

**Photon Group Limited and Controlled Entities**  
**ABN 97 091 524 515**

**Preliminary Final Report**

**Appendix 4E**

**For the year ended 30 June 2011**

## Contents

	<b>Page</b>
Key information	<b>3</b>
Explanation of results	<b>4</b>
Events subsequent to year end reporting date	<b>6</b>
Consolidated income statement	<b>7</b>
Consolidated statement of comprehensive income	<b>8</b>
Consolidated statement of financial position	<b>9</b>
Consolidated statement of changes in equity	<b>10</b>
Consolidated statement of cash flows	<b>11</b>
Notes to the preliminary final report	<b>12</b>

## Results for announcement to the market

Photon Group Limited (the Company) and its controlled entities (the Consolidated Entity) results for announcement to the market are detailed below.

The current reporting period is 1 July 2010 to 30 June 2011.

The previous corresponding reporting period is 1 July 2009 to 30 June 2010.

## Key information

*In thousands of AUD ('000s)*

Revenues from ordinary activities	<b>down</b>	8.33%	to 538,345
Profit/(Loss) after tax attributable to members	<b>up</b>	31.81%	to (59,711)
Net profit/(loss) for the period attributable to members	<b>up</b>	31.81%	to (59,711)

## Dividends

	Amount per security	Franked amount per security
Nil	-	-
<b>Total amount per share</b>	<b>-</b>	<b>-</b>

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

## Explanation of results

All information requiring disclosures to comply with listing rule 4.3A are contained in this report.

## Additional Information

<b>NTA backing</b>	<b>2011</b>	<b>2010</b>
Net tangible asset backing per ordinary share	(0.13)	(1.22)

## Explanation of results

### Summary of key results:

Photon's EBITDA before significant one off costs for the year ended 30 June 2011 decreased 29% to \$53.3 million (30 June 2010: \$75.1 million). There were no significant one off costs in the current reporting period as compared to \$28.4 million in the prior reporting period.

The net loss after tax attributable to equity holders of the parent of \$59.7 million reduced from \$87.5 million in the prior corresponding period.

The results for the year included a total impairment charge of \$87.5 million in relation to the Search Marketing Division (\$36.0 million), the Australian Agencies Division (\$34.3 million). In the prior corresponding period, an \$88.9 million impairment of intangible assets relating to the Search Marketing Division was recognised.

During the current reporting period the Consolidated Entity entered into a share sale agreement on 22 December 2010 to dispose of the businesses of Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of \$75.3 million. The Consolidated Entity recognised a loss on sale of \$4.3 million in the income statement for the year ended 30 June 2011.

During the current reporting period the Consolidated Entity also disposed of the Sledge and Findology businesses for nominal consideration. The transactions were considered to be arms-length. An impairment charge of \$17.2 million was recognised in the income statement in relation to these assets. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity recognised a further loss on sale of \$2.5 million in relation to the respective amounts held in the foreign currency translation reserve at the date of sale.

The Consolidated Entity recognised a total tax benefit of \$4.6 million in relation to the impairment charges (\$1.2 million) and the loss on sale of subsidiaries (\$3.4 million).

### Reconciliation of profit before tax to EBITDA before significant items:

<i>In AUD millions</i>	2011	2010
<b>Loss before tax</b>	<b>(50.9)</b>	<b>(87.5)</b>
Impairment of intangible assets (ii)	70.3	88.9
Impairment of assets disposed	17.2	-
Loss on sale of subsidiaries	6.8	-
Depreciation and amortisation expenses	15.3	21.1
Fair value gain on deferred consideration	(29.7)	0.1
Net finance expenses	15.2	18.6
Present value interest expenses	9.1	5.5
<b>EBITDA</b>	<b>53.3</b>	<b>46.7</b>
Significant one off costs (i)	-	28.4
<b>EBITDA before significant items</b>	<b>53.3</b>	<b>75.1</b>

(i) Significant one off costs for the year includes:

<i>In AUD millions</i>	2011	2010
Redundancy charges	-	2.9
Closed business costs	-	13.0
Incidental acquisition costs	-	1.3
Restructuring provision	-	6.2
Impairment of working capital	-	4.3
Other	-	0.7
<b>Total one off costs</b>	<b>-</b>	<b>28.4</b>

(ii) For further details on the impairment of intangible assets please refer to note 4 of this preliminary final report.

