigel Long	26,000	SEOP	-	-

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using a range of valuation models including the Black Scholes, Binomial and Monte Carlo Simulation. For further details on the valuation methodologies of these valuations see Note 19 Employee benefits. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. on a straight line basis over five years).
- (B) The value of options exercised during the year is calculated as the market price of shares of the company on the Australian Stock Exchange as at the close of trading on the date the options were exercised after deducting the price paid to exercise the option

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

3 (e) Options and rights over equity instruments issued as remuneration

The movement during the reporting period in the number of options over ordinary shares in Photon Group Limited held, directly, indirectly or beneficially, by named company executives and relevant group executives, including their personally-related entities is as follows:

	Held at 1 July 2007	Issued as remuneration (i)	Exercised	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors						
Tim Hughes	1,200,000	1,000,000	(100,000)	2,100,000	100,000	100,000
Matthew Bailey	450,000	250,000	(200,000)	500,000	100,000	-
Executives						
Stewart Bailey	100,000	100,000	-	200,000	6,667	-
Anthony Rowlinson	1,000,000	100,000	(333,333)	766,667	333,333	-
Adam Kilgour	105,000	100,000	(1,666)	203,334	1,666	-
Nigel Long	-	55,000	-	55,000	-	-
Andrew Davie	-	100,000	-	100,000	-	-

(i) Options granted on July 2007 under SEOP have not been issued as at 30 June 2008 and are therefore not included in the above table.

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

3 (f) Movements in shares

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

	Held at 1 July 2007	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2008
Directors						
Tim Hughes	2,700,444	330,061	-	100,000	-	3,130,505
Matthew Bailey(i)	8,663,332	-	67,118	200,000	-	8,930,450
Siimon Reynolds	4,840,000	-	-	-	-	4,840,000
Susan McIntosh	244,444	-	-	-	-	244,444
Brian Bickmore	150,000	8,234	-	-	-	158,234
Paul Gregory	160,000	-	-	-	-	160,000
Executives						
Anthony Rowlinson	-	-	-	333,333	-	333,333
Adam Kilgour	1,238,175	10,000	-	1,666	-	1,249,841
Stewart Bailey(i)	2,129,194	-	67,118	-	-	2,196,312
Nigel Long	-	-	-	-	-	-
Adam Davie	-	-	-	-	-	-

(i) Matthew Bailey's shareholding is inclusive of his related party, Stewart Bailey's shareholding

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Directors' report (continued)
For the year ended 30 June 2008

Remuneration report (continued)

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 116, and forms part of the director's report for the year ended 30 June 2008.

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

Dated at Sydney this 26th day of August 2008.



Tim Hughes

Director

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Income statements

For the year ended 30 June 2008

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Revenue from the rendering of services		574,375	307,328	-	-
Directly attributable costs of sales		(197,546)	(112,732)	-	-
Net revenue from rendering of services	3	<u>376,829</u>	<u>194,596</u>		
Other income	3	1,392	1,677	48,963	27,462
Total Revenue	2	<u>378,221</u>	<u>196,273</u>	<u>48,963</u>	<u>27,462</u>
Employee expenses		(235,896)	(121,390)	(7,711)	(2,637)
Occupancy costs		(14,932)	(7,431)	198	-
Depreciation and amortisation expense		(16,933)	(9,705)	(552)	(579)
Insurance expense		(1,377)	(695)	28	-
Consultancy fees		(17,886)	(6,762)	(822)	(558)
Equipment hire charges		(1,132)	(819)	(1)	(8)
Travel expenses		(6,868)	(2,904)	(219)	(263)
Communication expenses		(6,836)	(4,025)	(106)	(78)
Other operating expenses		(15,101)	(7,475)	(485)	(98)
Net finance expenses	4	(24,609)	(8,840)	(19,636)	(8,761)
Share of profit of associates	13	51	282	-	-
Profit before tax		<u>36,702</u>	<u>26,509</u>	<u>19,657</u>	<u>14,480</u>
Income tax (expense)/ benefit	6	(14,056)	(8,978)	7,621	4,156
Profit for the period		<u>22,646</u>	<u>17,531</u>	<u>27,278</u>	<u>18,636</u>
Attributable to:					
Equity holders of the parent		21,691	16,325	27,278	18,636
Minority interest		955	1,206	-	-
Profit for the period		<u>22,646</u>	<u>17,531</u>	<u>27,278</u>	<u>18,636</u>
Basic earnings per share (AUD cents)	7	28.58	23.28		
Diluted earnings per share (AUD cents)	7	28.03	22.64		

The notes on pages 45 to 112 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

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

For the year ended 30 June 2008

In thousands of AUD	Note	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Foreign currency translation reserve	Revaluation reserve	Total	Minority interest	Total equity
Consolidated										
Opening balance at 1 July 2006		90,755	6,081	713	-	(31)	-	97,518	3,561	101,079
Shares issued	22	51,936	-	-	-	-	-	51,936	-	51,936
Shares issued as part of business combinations	22	27,241	-	-	-	-	-	27,241	-	27,241
Tax effect of transaction costs	22	562	-	-	-	-	-	562	-	562
Share issue costs	22	(1,417)	-	-	-	-	-	(1,417)	-	(1,417)
Minority interests acquired		-	-	-	-	-	-	-	(3,037)	(3,037)
Dividends paid to equity holders	22	-	(14,674)	-	-	-	-	(14,674)	(199)	(14,873)
Share option expense		-	-	852	-	-	-	852	-	852
Net revaluation reserve movement		-	-	-	-	-	2,479	2,479	-	2,479
Net Exchange difference on translation of foreign controlled entities		-	-	-	-	(1,177)	-	(1,177)	-	(1,177)
Profit for the period		-	16,325	-	-	-	-	16,325	1,206	17,531
Closing balance at 30 June 2007		169,077	7,732	1,565	-	(1,208)	2,479	179,645	1,531	181,176
Consolidated										
Opening balance at 1 July 2007		169,077	7,732	1,565	-	(1,208)	2,479	179,645	1,531	181,176
Shares issued	22	2,686	-	-	-	-	-	2,686	-	2,686
Shares issued as part of business combinations	22	8,974	-	-	-	-	-	8,974	-	8,974
Tax effect of transaction costs	22	(198)	-	-	-	-	-	(198)	-	(198)
Share issue costs	22	(168)	-	-	-	-	-	(168)	-	(168)
Minority interests acquired		-	-	-	-	-	-	-	418	418
Dividends paid to equity holders	22	-	(18,573)	-	-	-	-	(18,573)	(975)	(19,548)
Share option expense		-	-	4,349	-	-	-	4,349	-	4,349
Net revaluation reserve movement		-	-	-	-	-	(2,479)	(2,479)	-	(2,479)
Net Exchange difference on translation of foreign controlled entities		-	-	-	-	(8,789)	-	(8,789)	-	(8,789)
Net exchange translation difference in minorities		-	-	-	-	-	-	-	(114)	(114)
Effective portion of changes in fair value of cash flow hedges		-	-	-	697	-	-	697	-	697
Profit for the period		-	21,691	-	-	-	-	21,691	955	22,646
Closing balance at 30 June 2008		180,371	10,850	5,914	697	(9,997)	-	187,835	1,815	189,650

The notes on pages 45 to 112 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

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

For the year ended 30 June 2008

In thousands of AUD	Note	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Revaluation reserve	Total equity
Company							
Opening balance at 1 July 2006		90,755	(297)	713	-	-	91,171
Shares issued	22	51,936	-	-	-	-	51,936
Shares issued as part of business combinations	22	27,241	-	-	-	-	27,241
Tax effect of transaction costs	22	562	-	-	-	-	562
Share issue costs	22	(1,417)	-	-	-	-	(1,417)
Dividends paid to equity holders	22	-	(14,674)	-	-	-	(14,674)
Share option expense		-	-	852	-	-	852
Net revaluation reserve movement		-	-	-	-	2,479	2,479
Profit for the period		-	18,636	-	-	-	18,636
Closing balance at 30 June 2007		169,077	3,665	1,565	-	2,479	176,786
Company							
Opening balance at 1 July 2007		169,077	3,665	1,565	-	2,479	176,786
Shares issued	22	2,686	-	-	-	-	2,686
Shares issued as part of business combinations	22	8,974	-	-	-	-	8,974
Tax effect of transaction costs	22	(198)	-	-	-	-	(198)
Share issue costs	22	(168)	-	-	-	-	(168)
Dividends paid to equity holders	22	-	(18,573)	-	-	-	(18,573)
Share option expense		-	-	4,349	-	-	4,349
Net revaluation reserve movement		-	-	-	-	(2,479)	(2,479)
Net cash flow hedge reserve movement		-	-	-	697	-	697
Profit for the period		-	27,278	-	-	-	27,278
Closing balance at 30 June 2008		180,371	12,370	5,914	697	-	199,352

The notes on pages 45 to 112 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Balance sheets

As at 30 June 2008

In thousands of AUD	Note	Consolidated		The Company	
		2008	2007	2008	2007
Assets					
Cash and cash equivalents	8	38,823	17,994	7,463	3,629
Trade and other receivables	9	108,903	51,497	1,455	1,753
Other assets	10	22,458	7,755	2,626	1,314
Other financial assets	11	697	-	697	-
Total current assets		170,881	77,246	12,241	6,696
Receivables	9	801	27	112,273	38,417
Other financial assets	11	214	15,257	343,153	289,314
Investments in equity accounted investees	11	13,904	540	13,767	667
Deferred tax assets	14	10,086	5,168	931	915
Plant and equipment	15	22,437	13,801	2,350	2,752
Other assets	10	1,948	807	5	11
Intangible assets	16	502,257	286,177	-	-
Total non-current assets		551,647	321,777	472,479	332,076
Total assets	2	722,528	399,023	484,720	338,772
Liabilities					
Trade and other payables	17	108,056	53,920	19,567	22,462
Interest-bearing loans and borrowings	18	11,810	2,092	373	319
Employee benefits	19	7,853	6,336	143	163
Income tax payable	12	7,450	6,401	5,355	5,293
Provisions	21	2,136	1,274	836	662
Total current liabilities		137,305	70,023	26,274	28,899
Trade and other payables	17	57,668	32,151	37,016	28,960
Interest-bearing loans and borrowings	18	320,725	104,035	220,967	101,592
Deferred tax liabilities	14	12,162	8,373	2	1,066
Employee benefits	19	1,550	759	8	25
Provisions	21	3,468	2,506	1,101	1,444
Total non-current liabilities		395,573	147,824	259,094	133,087
Total liabilities	2	532,878	217,847	285,368	161,986
Net assets		189,650	181,176	199,352	176,786
Equity					
Issued capital	22	180,371	169,077	180,371	169,077
Reserves	22	(3,386)	2,836	6,611	4,044
Retained earnings	22	10,850	7,732	12,370	3,665
Total equity attributable to equity holders of the parent		187,835	179,645	199,352	176,786
Minority interest	22	1,815	1,531	-	-
Total equity	22	189,650	181,176	199,352	176,786

The notes on pages 45 to 112 are an integral part of these consolidated financial statements

Photon Group Limited
ABN 97 091 524 515

Photon Group Limited and its Controlled Entities
Statements of cash flows

For the year ended 30 June 2008

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2008	2007	2008	2007
Cash flows from operating activities					
Cash receipts from customers		518,848	315,852	-	398
Cash paid to suppliers and employees		(458,326)	(277,049)	(10,498)	(3,669)
Cash generated from operations		60,522	38,803	(10,498)	(3,271)
Interest received		1,261	857	479	318
Income taxes (paid)/ refunded		(15,802)	(5,941)	(9,024)	1,617
Interest paid		(22,459)	(6,683)	(17,308)	(6,325)
Dividends received		841	253	48,704	27,405
Net cash from operating activities	28	24,363	27,289	12,353	19,744
Cash flows from investing activities					
Proceeds from disposal of non current assets		407	170	-	-
Payments for investments		(22,409)	(21,061)	(393)	(14,857)
Payments for available-for-sale financial assets		(1,137)	(11,457)	(2,314)	(11,457)
Acquisition of controlled entities, net of cash acquired	27	(178,193)	(55,743)	(61,884)	(52,313)
Acquisition of property, plant and equipment		(7,083)	(3,905)	(294)	(446)
Development expenditure	16	(2,577)	(2,373)	-	-
Net cash used in investing activities		(210,992)	(94,369)	(64,885)	(79,073)
Cash flows from financing activities					
Proceeds from the issue of share capital	22	-	49,500	-	49,500
Proceeds from the exercise of options		2,006	883	2,006	883
Transaction costs for the issue of share capital		(168)	(1,417)	(168)	(1,417)
Proceeds from borrowings		224,135	89,560	119,609	89,560
Repayment of borrowings		-	(48,411)	-	(48,411)
Finance lease payments		(2,109)	(1,659)	(342)	(423)
Advances to related entities		-	-	(46,166)	(14,351)
Dividends paid to shareholders of Photon Group Limited		(18,573)	(14,674)	(18,573)	(14,674)
Dividends paid to minority interest in controlled entities		(1,221)	(379)	-	-
Proceeds from lease incentive payment received		-	-	-	-
Net cash from financing activities		204,070	73,403	56,366	60,667
Net increase in cash and cash equivalents		17,441	6,323	3,834	1,338
Cash and cash equivalents at 1 July		17,604	11,281	3,629	2,291
Cash and cash equivalents at 30 June	8	35,045	17,604	7,463	3,629

The notes on pages 45 to 112 are an integral part of these consolidated financial statements

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Notes to the consolidated financial statements

1. Significant accounting policies

Photon Group Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is Level 9, 155 George St Sydney, NSW 2000. The consolidated financial report of the Company for the year ended 30 June 2008 comprises the Company and its subsidiaries (together referred to as the “consolidated entity”) and the consolidated entity’s interest in associates.

The financial report for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 26th August 2008.

(a) Statement of compliance

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

(b) Basis of preparation

The financial report is presented in Australian dollars, which is the Company’s functional currency. The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available for sale assets. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

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

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

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

Revised AASB 3 *Business Combination* and AASB 2008-3 *Amendments to Australian Accounting Standards* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expense of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.

AASB 8 *Operating Segments* and the consequential amendments in AASB2007-3 *Amendments to Australian Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023, AASB 1038]*, introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the consolidated entity's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the consolidated entity's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The consolidated entity has not yet determined the potential effect disclosure of operating segment within the financial report.

Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's disclosures.

Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.

AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.

AASB 123 *Borrowing Costs* changes the accounting policy to start capitalising borrowing costs prospectively to all borrowing costs relating to qualifying assets. AASB 123 becomes mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the amending standard on the consolidated entity's financial report.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(c) Basis of consolidation

(i) Subsidiaries

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

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

(ii) Associates

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

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

(iii) Transactions eliminated on consolidation

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

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

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

(d) Foreign currency

(i) Foreign currency transactions

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

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(d) Foreign currency (continued)

(ii) Foreign operations

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

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

(iii) Hedge of net investment in foreign operations

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

(e) Financial instruments

Non-derivative financial instruments

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

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

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

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

Available-for-sale financial assets

The consolidated entity's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 11), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(e) Financial instruments (continued)

Derivative financial instruments

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

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

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

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

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

(f) Property, plant and equipment

(i) Owned assets

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

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

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

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

(ii) Leased assets

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

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(iii) Subsequent costs

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

(iv) Depreciation

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

	2008		2007	
	Straight line	Diminishing Value	Straight line	Diminishing Value
Computer equipment	25% - 40%	20% - 40%	25% - 40%	20% - 40%
Office furniture and equipment	5% - 25%	5% - 40%	5% - 25%	5% - 40%
Plant and equipment	10% - 25%	-	10% - 25%	-
Leasehold improvements	Life of lease	Life of lease	Life of lease	-
Plant and equipment under finance lease	Life of lease	Life of lease	Life of lease	-

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

(g) Intangible assets

(i) Goodwill

Business combinations

Goodwill arises on the acquisition of subsidiaries and associates.

Business combinations prior to 1 July 2004

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

Business combinations on or after 1 July 2004

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

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

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

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

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(g) Intangible assets (continued)

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

(ii) Research and development

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

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

(iii) Other intangible assets

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

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(h) Trade and other receivables

(i) Work in progress

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

(ii) Trade and other receivables

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

(i) Cash and cash equivalents

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(j) Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(k) Share capital

(i) Ordinary Shares

Ordinary shares are classified as equity.

(ii) Dividends

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

(iii) Transaction costs

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

(l) Interest-bearing borrowings

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

(m) Employee Benefits

(i) Long-term employee benefits

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

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

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

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

(iii) Termination benefits

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

(iv) Share-based payment transactions

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(n) Provisions

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

(i) Make good provision

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

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

(ii) Lease incentive provision

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

(o) Trade and other payables

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

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

(p) Revenue

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

(i) Advertising, media and production revenue

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

(ii) Retainer fees & commissions

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

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

(iii) Dividends

Dividend revenue is recognised net of any franking credits.

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

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

(iv) Interest

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(q) Lease payments

(i) Operating lease payments

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

(ii) Finance lease payments

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

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

(r) Finance Income and Expenses

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

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

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

(s) Income tax

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

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

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

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

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(s) Income tax (continued)

Tax consolidation

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

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

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

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

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

Nature of tax funding arrangements and tax sharing arrangements

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

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

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

(t) Segment reporting

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

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

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

(u) Goods and services tax

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

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

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(v) Earnings per share

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

(x) Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key sources of estimation uncertainty

Note 16 contains information about the assumptions and their risk factors relating to goodwill impairment.

Note 19 contains information about the assumptions and their risk factors relating to employee share options.

Note 13 contains information about the assumptions and their risk factors relating to investments in equity associates.

Note 14 contains information about the assumptions and their risk factors relating to deferred tax assets.

Note 23 contains information about the assumptions and their risk factors relating to financial instruments.

Note 27 contains information about the assumptions and their risk factors relating to business combinations.

Notes to the consolidated financial statements (continued)

1. Significant accounting policies (continued)

2. Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

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

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

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

Business segments

In accordance with AASB 114 Segment Reporting, the consolidated entity has assessed a detailed analysis of risk, return and profitability by area of business, the consolidated entity considers that it operates in two business segments:

- Marketing & Corporate Communications – market research, strategic services, merchandising, sales and marketing services, point of sales marketing, promotion and retail marketing solutions, advertising and branding services, brand communication services, events management, public relations and media, corporate design, visual marketing and technology consulting.
- Digital, Interactive & Internet – email, online marketing, interactive solutions and internet.

Geographical segments

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

Australasia: Comprising all companies that are located and/or operate in Australia, New Zealand, Singapore, China and Japan.

Europe/UK: Comprising all companies that are located and/or operate in United Kingdom, France, Germany, the Netherlands, Norway, Italy and Spain.

United States of America (U.S.A): Comprising all companies that are located and/or operate in the United States

A geographical assessment of the groups segments is completed in association with the consolidated entity's expansion through acquisition into the Europe/UK and U.S.A. regions.

Notes to consolidated financial statements (continued)

2. Segment reporting (continued)

Business segments

	Marketing & Corporate Communications		Digital, Interactive & Internet		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
<i>In thousands of AUD</i>								
Revenue from rendering of services	479,310	245,990	111,779	66,330	(16,714)	(4,992)	574,375	307,328
Directly attributable cost of sales	(156,397)	(76,879)	(57,862)	(40,845)	16,714	4,992	(197,546)	(112,732)
Net revenue from rendering of services	322,913	169,111	53,917	25,485	-	-	376,829	194,596
Other operating income	1,300	1,608	-	9	-	-	1,300	1,617
Segment revenue	324,213	170,719	53,917	25,494	-	-	378,129	196,213
Unallocated revenue							92	60
Total Revenue							378,221	196,273
Segment results	55,838	35,400	24,322	9,438	-	-	80,160	44,838
Unallocated expenses							(18,900)	(9,771)
							61,260	35,067
Share of profit equity accounted investees	(85)	282	136	-	-	-	51	282
Operating profit before net finance costs and tax							61,311	35,349
Net finance costs							(24,609)	(8,840)
Income tax expense							(14,056)	(8,978)
Profit for the period							22,646	17,531
* All segments are continuing operations								
Other Information								
Segment assets (excluding goodwill)	196,539	107,723	43,071	24,191	(12,237)	(19,530)	227,373	112,384
Goodwill	332,420	183,734	130,212	79,731	-	-	462,632	263,465
Investment in equity method associates	-	540	13,904	-	-	-	13,904	540
Unallocated corporate assets	-	-	-	-	-	-	18,619	22,634
<i>Consolidated total assets</i>							722,528	399,023

Notes to consolidated financial statements (continued)

2. Segment reporting (continued)

Business segments (continued)

<i>In thousands of AUD</i>	Marketing & Corporate Communications		Digital, Interactive & Internet		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
Segment liabilities	135,516	74,887	18,979	10,962	(29,531)	(11,751)	124,964	74,098
Unallocated corporate liabilities	-	-	-	-	-	-	407,914	143,749
Consolidated total liabilities							532,878	217,847
Capital expenditure	5,432	3,371	1,219	294	-	-	6,651	3,905
Unallocated capital expenditure							432	-
							7,083	-
Depreciation and amortisation expense	14,110	6,603	2,272	2,523	-	-	16,382	9,126
Unallocated depreciation and amortisation expense							551	579
Consolidated depreciation and amortisation expense							16,933	9,705

Geographical segments

<i>In thousands of AUD</i>	Australasia		Europe/UK		U.S.A.		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue from external customers	250,907	191,124	106,164	-	19,758	3,472	-	-	376,829	194,596
Segment assets (excluding goodwill)	127,362	106,581	77,522	-	22,489	5,803	-	-	227,373	112,384
Goodwill	297,566	252,607	132,389	-	32,677	10,858	-	-	462,632	263,465
Investment in equity method associates	13,904	540	-	-	-	-	-	-	13,904	540
Unallocated corporate assets	-	-	-	-	-	-	-	-	18,619	22,634
Consolidated total assets	438,832	359,728	209,911	-	55,166	16,661	-	-	722,528	399,023
Capital expenditure	4,196	3,905	2,196	-	259	-	-	-	6,651	3,905
Unallocated capital expenditure									432	-
									7,083	3,905

Notes to consolidated financial statements (continued)

3. Revenue and other income

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Net revenue from the rendering of services		376,829	194,596	-	-
Dividends:					
Related parties	30	569	252	48,959	27,405
Trade discounts		50	583	-	-
Other		773	842	4	57
Other income		1,392	1,677	48,963	27,462
Total revenue and other income		378,221	196,273	48,963	27,462

4. Finance income and expense

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Finance income				
Interest income	-	-	95	1
Related party interest income	1,261	857	384	317
Foreign exchange gains/(losses) on FX borrowings	-	13	-	-
	1,261	870	479	318
Finance expenses				
Present value interest charges with respect to the deferred consideration of acquisitions	(3,411)	(3,014)	(2,807)	(2,677)
Interest on external loans	(21,965)	(6,696)	(17,143)	(6,401)
Related party interest expense	-	-	(164)	(1)
Finance lease interest	(494)			
	(25,870)	(9,710)	(20,115)	(9,079)
Net finance expense	(24,609)	(8,840)	(19,636)	(8,761)

5. Auditors' remuneration

<i>In AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Audit services					
Auditors of the Company – KPMG Australia		568,972	393,370	80,000	79,150
Auditors of the Company – overseas KPMG firm		300,043	31,875	-	-
<i>Other auditors</i>					
Audit and review of financial reports		-	8,713	-	-
		<u>869,015</u>	<u>433,958</u>	<u>80,000</u>	<u>79,150</u>
<i>In AUD</i>					
Other services					
Migration services work:					
Auditors of the Company – KPMG Australia		62,138	43,564	-	-
Taxation compliance services:					
Auditors of the Company – KPMG Australia		195,750	100,620	195,750	100,620
Auditors of the Company – overseas KPMG firm		42,232	12,134	-	12,134
Transaction and due diligence service:					
Auditors of the Company – KPMG Australia		2,248,111	325,253	2,248,111	325,253
Auditors of the Company – overseas KPMG firm		701,156	-	701,156	-
		<u>3,249,387</u>	<u>481,571</u>	<u>3,145,017</u>	<u>438,007</u>

6. Income tax expense**Recognised in the income statement**

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Current tax expense				
Current year	14,965	10,027	(6,962)	(3,632)
Adjustments for prior years	(343)	(747)	(442)	(822)
	<u>14,622</u>	<u>9,280</u>	<u>(7,404)</u>	<u>(4,454)</u>
Deferred tax expense				
Origination and reversal of temporary differences	(264)	125	(217)	298
Benefit of tax losses recognised	(302)	(427)	-	-
	<u>(566)</u>	<u>(302)</u>	<u>(217)</u>	<u>298</u>
Total income tax expense in income statement	<u>14,056</u>	<u>8,978</u>	<u>(7,621)</u>	<u>(4,156)</u>

All income tax is attributable to continuing operations.