Explanation of results (continued)

**Division performance**

In the current financial year there were four operating divisions of the Consolidated Entity. During the period the Consolidated Entity significantly restructured the Search Marketing Division such that following the end of the current reporting period there will not be any material earning contribution by the division. Further, the Consolidated Entity completed a number of divestments during the financial year.

For analysis of the performance of the divisions including the impact of divestments during the current reporting period please refer to the FY2011 full year results presentation.

The summary performance for each of these divisions for the year ended 30 June 2011 is as follows:

<b>EBITDA</b>	<b>2011</b>	<b>2010</b>
<i>In AUD millions</i>		
International Agencies	18.1	24.2
Australian Agencies	22.6	28.4
Australian Field Marketing	20.1	19.1
Search Marketing	0.8	(6.5)
Service Centre	(8.3)	(18.5)
<b>Total EBITDA</b>	<b>53.3</b>	<b>46.7</b>

**EBITDA margin**

International Agencies	18.6%	22.6%
Australian Agencies	19.0%	20.1%
Australian Field Marketing	17.0%	16.1%
Search Marketing	9.3%	(58.5%)
<b>Total EBITDA margin</b>	<b>15.5%</b>	<b>12.4%</b>

The performance for each of these divisions for the year ended 30 June 2011 after adding back the significant one off costs in the prior period is as follows:

<b>EBITDA before significant one off costs</b>	<b>2011</b>	<b>2010</b>
<i>In AUD millions</i>		
International Agencies	18.1	25.1
Australian Agencies	22.6	32.3
Australian Field Marketing	20.1	20.3
Search Marketing	0.8	6.4
Service Centre	(8.3)	(9.0)
<b>Total EBITDA before significant one off costs</b>	<b>53.3</b>	<b>75.1</b>

**EBITDA margin**

International Agencies	18.6%	23.4%
Australian Agencies	19.0%	22.8%
Australian Field Marketing	17.0%	17.1%
Search Marketing	9.3%	58.6%
<b>Total EBITDA margin</b>	<b>15.5%</b>	<b>19.9%</b>

Significant one off cost adjustments are consistent with those noted on page 4.

## Events subsequent to year end reporting date

Since the balance date, the Company has entered into agreements with the vendors of Belgiovane, Williams and Mackay Pty Limited (BWM) regarding the terms of the put option they hold over 49% of the shares in BWM. The put option could be exercised at the election of the vendors at the end of FY2011 or FY2012 and was subject to amendment as part of the restructure of deferred consideration payments in September 2010 with payments for the 49% of shares capped and to be paid in accordance with the overall terms of the deferred consideration restructure. Subject to the further agreements entered into in August 2011 the put option will now be exercised in July 2012. Following that the BWM vendors will retain an equity stake in the business subject to certain conditions.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2011.

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.