6. Income tax expense (continued)**Numerical reconciliation between tax expense and pre-tax net profit**

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Income tax expense using the Company's tax rate of 30%	11,011	7,953	5,897	4,344
<i>Increase in income tax expense due to:</i>				
Present value interest charges	1,030	909	842	803
Other non-deductible/(subtraction) terms	801	197	(107)	200
Effect of higher tax rate on overseas incomes	208	150	-	-
Accounting amortisation of identifiable intangible assets	2,434	1,396	-	-
Imputation gross up on dividends received	106	33	184	121
Share option expense	1,315	255	1,162	176
<i>Decrease in income tax expense due to:</i>				
Tax amortisation of identifiable intangible assets	(285)	(635)	(285)	(635)
Share of joint venture entities' net profit	15	(85)	-	-
Franking credits on dividends received	(352)	(108)	(614)	(404)
Other non-assessable income	-	-	(14,258)	(7,939)
Under/(over) provision for tax in previous year	(343)	(747)	(442)	(822)
Unwinding of deferred tax liability established in business combinations	(2,002)	(291)	-	-
Tax losses not brought to account	118	7	-	-
Effect of tax losses not previously booked	-	(56)	-	-
Income tax expense on pre-tax net profit	14,056	8,978	(7,621)	(4,156)
Deferred tax asset recognised directly in equity				
Relating to equity settled transactions	22	(198)	562	(198)
		(198)	562	(198)
Deferred tax liability recognised directly in reserves				
Relating to fair value revaluation of available for sale financial asset		(1,062)	1,062	(1,062)
		(1,062)	1,062	(1,062)

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

The calculation of basic earnings per share for the year ended 30 June 2008 was based on the profit attributable to ordinary shareholders of \$21,690,838 (year ended 30 June 2007: \$16,325,503) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 75,888,613 (year ended 30 June 2007: 70,131,746), calculated as follows:

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

	2008	2007
Profit for the period	21,691	16,325
Profit attributable to ordinary shareholders	<u>21,691</u>	<u>16,325</u>

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

	2008	2007
Weighted average number of ordinary shares at 30 June	75,889	70,132

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 June 2008 was based on profit attributable to ordinary shareholders of \$21,690,838 (year ended 30 June 2007: \$16,325,503) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2008 of 77,388,665 (year ended 30 June 2007: 72,118,322), calculated as follows:

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

	2008	2007
Profit attributable to ordinary shareholders	21,691	16,325
Profit attributable to ordinary shareholders (diluted)	<u>21,691</u>	<u>16,325</u>

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

	2008	2007
Weighted average number of ordinary shares (basic) at 30 June	75,889	70,132
Effect of share options on issue	1,273	1,986
Weighted average number of ordinary shares (diluted) at 30 June	<u>77,162</u>	<u>72,118</u>

8. Cash and cash equivalents

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Cash at bank and on hand		38,664	17,856	7,462	3,605
Bank short term deposits		159	138	1	24
Cash and cash equivalents in the balance sheet		38,823	17,994	7,463	3,629
Bank overdraft		(3,778)	(390)	-	-
Cash and cash equivalents in the statement of cash flows	28	35,045	17,604	7,463	3,629

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

9. Trade and other receivables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Current				
Trade receivables	107,740	49,129	1,131	1,447
Less: Impairment loss	(799)	(267)	-	-
	106,941	48,862	1,131	1,447
Other debtors	1,962	2,635	324	306
	108,903	51,497	1,455	1,753
Non-current				
Loans to controlled entities	-	-	112,273	38,417
Other non-current receivables	801	27	-	-
	801	27	112,273	38,417

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

10. Other assets

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Current				
Work in progress	10,376	4,611	-	-
Prepayments	8,701	1,857	398	512
Other current assets	3,381	1,287	2,228	802
	22,458	7,755	2,626	1,314
Non-current				
Deposits	595	251	-	-
Other non-current assets	1,353	556	5	11
	1,948	807	5	11

11. Other financial assets

<i>In thousands of AUD</i>	<i>Note</i>	Consolidated		The Company	
		2008	2007	2008	2007
Current investments					
Derivatives used for hedging		697	-	697	-
		<u>697</u>	<u>-</u>	<u>697</u>	<u>-</u>
Non-current investments					
Deposit – interest bearing		214	259	-	-
Available for sale financial assets -listed equity securities		-	14,998	-	14,998
Investments in controlled entities		-	-	343,153	274,316
		<u>214</u>	<u>15,257</u>	<u>343,153</u>	<u>289,314</u>
Investments in associated entities	13	<u>13,904</u>	<u>540</u>	<u>13,767</u>	<u>667</u>

Available for sale assets – listed equity securities

During the year the ended 30 June, 2007 company acquired 20% of the issued capital of Dark Blue Sea Limited (DBS). In the current year, the Company purchased a further 5% of the issued capital of Dark Blue Sea in various tranches. In accordance with AASB 128, as significant influence has been reached, the Company converted its investments in available for sale assets to an investment accounted for using the equity method.

The fair value of the financial instrument at 30 June 2007 was the quoted price at the balance sheet date, being 86 cents per share.

Deposit – interest bearing

Interest bearing deposits are amounts paid to secure leasing facilities. These amounts are held in bank term deposit accounts and pay at an average weighted interest rate of 7% at 30 June 2008 (30 June 2007: 6%)

12. Current tax assets and liabilities

The current tax liability for the consolidated entity of \$7,449,978 (2007: \$6,400,950) and for the Company a current tax liability of \$5,355,471 (2007: \$5,293,321) represent the amount of income taxes payable in respect of current and prior periods.

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

13. Investments accounted for using the equity method

Investments in associates

In the financial statements of the Company, investments in associates are accounted for at cost and included with other financial assets. (Refer note 11). The consolidated entity accounts for investments in associates using the equity method. The Dark Blue Sea Limited investment was converted to an equity accounted investment on 1 April, 2008, the date at which significant influence was obtained.

The consolidated entity has the following investments in associates:

	Principal activities	Country	Reporting Date	Ownership 2008	Ownership 2007
Dark Blue Sea Limited	Internet Property Development	Australia	30 June 2008	24.65%	19.62%
Bellamyhayden Pty Limited	Media Strategy	Australia	30 June 2008	100.00%	40.00%

<i>In thousands of AUD</i>	Revenues (100%)	Profit/(loss) (100%)	Share of associates net profit/(loss) recognised	Total Assets (100%)	Total Liabilities (100%)	Net assets as reported by associates (100%)	Share of associate's net assets equity accounted
2008							
Bellamyhayden Pty Limited (i)	900	(212)	(85)	-	-	-	-
Dark Blue Sea Limited (ii)	4,791	552	136	13,482	3,570	9,912	2,443
	<u>5,691</u>	<u>340</u>	<u>51</u>	<u>13,482</u>	<u>3,570</u>	<u>9,912</u>	<u>2,443</u>
2007							
Bellamyhayden Pty Limited (i)	5,299	705	282	1,841	755	1,086	434
	<u>5,299</u>	<u>705</u>	<u>282</u>	<u>1,841</u>	<u>755</u>	<u>1,086</u>	<u>434</u>

Consolidated**2008****2007****Movements in carrying amount of associated entities**

Carrying amount at the beginning of the year	540	470
Reclassification from available for sale assets (ii)	13,767	-
Share of associate entity profit/(loss)	51	282
Reclassification to controlled entity (i)	(200)	-
Dividends received from associates	(254)	(212)
Carrying amount at the end of the year	<u>13,904</u>	<u>540</u>

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

(ii) On 1 April 2008, the Company acquired a further interest in Dark Blue Sea Ltd., which gave the Company significant influence in accordance with AASB 128. Prior to that date, the Company had the investment in Dark Blue Sea Limited as an available for sale asset

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

Fair value of investments in associates

The investment in DBS is included in the accounts of Photon on an equity accounted basis. The investment is held at cost in the Company and is equity accounted in the consolidated entity. Accounting standards require the investment to be reviewed to ensure the recoverable amount of the asset is above its carrying amount. Due to the decline in the company's share price to 30 June 2008, the quoted market value of the investment is less than its carrying amount in the company and the consolidated entity. The on market value of the investment in DBS at 30 June 2008 was \$0.35 per share totalling \$7,107,725 which compares to the carrying amount of the Company's investment of \$13,377,307.

Photon obtained an independent valuation from Lonergan Edwards Associates Limited in March 2007 and obtained a further valuation on 5 June 2008 which showed that the recoverable amount exceeded the carrying amount.

Since December 2007 the share price of Dark Blue Sea has steadily decreased. This decrease has been greater than that of the industry and the equity market in general. However, DBS shares are thinly traded (excluding trading specifically related to the on market buy-back conducted by DBS) and DBS is not widely researched by broking analysts. It is the opinion of the Board that the value of DBS cannot be reliably measured by reference to the listed share price.

The June 2008 independent valuation considered the value of DBS' domain name portfolio separately from its advertising intermediary business, reflecting the different nature, growth profile and risks associated with these businesses. The primary valuation methodology used was the capitalisation of earnings method based on revenue. The valuation was cross checked against EBIT and PE multiples together with the implied value of the domain name portfolio based on current earnings levels and industry benchmarks. Further analysis was performed against recent comparable transactions and trading multiples of comparable companies.

The Company has monitored the performance of DBS through the public announcements made through to 30 June 2008 and subsequently to the date of this report, and will continue to monitor the performance of the business through each reporting period. No matters have arisen subsequent to the completion of the independent valuation on 5 June 2008 that would indicate that the investment is impaired.

In reviewing the recoverable amount and independent valuation and in considering the market value of the investment in DBS at 30 June 2008, the board believes the carrying amount of DBS to be in excess of its recoverable amount and the quoted market value of DBS shares at 30 June 2008.

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

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Deferred tax asset					
Tax losses carried forward		4,447	713	-	84
Employee benefits		2,722	2,106	44	56
Impairment of doubtful debts		51	61	-	-
Accruals and income in advance		839	620	165	52
Leased assets		152	5	145	-
Lease make good		528	334	5	5
Lease incentive		300	183	-	-
Deductible share issue costs		364	562	363	562
Fixed assets		390	402	60	60
Other		293	182	148	96
		10,086	5,168	930	915
Deferred tax liabilities					
Identifiable intangibles		9,655	5,408	-	-
Lease make good asset		227	188	2	3
Work in progress		1,898	1,633	-	-
Available-for-sale revaluation		-	1,063	-	1,063
Other		382	81	-	-
		12,162	8,373	2	1,066
Deferred tax assets/liabilities not taken into account					
Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from:					
Revenue losses		383	-	-	-
Capital losses		2,847	1,858	2,847	1,858
Gross tax losses carried forward		3,230	1,858	2,847	1,858

15. Plant and equipment

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Computer equipment					
At cost		21,878	8,067	914	524
Accumulated depreciation		(15,465)	(5,202)	(448)	(168)
		<u>6,413</u>	<u>2,865</u>	<u>466</u>	<u>356</u>
Office furniture & equipment					
At cost		14,046	6,060	60	39
Accumulated depreciation		(9,098)	(3,433)	(26)	(15)
		<u>4,948</u>	<u>2,627</u>	<u>34</u>	<u>24</u>
Plant and equipment					
At cost		7,357	7,575	-	-
Accumulated depreciation		(3,991)	(4,656)	-	-
		<u>3,366</u>	<u>2,919</u>	<u>-</u>	<u>-</u>
Leasehold Improvements					
At cost		10,613	4,048	819	797
Accumulated depreciation		(6,671)	(1,701)	(524)	(366)
		<u>3,942</u>	<u>2,347</u>	<u>295</u>	<u>431</u>
Plant & equipment under finance lease					
At cost		8,086	6,447	2,807	2,782
Accumulated amortisation		(4,318)	(3,405)	(1,252)	(841)
		<u>3,768</u>	<u>3,042</u>	<u>1,555</u>	<u>1,941</u>
Total plant and equipment, net written-down value					
		<u>22,437</u>	<u>13,801</u>	<u>2,350</u>	<u>2,752</u>

Reconciliations

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

Computer equipment

Carrying amount at the beginning of the year	2,865	1,703	356	115
Acquisitions through entity acquired	2,635	593	-	-
Additions	4,175	1,862	390	339
Depreciation	(2,988)	(1,216)	(280)	(98)
Effect of movements in exchange rates	(159)	3	-	-
Disposals	(115)	(80)	-	-
Carrying amount at the end of the year	<u>6,413</u>	<u>2,865</u>	<u>466</u>	<u>356</u>

Office furniture & equipment

Carrying amount at the beginning of the year	2,627	2,113	24	15
Acquisitions through entity acquired	2,627	268	-	-
Additions	1,316	968	21	14
Depreciation	(1,404)	(718)	(11)	(5)
Effect of movements in exchange rates	(143)	16	-	-
Disposals	(75)	(20)	-	-
Carrying amount at the end of the year	<u>4,948</u>	<u>2,627</u>	<u>34</u>	<u>24</u>

Plant & equipment

Carrying amount at the beginning of the year	2,919	2,030	-	-
Acquisitions through entity acquired	369	1,274	-	-
Additions	1,367	948	-	-
Depreciation	(1,069)	(1,250)	-	-
Effect of movements in exchange rates	(7)	-	-	-
Disposals	(213)	(83)	-	-
Carrying amount at the end of the year	<u>3,366</u>	<u>2,919</u>	<u>-</u>	<u>-</u>

*Reconciliations (continued)***Leasehold improvements**

Carrying amount at the beginning of the year	2,347	1,136	431	620
Acquisitions through entity acquired	804	362	-	-
Additions	1,991	1,566	22	93
Amortisation	(1,123)	(708)	(158)	(282)
Effect of movements in exchange rates	(71)	1	-	-
Disposals	(6)	(10)	-	-
Carrying amount at the end of the year	3,942	2,347	295	431

Leased plant and equipment

Carrying amount at the beginning of the year	3,042	4,463	1,941	2,300
Acquisitions through entity acquired	61	149	-	-
Additions	1,838	263	25	125
Amortisation	(1,121)	(1,006)	(411)	(484)
Effect of movements in exchange rates	(11)	7	-	-
Disposals	(41)	(834)	-	-
Carrying amount at the end of the year	3,768	3,042	1,555	1,941

16. Intangible assets

	Consolidated		The Company	
	2008	2007	2008	2007

*In thousands of AUD***Goodwill**

At cost	462,632	263,465	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
	462,632	263,465	-	-

IT related intellectual property

At cost	14,422	9,375	-	-
Accumulated amortisation	(5,277)	(2,767)	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
	9,145	6,608	-	-

Contracts and customer relationships

At cost	41,759	20,756	-	-
Accumulated amortisation	(11,693)	(5,191)	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
	30,066	15,565	-	-

Brand names

At cost	751	751	-	-
Accumulated amortisation	(337)	(212)	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
	414	539	-	-

Total intangible assets, net carrying value	502,257	286,177	-	-
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16. Intangible assets (Continued)

In thousands of AUD

	Consolidated		The Company	
	2008	2007	2008	2007
Reconciliations				
Reconciliations of the carrying amounts of intangibles are set out below:				
Goodwill				
Carrying amount at the beginning of the year	263,465	163,040	-	-
Acquisitions through business combinations	178,375	100,308	-	-
Adjustments through deferred consideration	22,233	117	-	-
Effect of movement in exchange rate	(1,441)	-	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
Impairment	-	-	-	-
Disposals	-	-	-	-
Carrying amount at the end of the year	462,632	263,465	-	-
IT related intellectual property				
Carrying amount at the beginning of the year	6,608	5,903	-	-
Acquisitions through business combinations	1,941	-	-	-
Additions	3,105	2,225	-	-
Amortisation	(2,509)	(1,520)	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
Disposals	-	-	-	-
Carrying amount at the end of the year	9,145	6,608	-	-
Contracts and Customer Relationships				
Carrying amount at the beginning of the year	15,565	8,001	-	-
Acquisitions through business combinations	20,922	10,807	-	-
Additions	80	-	-	-
Amortisation	(6,501)	(3,243)	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
Disposals	-	-	-	-
Carrying amount at the end of the year	30,066	15,565	-	-
Brand name				
Carrying amount at the beginning of the year	539	664	-	-
Acquisitions through business combinations	-	-	-	-
Additions	-	-	-	-
Amortisation	(125)	(125)	-	-
Allocation of purchase price of prior period acquisition	-	-	-	-
Disposals	-	-	-	-
Carrying amount at the end of the year	414	539	-	-

Goodwill is tested for impairment on a division or business unit basis, reflecting the synergies obtained by the division or business unit. Refer to impairment testing methodologies on page 73 for details.

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

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

Impairment tests for cash generating units containing goodwill

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

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

The recoverable amount of a CGU group is assessed using calculation methodologies based on value-in-use calculation which utilise projected cash flows from financial budgets approved by the Board of Directors which reflects the best estimate of the CGU group's cash flows at the time. Projected cash flows can differ from future actual results of operations and cash flows. The cash flow models consider growth in the CGU groups over the medium term, being five years discounted to present value using a discount rate based on the Company's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group. The growth rates range from 5% to 10% and is used to determine the cash flows for the next four years. The discount rate utilised considered a range of 10.02% to 11.22%. A capitalisation multiple is then applied to this medium-term cumulative discounted cash flow and an acceptable valuation range is formulated and tested against the carrying value of goodwill and other relevant assets within each CGU group. The impairment test was satisfied within the relevant range tested.

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

Goodwill CGU group allocation

	Consolidated	
	2008	2007
The consolidated entity's carrying amount of goodwill for each of the cash generating units identified		
Market research	33,693	33,136
Media planning	37,339	-
Advertising	79,490	49,305
Point of sale	18,187	10,961
Field marketing	113,460	69,920
Web development	26,847	22,997
Search engine marketing	75,936	58,205
Public relations	53,292	9,239
Corporate communications	21,713	7,029
Events	2,675	2,673
	462,632	264,465

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

17. Trade and other payables

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Current liabilities				
Trade payables	37,806	19,415	2,063	1,134
Other trade payables and accrued expenses	49,428	17,559	4,269	237
Unearned income	12,983	2,514	-	-
Deferred consideration payable	7,839	14,432	5,821	10,800
Payable to related parties	-	-	7,414	10,291
	<u>108,056</u>	<u>53,920</u>	<u>19,567</u>	<u>22,462</u>
Non-current liabilities				
Deferred consideration payable	<u>57,668</u>	<u>32,151</u>	<u>37,016</u>	<u>28,960</u>

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

18. Loans and borrowings

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

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Current liabilities				
Secured overdraft	3,778	390	-	-
Finance lease liabilities	1,086	913	373	319
Hire purchase lease liabilities	1,221	789	-	-
Loan notes payable	5,725	-	-	-
	<u>11,810</u>	<u>2,092</u>	<u>373</u>	<u>319</u>
Non-current liabilities				
Secured bank loans	314,736	99,692	219,301	99,692
Other non-current loans	1,136	542	-	-
Finance lease liabilities	2,608	2,928	1,666	1,900
Hire purchase lease liabilities	2,245	873	-	-
	<u>320,725</u>	<u>104,035</u>	<u>220,967</u>	<u>101,592</u>

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of AUD

	Currency	Date of maturity	Consolidated		30 June 2007	
			30 June 2008		Face value	Carrying amount
			Face value	Carrying amount	Face value	Carrying amount
	AUD	4 July 2009	150,000	150,000	-	-
	AUD	31 October 2010	57,265	57,265	-	-
	GBP	31 October 2010	59,558	59,558	-	-
	USD	31 October 2011	17,178	17,178	-	-
	GBP	31 October 2011	18,699	18,699	-	-
	AUD	31 October 2011	12,036	12,036	-	-
	AUD	31 October 2008 (i)	-	-	26,000	26,000
	AUD	31 March 2009 (i)	-	-	73,692	73,692
Total secured bank loans			<u>314,736</u>	<u>314,736</u>	<u>99,962</u>	<u>99,962</u>

In thousands of AUD

	Currency	Year of maturity	Company		30 June 2007	
			30 June 2008		Face value	Carrying amount
			Face value	Carrying amount	Face value	Carrying amount
	AUD	4 July 2009	150,000	150,000	-	-
	AUD	31 October 2010	57,265	57,265	-	-
	AUD	31 October 2011	12,036	12,036	-	-
	AUD	31 October 2008 (i)	-	-	26,000	26,000
	AUD	31 March 2009 (i)	-	-	73,692	73,692
Total secured bank loans			<u>219,301</u>	<u>219,301</u>	<u>99,692</u>	<u>99,692</u>

(i) The above facilities have been renegotiated and extended to the terms of loans and borrowings that are currently in place as at 30 June 2008.

18. Loans and borrowings (continued)

Financing facilities

In thousands of AUD

	Consolidated		The Company	
	2008	2007	2008	2007
Financing arrangements				
The consolidated entity has access to the following lines of credit:				
<i>Total facilities available:</i>				
Bank overdrafts	7,956	1,630	1,000	-
Fixed/ variable rate cash advance facility	346,000	150,000	346,000	150,000
Interest rate swap facility	11,400	11,400	11,400	11,400
Lease finance facility	8,500	7,500	8,500	7,500
Indemnity guarantee facility	3,108	2,320	3,108	2,320
ANZ Online facility	7,000	7,000	7,000	7,000
Credit card facility	2,300	1,670	1,747	1,670
	386,264	181,520	378,755	179,890
<i>Facilities used at reporting date:</i>				
Bank overdrafts	3,778	390	-	-
Fixed/ variable rate cash advance facility (i)	320,316	99,692	320,316	99,692
Interest rate swap facility	-	-	-	-
Lease finance facility	2,148	2,329	2,148	2,219
Indemnity guarantee facility	2,675	1,628	2,675	1,628
ANZ Online facility	-	-	-	-
Credit card facility	354	189	354	9
	329,271	104,228	325,493	103,548
<i>Facilities not utilised at reporting date:</i>				
Bank overdraft	4,178	1,240	1,000	-
Fixed/ variable rate cash advance facility	25,684	50,308	25,684	50,308
Interest rate swap facility	11,400	11,400	11,400	11,400
Lease finance facility	6,352	5,171	6,352	5,281
Indemnity guarantee facility	433	692	433	692
ANZ Online facility	7,000	7,000	7,000	7,000
Credit card facility	1,946	1,481	1,393	1,661
	56,993	77,292	53,262	76,342

(i) The fixed/variable rate cash advance facility used at reporting date includes a financial guarantee drawn against the facility in the amount of \$5,579,813 (2007: Nil).

Financing arrangements

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

Bank overdrafts

The bank overdraft of Ad Partners Group Pty Limited is included in the security arrangements associated with the Fixed/ Variable Rate Cash Advance Facility. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

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

18. Loans and borrowings

Financing arrangements (continued)

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

The bank overdraft of Robbins Brandt Richter Limited included in the security arrangements associated with the Fixed/ Variable Rate Cash Advance Facility. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

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

Fixed/ Variable Rate Cash Advance Facility

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

- \$346 million (2007: \$176 million) general corporate finance facility: the bank bill swap reference rate - average bid for 30 days plus a fixed margin.
- \$7 million (2007: \$7 million) ANZ Online Facility: the bank bill swap reference rate - average bid for 30 days plus a fixed margin.

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

The Cash Advance Facility is secured by:

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

Repayment terms relating to the Fixed/ Variable Rate Cash Advance Facility require the amount to be repaid in accordance with the terms and debt repayment schedule.

Interest rate swap facility

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

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

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

As at 30 June 2007 interest rate swap transactions swapping floating for fixed interest rates were in place under the following arrangements:

- Fixed rate of 5.9039% for a notion amount of AUD \$20,000,000 for a three year term ending 31 March 2009
- Fixed rate of 5.74% for a notional amount of AUD \$20,000,000 for a three year term ending 31 March 2009.

18. Loans and borrowings (continued)**Financing arrangements (continued)****Lease finance facility**

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

Indemnity guarantee facility

The indemnity guarantee facility is in place to support financial guarantees outstanding at any one time. Specific guarantee amounts are \$2,675,110 (2007: \$1,628,041) supporting property rental and other obligations

ANZ Online Facility

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

Credit card facility

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

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Finance lease and hire purchase payable commitments				
<i>Finance lease commitments are payable:</i>				
Within one year	2,627	2,052	514	474
One year or later and no later than five years	5,541	3,908	1,913	1,897
Later than five years	-	370	-	370
	<hr/>	<hr/>	<hr/>	<hr/>
	8,168	6,330	2,427	2,741
Less: Future lease finance charges	(1,008)	(827)	(388)	(522)
	<hr/>	<hr/>	<hr/>	<hr/>
	7,160	5,503	2,039	2,219
Finance lease and hire purchase liabilities provided for in the financial statements				
<i>Current</i>	2,288	1,702	373	319
<i>Non-current</i>	4,872	3,801	1,666	1,900
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Finance lease commitments are payable:</i>	7,160	5,503	2,039	2,219
	<hr/>	<hr/>	<hr/>	<hr/>

The consolidated entity leases plant and equipment under finance leases expiring from 1 to 5 years (2007: 1 to 10 years). At the end of the lease term, the consolidated entity has the option to purchase the equipment at a substantial discount to market value. The terms of the leases require that additional debt and further leases are not undertaken without prior approval of the lessor.

19. Employee benefits

	Consolidated		The Company	
	2008	2007	2008	2007
<i>In thousands of AUD</i>				
Aggregate liability for employee benefits, including on-costs				
Current				
Employee benefits provision	7,853	6,336	143	163
Non-current				
Employee benefits provision	1,550	759	8	25
	Consolidated		The Company	
	2008	2007	2008	2007
The present values of employee entitlements not expected to be settled within twelve months of reporting date have been calculated using the following weighted averages:				
Assumed rate increase in salary and wage rates	0-5%	0-5%	0-5%	0-5%
Discount rate	6.55%	6.24%	6.55%	6.24%
Settlement term (years)	7-10	7-10	10	10

Equity-based plans

(i) Executive share option scheme (ESOS)

The Company has an executive share option scheme.

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

The exercise of an option will entitle the option holder to subscribe for one share.

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

On 2 August 2007, the Company issued 1,450,000 options to employees under the Company's Employee Share Option Scheme (ESOS) and on 27 August 2007, the Company issued 100,000 options to employees under the Company's ESOS. The options were issued in order to provide a competitive remuneration structure. The exercise price for the options issued was \$5.94, being the weighted average share price (VWAP) for the 30 days prior to 30 June 2007.

(ii) Senior Executive option plan (SEOP)

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

19. Employee benefits (continued)

Equity-based plans (continued)

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

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

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

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

(iii) Matthew Bailey options

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

The following tranches have been issued as at 30 June 2008:

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

(iii) Tim Hughes options

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

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

Notes to consolidated financial statements (continued)

Equity-based plan (continued)

Employee share option scheme (ESOS) & Senior Executive option plan (SEOP)

Summary of options over unissued ordinary shares

Consolidated and company

Grant date	Expiry date	Weighted average Exercise Price	Numbers of options on issue at beginning of year	Options granted during year	Options issued during year	Options exercised during year	Options forfeited during year (ii)	Number of options at year end		Proceeds received	Date issued	No. of shares issued	Expected life (years)
								On issue (i)	Vested				
2008													
1 April 04	1 April 09	\$1.80	466,667	-	-	300,000	-	166,667	46,667	540,000	30 Aug 2007	300,000	5
31 May 05	31 May 10	\$2.87	1,000,000	-	-	333,333	-	666,667	444,444	956,666	21 Sept 2007	333,333	2 – 5
29 July 05	29 July 10	\$2.99	1,595,750	-	-	98,210	60,252	1,437,288	1,145,763	293,648	21 Sept 2007	98,210	2 – 5
30 Aug 06	30 Aug 10	\$4.91	1,368,000	-	-	-	155,000	1,213,000	-	-	-	-	2 – 5
17 October 2006	30 Sept 2011 – 30 Sept 2012	\$5.94	250,000	-	250,000	-	-	500,000	-	-	-	-	3.5 – 6.5
1 July 2007	1 July 2012	\$5.94	-	1,450,000	1,450,000	-	84,500	1,365,500	-	-	-	-	3.5 – 4.5
27 Aug 2007	26 Aug 2012	\$6.25	-	100,000	100,000	-	-	100,000	-	-	-	-	3.5 – 4.5
20 Nov 2007	20 Dec 2012	\$6.00	-	1,000,000	1,000,000	-	-	1,000,000	-	-	-	-	3 – 4
20 June 2007 – 20 Nov 2007	31 March 2012	\$6.00	-	6,522,950	-	-	-	-	-	-	-	-	2.8 – 3.8
1 April 2008	1 April 2013	\$6.00	-	450,000	-	-	-	-	-	-	-	-	2.4 – 3.4
2 June 2008	2 June 2013	\$6.00	-	400,000	-	-	-	-	-	-	-	-	4 – 5
5 February 2008	28 Feb 2013	\$5.58	-	300,000	300,000	-	-	300,000	-	-	-	-	2 – 5
1 April 2008	31 March 2013	\$4.21	-	55,000	55,000	-	-	55,000	-	-	-	-	2.4 – 3.4
2 June 2008	31 May 2013	\$3.48	-	100,000	100,000	-	-	100,000	-	-	-	-	4 – 5
			4,680,417	10,377,950	3,255,000	731,543	299,752	6,904,122	1,636,374	1,790,314		731,543	
2007													
28 Nov 03	27 Nov 08	\$1.50	25,000	-	-	25,000	-	-	-	37,500	30 Aug 06	25,000	5
1 April 04	1 April 09	\$1.80	700,000	-	-	233,333	-	466,667	-	419,999	30 Aug 06	233,333	5
31 May 05	31 May 10	\$2.87	1,000,000	-	-	-	-	1,000,000	-	-	-	-	2 – 5
29 July 05	29 July 10	\$2.99	1,733,750	-	-	-	138,000	1,595,750	-	-	-	-	2 – 5
30 Aug 06	30 Aug 10	\$4.91	-	1,420,000	1,420,000	-	52,000	1,368,000	-	-	-	-	2 – 5
17 October 2006	30 Sept 11	\$4.91	-	1,000,000	250,000	-	-	250,000	-	-	-	-	3.5
			3,458,750	2,420,000	1,670,000	258,333	190,000	4,680,417	-	457,499		258,333	

19 Employee benefits (continued)**Equity-based plan (continued)****Executive share option plan (ESOS), Employee share option scheme (ESOS) & Senior Executive option plan (SEOP)***Summary of options over unissued ordinary shares*

At 30 June 2008, there are 1,206,331 options exercisable.

(i) 180,000 options on issue at 30 June 2008 (30 June 2007: 300,000 options) related to a previous employee allowed to retain options at the discretion of the Board.

Options forfeited during the year were the result of employees ceasing employment at the Company.

The weighted average share price of options exercised during the year on the day of exercise was \$2.48 (2007: \$5.50).

The fair value of share options and associated assumptions are disclosed in the Remuneration Report within the Directors' Report. The total expense recognised in the consolidated entity for the financial year 30 June 2008 for share based payment transactions was \$4,384,094, (2007:\$851,136).

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

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding at 1 July	\$3.51	4,680,417	\$2.70	3,458,750
Forfeited during the period	\$4.81	(299,752)	\$3.52	(190,000)
Exercised during the period	\$2.45	(741,543)	\$1.77	(258,333)
Issued during the period	\$5.83	3,255,000	\$4.91	1,670,000
Outstanding at 30 June	\$4.70	6,904,122	\$3.51	4,680,417
Exercisable at 30 June	\$2.92	1,636,874	-	-

The options outstanding at 30 June 2008 have an exercise price in the range of \$1.80 to \$6.25 and a weighted average contractual life 3.14 years.

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2008 was \$5.86 (2007: \$5.50).

19. Employee benefits (continued)**Equity-based plans (continued)**

The fair value of services received in return from share options granted is based on the fair value of share options granted, measured using: the Black Scholes model : options under ESOS

The Binomial model : options under ESOS, options issued to Tim Hughes, Tranche 1 options issued to Matthew Bailey

Monte Carlo Simulation Method : Tranches 2-4 of options issued to Matthew Bailey

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

2008 - Key Management personnel

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

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

(ii) Options granted under SEOP have not been issued as at 30 June 2008, are not issued until certain performance hurdles are met

(iii) Options issued to Tim Hughes vesting over 3 years between 1 July 2007 and 30 June 2010 and expires 30 June 2012

19. Employee benefits (continued)**2007 - Key Management employees (including senior employees)**

Grant date	Expiry date	Fair value per option	Exercise price	Share price	Expected volatility	Risk free interest rate	Expected dividends	Expected life
30 August 2006	30 August 2011	\$1.02 - \$1.06	\$4.91	\$5.50	20-30%	5.81%	4.5%	2 – 5
17 October 2006 (i)	17 October 2012	\$1.61	\$4.91	\$6.00	25%	5.87%	4.1%	3.5
17 October 2006 (ii)	30 September 2012	\$6.00	30 day VWAP at 30 June 2007	\$6.00	25%	5.82%	4.1%	4.5
17 October 2006 (ii)	30 September 2013	\$6.00	30 day VWAP at 30 June 2008	\$6.00	25%	5.76%	4.1%	5.5
17 October 2006 (ii)	30 September 2014	\$6.00	30 day VWAP at 30 June 2009	\$6.00	25%	5.72%	4.1%	6.5

(i) Initial tranche options issued to Matthew Bailey

(ii) Tranche 2-4 options granted to Matthew Bailey to be issued each successive year on the condition that minimum EPS hurdles are met

20. Key management personnel disclosures

In addition to executive and non-executive directors, the following were key management personnel of the consolidated entity at any time during the reporting period, and unless otherwise indicated were key management personnel for the entire period:

	Position	Period of service (if less than full 2008 financial year)
Stewart Bailey	Managing Director Experimental & Field Marketing Division	-
Nigel Long	Managing Director Strategic Intelligence Division	April 2008 – June 2008
Andrew Davie	Managing Director Integrated Communications & Digital Division	June 2008
Caitlin Millar-Smith	Managing Director Internet Marketing & Communications Division	November 2007 – June 2008
Adam Kilgour	Managing Director Specialised Communications Division	-

Disclosure of remuneration policies, service contracts and details of individual directors and executives remuneration as permitted by Corporations Regulations 2M.3.03 and 2M6.04 are included in the Remuneration report in the Directors' Report on pages 20 to 33.

Loans with key management personnel

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

20. Key management personnel disclosures (continued)**Other transactions with the Company or its controlled entities**

A number of the key management personnel, or their related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

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

The aggregate amounts recognised during the year relating to key management personnel, and their related entities, total revenues of \$4,000 and total expenses of \$161,000. Details of the transactions are as follows:

Key management personnel	Transaction	Note	Consolidated 2008 Revenue/ (Expense) \$'000	Consolidated 2007 Revenue/ (Expense) \$'000
S Reynolds	Consultancy	(i)	-	(50)
T Hughes	Strategic insights and research services	(ii)	-	280
S McIntosh	Public relations & project management and production	(iii)	4	-
P Gregory	Digital graphics production	(iv)	-	15
M Bailey	Rental of subsidiary premises	(v)	(161)	(205)

(i) Consultancy services were provided by S Reynolds to the consolidated entity

(ii) Strategic insights and research services are provided to Taiwan Broadband Communications (a subsidiary of Macquarie Media Group Ltd) by The Leading Edge Pty Limited. Tim Hughes was a director of Macquarie Media Group Ltd (resigned 27 February 2007)

(iii) Public relations services are provided to RG Properties Pty Limited by Bay Street Media Works (a division of AdPartners Group Pty Limited) in addition to project management and production services provided by Australian Business Theatre Pty Limited. S McIntosh is director of RG Properties Pty Limited

(iv) In 2007 digital graphics production services are provided to The World Game Store by SEE Life Differently Pty Limited. Paul Gregory provides management services to The World Game Store.

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

20. Key management personnel disclosures (continued)

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

In AUD	Consolidated		Company	
	2008	2007	2008	2007
Short-term employee benefits	3,214,442	2,640,957	2,017,695	1,528,541
Other long term benefits	143,167	24,695	89,542	11,272
Post-employee benefits	225,000	169,879	-	112,817
Share based payments - Shares issued	417,502	43,750	-	-
Share-based payments – Options granted under ESOS	1,431,325	666,707	1,265,929	633,238
Share-based payments – Options granted under SEOP	1,914,375	-	1,465,750	-
Total	7,345,811	3,545,988	4,892,916	2,285,868

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

Options and rights over equity instruments issued as remuneration

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

	Held at 1 July 2007	Issued as remuneration (i)	Exercised	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors						
Tim Hughes	1,200,000	1,000,000	(100,000)	2,100,000	100,000	100,000
Matthew Bailey	450,000	250,000	(200,000)	500,000	100,000	-
Executives						
Stewart Bailey	100,000	100,000	-	200,000	6,667	-
Anthony Rowlinson	1,000,000	100,000	(333,333)	766,667	333,333	-
Adam Kilgour	105,000	100,000	(1,666)	203,334	1,666	-
Nigel Long	-	150,000	-	150,000	-	-
Andrew Davie	-	100,000	-	100,000	-	-

(i) Options granted on July 2007 under SEOP have not been issued as at 30 June 2008 and are therefore not included in the above table.

20. Key management personnel disclosures (continued)**Options and rights over equity instruments issued as remuneration (continued)**

	Held at 1 July 2006	Issued as remuneration	Exercised	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors						
Tim Hughes	1,300,000	-	(100,000)	1,200,000	-	-
Matthew Bailey	300,000	250,000	(100,000)	450,000	-	-
Anthony Rowlinson	1,000,000	-	-	1,000,000	-	-
Susan McIntosh	80,000	-	(80,000)	-	-	-
Executives						
Adam Kilgour	5,000	100,000	-	105,000	-	-
Stewart Bailey	20,000	80,000	-	100,000	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2007 or 30 June 2008.

No options were held by key management personnel related parties.

Movements in shares

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

- (ii) Matthew Bailey's shareholding is inclusive of his related party, Stewart Bailey's shareholding

	Held at 1 July 2007	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2008
Directors						
Tim Hughes	2,700,444	330,061	-	100,000	-	3,130,505
Matthew Bailey(i)	8,663,332	-	67,118	200,000	-	8,930,450
Siimon Reynolds	4,840,000	-	-	-	-	4,840,000
Susan McIntosh	244,444	-	-	-	-	244,444
Brian Bickmore	150,000	8,234	-	-	-	158,234
Paul Gregory	160,000	-	-	-	-	160,000
Executives						
Anthony Rowlinson	-	-	-	333,333	-	333,333
Adam Kilgour	1,238,175	10,000	-	1,666	-	1,249,841
Stewart Bailey(i)	2,129,194	-	67,118	-	-	2,196,312

20. Key management personnel disclosures (continued)

Movements in shares (continued)

	Held at 1 July 2006	Purchases	Issued as remuneration	Received on exercise of option	Sales	Held at 30 June 2007
Directors						
Tim Hughes	2,543,444	57,000	-	100,000	-	2,700,444
Matthew Bailey(i)	8,498,850	54,482	-	100,000	-	8,653,332
Siimon Reynolds	4,840,000	-	-	-	-	4,840,000
Susan McIntosh	164,444	-	-	80,000	-	244,444
Brian Bickmore	150,000	-	-	-	-	150,000
Paul Gregory	150,000	10,000	-	-	-	160,000
Executives						
Adam Kilgour	1,238,175	-	-	-	-	1,238,175
Stewart Bailey(i)	2,124,712	-	4,482	-	-	2,129,194

(i) Matthew Bailey's shareholding is inclusive of his related party, Stewart Bailey's shareholding

21. Provisions

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
Current					
Lease make good		892	435	-	-
Lease incentive		742	520	343	343
Rent increase		502	319	493	319
		2,136	1,274	836	662
Non-current					
Lease make good		1,558	833	15	15
Lease incentive		1,524	1,673	1,086	1,429
Rent increase		386	-	-	-
		3,468	2,506	1,101	1,444
Total provisions current and non current		5,604	3,780	1,937	2,106
Reconciliations					
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below:					
Lease make good					
Carrying amount at beginning of year		1,268	965	15	15
Increase due to new provision		269	-	-	-
Increase through business combinations		1,128	394	-	-
Effect of movements in exchange rates		(84)	-	-	-
Provision released during the year		(131)	(91)	-	-
Carrying amount at end of year		2,450	1,268	15	15
Lease incentive					
Carrying amount at beginning of year		2,193	2,655	1,772	2,260
Increase due to new incentive		316	190	-	-
Increase through business combinations		230	-	-	-
Effect of movements in exchange rates		(27)	-	-	-
Released during the year		(446)	(652)	(343)	(488)
Carrying amount at end of year		2,266	2,193	1,429	1,772
Rent increase					
Carrying amount at beginning of year		319	-	319	-
Rental increase		296	319	174	319
Increase due to new provision		192	-	-	-
Increase through business combinations		81	-	-	-
Carrying amount at end of year		888	319	493	319
Total provisions current and non current		5,604	3,780	1,937	2,106

22. Capital and reserves

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Share capital				
76,589,369 (2007: 74,206,346) ordinary shares, fully paid	180,371	169,077	180,371	169,077
Ordinary shares				
<p> Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.</p>				
Ordinary shares				
<i>Movements during the year</i>				
Balance at beginning of year				
74,206,346 (2007: 59,367,427) shares	169,077	90,755	169,077	90,755
Shares issued:				
- 158,228 shares issued pursuant to acquisition of ISS Marketing for \$6.32 per share	1,000	-	1,000	-
- 45,000 shares issued pursuant to acquisition of Bellamyhayden for \$5.53 per share	249	-	249	-
- 100,000 shares issued pursuant to acquisition of Club Sales for \$6.23 per share	623	-	623	-
- 600,000 shares issued pursuant to acquisition of BMF Advertising for \$6.25 per share	3,750	-	3,750	-
- 741,562 shares issued pursuant to exercise of options under the terms of the Employee Share Option Scheme ("ESOS")	1,796	-	1,796	-
- 111,662 shares issued pursuant to equity settled employee bonuses	682	-	682	-
- 516,590 shares issued pursuant to acquisition of Findology for \$6.49.	3,351	-	3,351	-
- 109,981 shares issued pursuant to exercise of options under the terms of the ESOS	209	-	209	-
- 400,000 shares issued pursuant to acquisition of AusRep Pty Limited for \$4.00 per share	-	1,600	-	1,600
- 101,415 shares issued pursuant to acquisition of iMega Pty Limited for \$4.24 per share	-	430	-	430
- 9,000,000 shares issued pursuant to a share placement for \$5.50 per share	-	49,500	-	49,500
- 305,667 share issued pursuant to part deferred consideration for the acquisition of The Leading Edge Market Research Consultants Pty Limited for \$4.42 per share	-	1,351	-	1,351

22. Capital and reserves (continued)

Ordinary shares (continued)	Consolidated		The Company	
	2008	2007	2008	2007
-1,262,857 shares issued pursuant to part deferred consideration for the acquisition of Belgiovane Williams Mackay Pty Limited (BWM) for \$4.41 per share (fair value: \$5.80)	-	7,325	-	7,325
-348,134 shares issued pursuant to part deferred considerations at \$4.25 per share		1,479		1,479
- 2,262,769 shares issued pursuant to acquisition of iMega Pty Limited for \$5.86 per share	-	13,260	-	13,260
-215,012 shares issued pursuant to acquisition of OBMedia LLC for \$5.93 per share	-	1,275	-	1,275
-347,222 shares issued pursuant to acquisition of C4 Communications Pty. Ltd for \$5.76 per share	-	2,000	-	2,000
- 578,333 shares issued pursuant to exercise of options under the terms of the Employee Share Ownership Program (“ESOS”)	-	883	-	883
- 17,510 shares issued pursuant to equity settled employee incentive based bonus scheme	-	74	-	74
Transaction costs arising from issue of shares	(168)	(1,417)	(168)	(1,417)
Tax effect of transactions through equity	(198)	562	(198)	562
Balance at end of year	180,371	169,077	180,371	169,077

Translation reserve

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

Options reserve

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

Revaluation reserve

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

Cash Flow Hedge reserve

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

22. Capital and reserves (continued)

Dividends

	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
2008				
Final 2007 – Ordinary shares	13.0c	9,765	18 October 2007	Franked
Interim 2008 – Ordinary shares	11.5c	8,808	8 April 2008	Franked
		18,573		
2007				
Final 2006 – Ordinary shares	12.0c	7,254	11 October 2006	Franked
Interim 2007 – Ordinary shares	10.0c	7,421	3 April 2007	Franked
		14,675		

	Cents per share	Total amount \$'000	Date of payment	Franked/ unfranked
Subsequent events				
Since the end of the financial year, the directors declared the following dividend:				
Final – Ordinary shares	17.0c	17,360	7 October 2008	Franked

Dividend franking account

	The Company	
	2008 \$'000	2007 \$'000
30% franking credits available to shareholders of Photon Group Limited for subsequent financial years	21,091	13,460

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

- (1) franking credits that will arise from the payment of the current tax liability
- (2) franking debits that will arise from the payment of dividends recognised as a liability at year end
- (3) franking credits that will arise from the receipt of dividends recognised as receivables at year end
- (4) franking credits that may be prevented from being distributed in subsequent years

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

The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by \$7,440,110 (2007: \$4,143,169).

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

23. Financial risk management / Financial instruments

The consolidated entity have exposure to the followings risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

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

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

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

Credit risk**Exposure to credit risk**

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

The consolidated entity does not have any material credit risk exposure to any single receivable or group of receivables. During the year ended 30 June 2008, the consolidated entity entered into transactions with more than 2,000 unique customers. The ten largest customers accounted for 22% of net revenue for the year ended 30 June 2008 with no one customer accounting for more than 6% of net revenue.

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

<i>In thousands of AUD</i>	Note	Carrying amount	
		2008	2007
Trade and other receivables	9	109,704	51,524
Cash and cash equivalents	8	38,823	17,994
Deposits	11	214	259
Derivative used for hedging	11	697	-
Available-for-sale financial assets	11	-	14,998
		<u>149,438</u>	<u>84,775</u>

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

<i>In thousands of AUD</i>		Carrying amount	
		2008	2007
Trade receivables	9	<u>106,941</u>	<u>48,862</u>

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

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

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

<i>In thousands of AUD</i>	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	75,852	-	35,156	-
Past due and less than 90 days	25,497	-	10,793	-
Past due and more than 90 days	5,592	-	1,913	-
Past due, more than 90 days and impaired	799	799	267	267
	<u>107,740</u>	<u>799</u>	<u>48,129</u>	<u>267</u>

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

<i>In thousands of AUD</i>	2008	2007
Balance at 1 July	267	323
Impairment loss recognised	(293)	(106)
Acquired through business combination	825	50
Balance at 30 June	<u>799</u>	<u>267</u>

Based on historic trading terms, the consolidated entity believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 90 days; which represents 94.1% (2007: 95.6%) of the trade receivables balance. For trade receivables which are past due and over 90 days, the consolidated entity individually assesses each trade receivable and determines its recoverability. For those trade receivables which are assessed as non recoverable, an impairment allowance is made, which represents 0.7% (2007: 0.5% of the total trade receivables balance.

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

Equity price risk

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

23. Financial risk management / Financial instruments (continued)

Liquidity risk

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

The consolidated entity manages liquidity risk by monitoring forecast cash flows monthly, reviewing them with the Board, and ensuring that adequate committed unutilised borrowing facilities are maintained. At 30 June 2008 the consolidated entity had \$25.6 million of committed unutilised borrowing capacity under its cash advance facilities. The consolidated entity also has a \$4.2 million overdraft facility available to it which was undrawn at 30 June 2008. Following completion of its rights issue on 15 July 2008, and the repayment of outstanding facilities with the net proceeds, the consolidated entity had \$90.1 million of committed unutilised borrowing capacity under its cash advance facilities. Refer to subsequent event note for more details on the rights issue.

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

Consolidated 30 June 2008

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

Consolidated 30 June 2007

	Carrying amount	Contractual cash flows	Less than 1 year	1 – 5 years	Over 5 years
<i>In thousands of AUD</i>					
Non-derivative financial liabilities					
Finance lease/Hire Purchase liabilities	5,503	6,330	2,052	3,908	370
Secured bank loans	99,692	112,578	7,845	104,733	-
Trade and other payables	36,874	36,874	36,874	-	-
Secured overdraft	390	390	390	-	-
Other loans payable	542	542	542	-	-
Deferred consideration	46,583	46,583	14,432	32,151	-
	189,584	203,297	62,135	140,792	370

Company**30 June 2008**

Non-derivative financial liabilities					
Finance lease/Hire Purchase liabilities	2,039	2,427	514	1,913	-
Secured bank loans	219,301	249,645	20,399	229,246	-
Trade and other payables	6,332	6,332	6,332	-	-
Payables to related parties	7,414	7,414	7,414	-	-
Deferred consideration	42,837	42,837	5,821	37,016	-
Derivative financial instruments					
Interest rate swaps used for hedging	(697)	(697)	(697)	-	-
	277,226	307,958	39,783	268,175	-

23. Financial risk management / Financial instruments (continued)**Company****30 June 2007***In thousands of AUD***Non-derivative financial liabilities**

	Carrying amount	Contract-ual cash flows	Less than 1 year	1 – 5 years	Over 5 years
Finance lease/Hire Purchase liabilities	2,219	2,741	474	1,897	370
Secured bank loans	99,692	112,578	7,845	104,733	-
Trade and other payables	1,371	1,371	1,371	-	-
Payables to related parties	10,291	10,291	10,291	-	-
Deferred consideration	39,760	39,760	10,800	28,960	-
	153,333	166,741	30,781	135,590	370

Market risk

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

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

Capital Management

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

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

Under the terms of its Cash Advance Facility, the consolidated entity is required to maintain certain maximum capitalisation ratios (defined as borrowings plus deferred consideration payable / borrowings plus deferred consideration payable plus shareholders' equity). The consolidated entity is in compliance with this requirement.

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

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

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

Currency risk

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

The consolidated entity hedges the exposure to foreign currency assets on the balance sheet through obtaining borrowings in foreign currencies to minimise the exposure for the consolidated entity. Interest on these borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the consolidated entities, primarily United States Dollar and Great British Pound. This provides an economic hedge and no derivatives are entered into.

23. Financial risk management / Financial instruments (continued)**Interest rate risk**

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

The consolidated entity has no significant interest-bearing assets. The consolidated entity's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk. The consolidated entity's policy is to ensure between 30 and 60 per cent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

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

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

Profile

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

<i>In thousands of AUD</i>	Consolidated Carrying amount		Company Carrying amount	
	2008	2007	2008	2007
Variable rate instruments				
Secured bank loans	314,736	99,692	219,301	90,692
Cash and cash equivalents	38,823	17,994	7,463	3,629
Secured overdraft	3,778	390	-	-
Deposits	214	-	259	-

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

Consolidated <i>Effect in thousands of AUD</i>	Profit or loss		Equity	
	+100bp	-100bp	+100bp	-100bp
30 June 2008				
Variable rate instruments	(3,203)	3,203	-	-
Interest rate swap	798	(798)	1,761	(367)
Cash flow sensitivity (net)	<u>(2,405)</u>	<u>2,405</u>	<u>1,761</u>	<u>(367)</u>
30 June 2007				
Variable rate instruments	<u>(999)</u>	<u>999</u>	<u>-</u>	<u>-</u>
Company <i>Effect in thousands of AUD</i>				
30 June 2008				
Variable rate instruments	(2,193)	2,193	-	-
Interest rate swap	798	(798)	1,761	(367)
Cash flow sensitivity (net)	<u>(1,395)</u>	<u>1,395</u>	<u>1,761</u>	<u>(367)</u>
30 June 2007				
Variable rate instruments	<u>(999)</u>	<u>999</u>	<u>-</u>	<u>-</u>

23. Financial risk management / Financial instruments (continued)

Fair values

Fair values versus carrying amounts

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

Consolidated	30 June 2008		30 June 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of AUD</i>				
Cash and cash equivalents	38,823	38,823	17,856	17,856
Bank short-term deposit	159	159	138	138
Trade receivables	106,941	106,941	48,862	48,862
Derivatives	697	697	-	-
Interest-bearing deposits	214	214	259	259
Available-for-sale financial assets	-	-	14,998	14,998
Trade and other payables	(87,234)	(87,234)	(36,874)	(36,874)
Secured bank loan	(314,736)	(314,736)	(99,692)	(99,692)
Secured bank overdraft	(3,778)	(3,778)	(390)	(390)
Deferred consideration payable	(65,507)	(65,507)	(46,583)	(46,583)
Finance lease liabilities	(3,694)	(3,694)	(3,841)	(3,841)
Hire purchase lease liabilities	(3,466)	(3,466)	(1,662)	(1,662)
Loan notes payable	(5,725)	(5,725)	-	-
Other loans payable	(1,136)	(542)	-	-
	<u>(338,442)</u>	<u>(337,848)</u>	<u>(106,929)</u>	<u>(106,929)</u>

Company	30 June 2008		30 June 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of AUD</i>				
Cash and cash equivalents	7,462	7,462	3,605	3,605
Bank short-term deposit	1	1	24	24
Trade receivables	1,131	1,131	1,447	1,447
Derivatives	697	697	-	-
Loans to subsidiaries	112,273	112,273	38,417	38,417
Available-for-sale financial assets	-	-	14,998	14,998
Investments in subsidiaries	343,153	343,153	274,316	274,316
Trade and other payables	(6,332)	(6,332)	(1,371)	(1,371)
Payable to related parties	(7,414)	(7,414)	(10,291)	(10,291)
Secured bank loan	(219,301)	(219,301)	(99,692)	(99,692)
Deferred consideration payable	(42,837)	(42,837)	(39,760)	(39,760)
Finance lease liabilities	(2,039)	(2,039)	(2,219)	(2,219)
	<u>186,794</u>	<u>186,794</u>	<u>179,474</u>	<u>179,474</u>

24. Operating leases**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	Consolidated		The Company	
	2008	2007	2008	2007
Less than one year	10,505	7,475	1,649	2,961
Between one and five years	22,722	13,792	5,834	4,479
More than five years	3,256	1,746	-	1,628
	<u>36,483</u>	<u>23,013</u>	<u>7,843</u>	<u>9,068</u>

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

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

During the year ended 30 June 2008, \$13,799,688 was recognised as an expense in the income statement in respect of operating leases (2007: \$7,311,653).

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

Indemnities have been provided to directors and certain executive officers of the Company in respect to third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 30 June 2008.

As part of the "Bailey Share Purchase Agreement", specific income tax indemnities were included relating to disallowed deductions claimed prior to acquisition. An amount of \$4.5 million was placed in escrow pending settlement of this matter with the ATO. Correspondence from the ATO has confirmed this amount has now been settled, and amounts previously included in the balance sheet as a "tax indemnity" in other current assets and the corresponding amount in current tax liability have now been removed. The settlement was less than the tax indemnity provided.

26. Controlled entities**Particulars in relation to controlled entities:**

Name	Consolidated Entity Interest	
	2008 %	2007 %
<i>Parent entity</i>		
Photon Group Limited		
<i>Controlled entities</i>		
AdPartners Group Pty Limited	100	100
Ad Partners Group (Media) Pty Limited	100	100
Australian Business Theatre Group Pty Limited	100	100
Australian Business Theatre Pty Limited	100	100
ABT Limited (ii)	100	-
ABT Creative (xiv)	100	-
Brass Tacks Pty Limited	100	100
CPR Communications and Public Relations Pty Limited ("CPR")	100	100
Australian Research Group Pty Limited	100	100
Capital Policies and Trade Pty Limited	94	58
IDEAssociates Pty Limited	100	100
Pecinct Ideas Pty Limited	100	100
ImageBox Group Pty Limited	51	51
Love Pty Limited	100	100
The Precinct Group Pty Limited	100	95.75
Precinct Ltd (ii)	100	95.75
Returnity Pty Limited	100	100
Robbins Brandt Richter Limited (i)	100	100
Blackwood Communications Group Ltd (i)	51	51
The Artel Group Pty Limited	100	100
The Artel Group Marketing Services Pty Limited	100	100
Kolorart Graphics Pty Limited	100	100
POP Productions Pty Limited	100	100
Barimos Pty Limited	100	100
The Bailey Group Pty Limited	100	100
Powerforce Total Merchandising Pty Limited	100	100
Retail * Facts Pty Limited	100	100
REL Field Marketing Australia Pty Limited	100	-
The Leading Edge Market Research Consultants Pty Limited	100	100
The Leading Edge Market Research Consultants Limited (v)	100	100
The Leading Edge Market Research Consultants Pte Limited (vi)	100	100
ONAT Holdings Pty Limited	100	100
Orchard National Pty Limited	100	100

26. Controlled entities (continued)

Particulars in relation to controlled entities:

Name	Consolidated Entity Interest	
	2008	2007
	%	%
Orchard National (Southern) Pty Limited	100	100
Brand Impact Pty Limited	100	100
Legion Interactive Holdings Pty Limited	100	100
Legion Interactive Pty Limited	100	100
Blue Sky Frog Pty Limited	100	100
Legion Interactive (NZ) Pty Limited (i)	100	100
Media Zoo Pty Limited	99.1	99.1
Kinetics Pty Limited	100	100
Kaleidoscope Marketing Communications Pty Limited	100	100
Counterpoint Marketing & Sales Pty Limited	100	100
SEE Life Differently Holdings Pty Limited	100	100
SEE Life Differently Pty Limited	100	100
Creo Limited (i)	100	100
Demonstration Plus Pty Limited	100	100
Demonstration Plus (NZ) Pty Limited (i)	100	100
iMega Pty Ltd	100	100
USA Online Pty Limited	100	100
iMarketing Pty Limited	100	100
iMega Group Pty Limited	100	100
Web Agency Pty Limited	100	100
Freegroove Pty Limited	100	100
Zearch Pty Limited	100	100
Ausrep Pty Ltd	100	100
Jigsaw Strategic Research Pty Limited	100	100
Belgiovane Williams Mackay Pty Ltd (xv)	100	100
Paterson Partners Adcafe Pty Limited	100	100
Cox Inall Communications Pty Limited	100	100
Pixel Dust Pty Limited	100	100
I-Group BWM Pty Limited	100	100
DVL Smith Group Pty Ltd (xv)	100	100
DVL Smith Group Limited (iii)	100	100
DVL Smith Consulting Limited (v)	100	100
DVL Smith Training Limited (v)	100	100
C4 Communication Pty Limited	100	100
Photon Group (US) Pty Limited	100	100
Photon Group (US) Inc (iv)	100	100
OB Media LLC (iv)	51	51
Found Agency Pty Limited (vii)	100	100
Yield Media Pty Limited	100	100
Bellamyhayden Pty Limited	100	40
Bellamyhayden SE Asia Pty Limited	100	40
Auspoll Pty Limited	100	-
First Republic Pty Limited	100	-
Belong Pty Limited	100	-
Messagenet Pty Limited	100	-
Public Insight (Australia) Pty Limited	100	-
4Exposure Pty Limited	100	-
Club Food Brokerage Pty Limited	100	-
Club Sales & Merchandising Pty Limited	100	-

26. Controlled entities (continued)

Particulars in relation to controlled entities:

Consolidated Entity Interest

Name	Consolidated Entity Interest	
	2008 %	2007 %
Geekdom Pty Limited	100	
Crystal Storm Pty Limited	51	-
Mark Communications Pty Limited	100	-
ISS Marketing Pty Limited	100	-
BMF Holdco Pty Limited	100	-
BMF Advertising Pty Limited	100	-
Photon Group UK Holdings Pty Limited (iii)	100	-
Photon Group UK Limited (iii)	100	-
Resource Experience Limited (iii)	100	-
RELSC Franco Limited (iii)	51	-
REL Sales Consulting Limited	100	-
Lorica Group Limited (iii)	100	-
Corporate Edge Group Limited (iii)	100	-
Likemind Limited (iii)	100	-
CLK MPL Limited (iii)	100	-
Lorica Group Trustees Limited (iii)	100	-
Michael Peters Limited (iii)	100	-
Eyewitness Market Research Viewing Facilities Limited (iii)	100	-
Talkvisual Limited (iii)	100	-
Frank PR Limited (iii)	100	-
Sledge Limited (iii)	100	-
North By Northwest Group Limited (iii)	100	-
Hotwire Public Relations GmbH (vii)	100	-
Hotwire Public Relations SARL (viii)	100	-
Hotwire Public Relations SL (ix)	100	-
Hotwire Public Relations SRL (x)	100	-
Hotwire Public Relations Limited (iii)	100	-
Skywrite Communications Limited (iii)	100	-
The Bailey Group UK Limited (iii)	100	-
Retail Insight Limited (iii)	100	-
Naked Communications Limited (iii)	100	-
Naked Ventures Limited (iii)	100	-
Hyper Happen Limited (iii)	100	-
Lunch Communications Limited (iii)	100	-
Ne Kid SAS (viii)	100	-
Naked Communications BV (xi)	100	-
Naked Communications AS (xii)	100	-
Naked Communications Australia Pty Limited	100	-
Naked Breakfast Pty Limited	100	-
Naked NZ Limited(i)	100	-
Naked Communications Holdings Inc (iv)	100	-
Naked New York LLC (iv)	100	-
Naked Communications Inc. (xiii)	100	-
Precinct LLC (iv)	100	-
Findology Interactive Media Inc. (iv)	100	-
(i) Companies incorporated and carrying on a business in New Zealand		
(ii) Companies incorporated and carrying on a business in Hong Kong		
(iii) Companies incorporated and carrying on a business in the United Kingdom		
(iv) Companies incorporated and carrying on a business in the United States of America		
(v) Companies incorporated in the United Kingdom and dormant		
(vi) The Leading Edge Market Research Consultants Pte Limited was incorporated and carries on a business in Singapore.		

26. Controlled entities (continued)

- (vii) Hotwire Public Relations GmbH was incorporated and carries on a business in Germany
- (viii) Companies incorporated and carrying on a business in France
- (ix) Hotwire Public Relations SL was incorporated and carries on a business in Spain
- (x) Hotwire Public Relations SRL was incorporated and carries on a business in Italy
- (xi) Naked Communications BV was incorporated and carries on a business in the Netherlands
- (xii) Naked Communications AS was incorporated and carries on a business in Norway
- (xiii) Naked Communications Inc. was incorporated and carries on a business in Japan
- (xiv) ABT Creative Limited was incorporated and carries on a business in China
- (xv) Although only 51% of the issued capital was acquired by the Company, the option tied to the remaining 49% minority interest requires 100% of the earnings and balance sheet to be included in the consolidated entity's balance sheet and income statement.

27. Acquisitions of subsidiaries and minority interests

The following controlled entities were acquired during the financial year.

- On 17 July 2007, the Company acquired 100% of the issued capital of Messagenet Pty Limited (Messagenet), an SMS communication specialist company. The purchase price was an upfront payment of \$6,000,000 cash. In addition, deferred consideration tied to the earnings of Messagenet is payable through to 30 June 2010.
- On 30 July 2007, the Company acquired 100% of the issued capital of ISS Consolidated Pty Limited (ISS Marketing), a promotional and marketing agency. The purchase price was an upfront payment of \$5,000,000 cash and the issue of 158,228 ordinary Photon shares at \$6.32 per share. In addition, deferred consideration tied to the earnings of ISS Marketing is payable through to 30 June 2011.
- On 1 August 2007, the Company acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited (Markson Sparks), a public relations company. The purchase price was an upfront payment of \$3,000,000 cash. In addition, deferred consideration tied to the earnings of Markson Sparks is payable through to 30 June 2010.
- On 2 August 2007, the Company acquired 100% of the issued capital of Resource Experience Limited (REL Field Marketing), a field marketing company. The purchase price was an upfront payment of \$17,842,125 cash. In addition, deferred consideration tied to the earnings of REL Field Marketing is payable through to 31 December 2012.
- On 29 August 2007, the Company acquired the remaining 60% of the issued capital of Bellamy Hayden Pty Limited (Bellamy Hayden), taking the Company's ownership to 100%. The purchase price was an upfront payment of \$4,751,150 cash and the issue of 45,000 ordinary Photon Shares at \$5.53 per share. In addition, deferred consideration tied to the earnings of Bellamy Hayden is payable through to 30 June 2011.
- On 3 September 2007, the Company acquired 100% of the issued capital of Club Sales and Merchandising Pty Limited and Club Food Brokerage Pty Limited (Club Sales), sales and merchandising businesses. The purchase price was an upfront payment of \$7,377,000 cash and the issue of 100,000 ordinary Photon Shares at \$6.23 per share. In addition, deferred consideration tied to earnings of Club Sales is payable through to 30 June 2011.
- On 11 September 2007, the Company acquired 100% of the issued capital of Lorica Group Limited (Corporate Edge), a corporate communications and brand marketing business. The purchase price was an upfront payment of \$13,881,531 cash. In addition, deferred consideration tied to the earnings of Corporate Edge is payable through to 31 December 2010.
- On 17 September 2007, the Company acquired 100% of the issued capital of BMF Advertising Pty Limited and 100% of the units of The BMF Unit Trust (BMF Advertising), an independent advertising agency. The purchase price was an upfront payment of \$21,810,000 cash and the issue of 600,000 ordinary Photon shares at \$6.25 per share. In addition, deferred consideration tied to the earnings of BMF Advertising is payable through to 30 June 2010.
- On 2 October 2007, the Company acquired the remaining 49% of the issued capital of Found Agency Pty. Limited (Found), a search engine marketing agency. The purchase price was an upfront payment of \$1,930,263 cash. In addition, deferred consideration tied to the earnings of Found Agency is payable through to 30 June 2010.

27. Acquisitions of subsidiaries and minority interests (continued)

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

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

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

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

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

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

27. Acquisitions of subsidiaries and minority interests (continued)

Effect of acquisitions for the year ended 30 June 2008

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

Acquiree's net assets at the acquisition date

In thousands of AUD

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

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

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

27. Acquisitions of subsidiaries and minority interests (continued)

Effect of acquisitions for the year ended 30 June 2007

The acquisitions (excluding iMega) had the following effect on the consolidated entity's assets and liabilities.

Acquiree's net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	2,611	-	2,611
Intangible assets	6,090	-	6,090
Trade and other receivables	7,301	-	7,301
Cash and cash equivalents	6,802	-	6,802
Deferred tax asset	885	-	885
Other assets	1,159	-	1,159
Trade and other payables	(6,402)	-	(6,402)
Interest bearing liabilities	(753)	-	(753)
Deferred tax liability	(53)	-	(53)
Provisions	(3,384)	-	(3,384)
Tax Liabilities	(1,044)	-	(1,044)
Other liabilities	(4,988)	-	(4,988)
Net identifiable assets and liabilities	<u>8,224</u>	-	<u>8,224</u>
Minority interest	<u>(560)</u>		
Goodwill and identifiable intangibles on acquisition	<u>69,069</u>	3,098	72,167
Total consideration	76,733		
Consideration paid, satisfied in scrip	(12,199)		
Deferred consideration	(24,508)		
Cash (acquired)	<u>(6,242)</u>		
Net cash outflow	<u>33,784</u>		

27. Acquisitions of subsidiaries and minority interests (continued)

Effect of iMega acquisition for the year ended 30 June 2007

The iMega acquisition had the following effect on the consolidated entity's assets and liabilities:

iMega net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	35	-	35
Trade and other receivables	1,015	-	1,015
Cash and cash equivalents	1,787	-	1,787
Deferred tax asset	97	-	97
Trade and other payables	(675)	-	(675)
Provisions	(39)	-	(39)
Tax liabilities	(740)	-	(740)
Net identifiable intangibles on acquisition	<u>1,480</u>	-	<u>1,480</u>
Goodwill and identifiable intangibles on acquisition	<u>35,956</u>		
Total consideration	37,436		
Consideration paid, satisfied in scrip	(13,690)		
Cash (acquired)	(1,787)		
Net cash outflow	<u>21,959</u>		

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

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

28. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	Note	Consolidated		The Company	
		2008	2007	2008	2007
(i) Reconciliation of cash					
For the purpose of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the balance sheets as follows:					
Cash assets	8	35,045	17,604	7,463	3,629
(ii) Reconciliation of profit/ (loss) after income tax to net cash provided by operating activities					
Profit after income tax		21,691	17,531	27,278	18,636
Add/(less) items classified as investing/financing:					
(Profit)/ loss on sale of non-current assets		37	(37)	-	-
Options expensing		4,348	851	4,348	851
Add/(less) non-cash items:					
Depreciation and amortisation		16,933	9,705	859	869
Occupancy costs – release of provision		332	(143)	(168)	(168)
Lease make good amortisation		275	102	6	2
Release of lease make good provision		(113)	(91)	-	-
Equity settled bonus		-	74	-	74
Share of (profits)/losses of associated entities		51	(282)	-	-
Present value interest charges with respect to the deferred consideration of acquisitions		3,361	3,014	2,807	2,677
Increase/ (decrease) in income taxes payable		(1,431)	1,089	62	1,893
Increase/ (decrease) in deferred tax liabilities		1,981	4,296	(215)	1,066
(Increase)/ decrease in deferred tax assets		(4,460)	(986)	1	(829)
Net cash provided by operating activities before change in assets and liabilities		43,005	35,123	34,978	25,071
Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year:					
(Increase)/ decrease in receivables		4,450	(3,800)	297	(628)
(Increase)/ decrease in work in progress		(2,650)	(1,199)	-	-
(Increase)/ decrease in prepayments		(6,844)	(812)	114	(332)
(Increase)/ decrease in other assets		(1,825)	535	(1,425)	(498)
Increase/ (decrease) in payables		(18,957)	(3,472)	4,959	(277)
Increase / (decrease) in deferred income		10,467	384	-	-
Increase/ (decrease) in provisions		(3,283)	529	(37)	112
Increase/ (decrease) in related party accounts		-	-	(26,533)	(3,703)
Net cash from operating activities		24,363	27,289	12,353	19,745

29. Non-key management personnel disclosures

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

	The Company	
	2008	2007
	\$'000	\$'000
The aggregate amounts included in the profit before income tax expense that resulted from transactions with related parties are:		
Interest revenue		
Wholly-owned controlled entities	13	1
Partly-owned controlled entities	82	-
Interest paid		
Wholly-owned controlled entities	2	-
Dividend revenue		
Wholly-owned controlled entities	47,525	26,463
Partly-owned controlled entities	866	942
Management fees		
Wholly-owned controlled entities	-	-
Partly-owned controlled entities	-	30
Current accounts advanced to		
Partly-owned controlled entities	-	223
Wholly owned entities	28,895	38,194
Receivables		
Aggregate amounts receivable from related parties including trade debtors		
Wholly-owned controlled entities	75,743	1,349
Partly-owned controlled entities	1,485	51
Payables		
Aggregate amounts payable to related parties other than trade creditors		
Wholly-owned controlled entities	302	10,291

Percentage of equity interests

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

Controlled entities	Note 26
Associated entities	Note 13

30. Deed of cross guarantee

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

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

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

A consolidated income statement and consolidated balance sheet, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2008 is set out as follows:

Summarised income statement and retained profits*In AUD*

	Consolidated 2008
<i>Profit before tax</i>	24,022,959
Income tax expense	<u>(3,039,453)</u>
<i>Profit after tax</i>	<u>20,983,496</u>
Retained profits at beginning of year	7,012,623
Dividends recognised during the year	<u>(18,573,201)</u>
<i>Retained profits at end of year</i>	<u>9,422,919</u>
Attributable to:	
Equity holders of the Company	<u>20,983,496</u>
Profit for the period	<u>20,983,496</u>

30. Deed of cross guarantee (continued)

Balance sheet

In AUD

**Consolidated
2008****Assets**

Cash and cash equivalents	11,089,228
Trade and other receivables	23,162,240
Other financial assets	696,795
Other assets	5,014,639
Total current assets	39,962,902
Receivables	111,416,959
Other financial assets	226,572,743
Deferred tax assets	2,733,087
Plant and equipment	6,918,572
Other Assets	85,729
Intangible assets	127,587,342
Total non-current assets	475,314,432
Total assets	515,277,334
Liabilities	
Trade and other payables	19,277,380
Loans and borrowings	15,792,581
Employee benefits	2,708,546
Income tax payable	10,510,569
Provision	1,208,969
Deferred consideration	5,820,782
Unearned revenue	970,517
Total current liabilities	56,289,344
Loans and borrowings	222,246,552
Deferred tax liabilities	859,324
Employee benefits	906,693
Provisions	1,554,316
Deferred consideration	37,016,813
Total non-current liabilities	262,583,698
Total liabilities	318,873,042
Net assets	196,404,292
Equity	
Issued Capital	180,371,003
Reserves	6,610,370
Retained profits	9,412,919
Total equity	196,404,292

31. Subsequent events

Rights Issue

On 15 July 2008, the Company raised \$76.6 million through the issue of 25.53 million shares at \$3.00 per share following the completion of its rights issue announced on 4 June 2008. The financial effects of this transaction have not been brought to account in the financial statements for the year ended 30 June 2008.

Dividends

For dividends declared after 30 June 2008, see note 22.

Directors' declaration

- 1 In the opinion of the directors of Photon Group Limited ("the Company"):
 - (a) the financial statements and notes, and the remuneration disclosures that are contained in sections 1,2 and 3 of the Remuneration report in the Directors' report, set out on pages 13 to 112, 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 2008 and of their performance, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) the financial report complies with International Financial Reporting Standards as disclosed in significant accounting policies note (a);
 - (c) the remuneration disclosures that are contained in sections 1,2 and 3 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and
 - (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 3 There are reasonable grounds to believe the Company and entities identified in note 31 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those entities pursuant to ASIC Class Order 98/1418.
- 4 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2008 pursuant to Section 295A of the Corporations Act 2001.

Dated at Sydney this 26th day of August 2008.

Signed in accordance with a resolution of the directors:



Tim Hughes
Director

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

Report on the financial report

We have audited the accompanying financial report of Photon Group Limited (the "Company"), which comprises the balance sheets as at 30 June 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year (the "Consolidated Entity").

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position and of their performance

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the financial report of Photon Group Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Photon Group Limited for the year ended 30 June 2008, complies with Section 300A of the *Corporations Act 2001*.



KPMG



John Wigglesworth
Partner

Sydney

26 August 2008

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

To: the directors of Photon Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

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



KPMG



John Wigglesworth
Partner

Sydney

26 August 2008