**Consolidated income statement**  
 For the year ended 30 June 2011

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	<b>2011</b>	<b>2010</b>
Gross revenue		<b>538,345</b>	587,259
Directly attributable costs of sales		<b>(194,795)</b>	(208,652)
<b>Net revenue</b>		<b>343,550</b>	378,607
Other income		<b>409</b>	792
Employee expenses		<b>(234,012)</b>	(260,267)
Occupancy costs		<b>(16,341)</b>	(20,178)
Depreciation and amortisation expense		<b>(15,296)</b>	(21,096)
Insurance expense		<b>(1,194)</b>	(1,186)
Consultancy fees		<b>(11,942)</b>	(13,542)
Equipment hire charges		<b>(879)</b>	(990)
Travel expenses		<b>(5,368)</b>	(5,266)
Communication expenses		<b>(5,998)</b>	(6,516)
Other operating expenses		<b>(14,928)</b>	(23,389)
Acquisition transaction costs		<b>(42)</b>	(1,266)
Fair value adjustment to deferred consideration liability		<b>29,739</b>	(52)
Loss on sale of subsidiaries	<b>8</b>	<b>(6,803)</b>	-
Impairment of intangible assets	<b>4</b>	<b>(87,481)</b>	(86,871)
Impairment of investment in equity accounted investee		-	(2,059)
Share of loss of associates		-	(117)
Present value interest expense		<b>(9,106)</b>	(5,480)
Other finance costs		<b>(15,220)</b>	(18,645)
Total finance costs		<b>(24,326)</b>	(24,125)
<b>Loss before tax</b>		<b>(50,912)</b>	(87,521)
Income tax expense		<b>(8,826)</b>	(586)
<b>Loss for the period</b>		<b>(59,738)</b>	(88,107)
<b>Attributable to:</b>			
Equity holders of the parent		<b>(59,711)</b>	(87,566)
Non-controlling interest		<b>(27)</b>	(541)
<b>Loss for the period</b>		<b>(59,738)</b>	(88,107)
Basic earnings per share (AUD cents)	<b>3</b>	<b>(4.98)</b>	(26.83)
Diluted earnings per share (AUD cents)	<b>3</b>	<b>(4.98)</b>	(26.83)

**Consolidated statement of comprehensive income**  
 For the year ended 30 June 2011

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	<b>2011</b>	<b>2010</b>
<b>Loss for the period</b>		<b>(59,738)</b>	<b>(88,107)</b>
<b>Other comprehensive income</b>			
Cash flow hedge gain		<b>2,084</b>	1,402
Foreign currency translation loss		<b>(16,728)</b>	(12,752)
Net loss on hedge of net investment in foreign operations		-	(2,281)
Income tax on items of other comprehensive income		<b>(625)</b>	885
<b>Other comprehensive income for the period net of tax</b>		<b>(15,269)</b>	<b>(12,746)</b>
<b>Total comprehensive income for the period</b>		<b>(75,007)</b>	<b>(100,853)</b>
<b>Attributable to:</b>			
Equity holders of the parent		<b>(74,871)</b>	(100,223)
Non controlling interest		<b>(136)</b>	(630)
		<b>(75,007)</b>	<b>(100,853)</b>



**Consolidated statement of financial position**  
 As at 30 June 2011

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Cash and cash equivalents		18,564	22,762
Trade and other receivables		72,144	92,901
Other assets		10,051	12,139
Income tax receivable		7,014	9,263
<b>Total current assets</b>		<b>107,773</b>	<b>137,065</b>
Receivables		376	570
Other financial assets		50	565
Deferred tax assets		1,950	4,037
Plant and equipment		12,199	18,002
Other assets		1,116	1,151
Intangible assets	4	456,738	662,551
<b>Total non-current assets</b>		<b>472,429</b>	<b>686,876</b>
<b>Total assets</b>		<b>580,202</b>	<b>823,941</b>
<b>Liabilities</b>			
Trade and other payables		57,972	76,098
Deferred consideration payable	5	40,021	78,848
Interest-bearing loans and borrowings	6	2,042	45,540
Employee benefits		7,361	8,681
Income tax payable		2,505	2,952
Provisions		2,864	7,876
<b>Total current liabilities</b>		<b>112,765</b>	<b>219,995</b>
Trade and other payables		33	26
Deferred consideration payable	5	49,933	90,690
Interest-bearing loans and borrowings	6	115,919	241,490
Deferred tax liabilities		-	1,165
Employee benefits		1,269	1,666
Provisions		1,851	2,716
<b>Total non-current liabilities</b>		<b>169,005</b>	<b>337,753</b>
<b>Total liabilities</b>		<b>281,770</b>	<b>557,748</b>
<b>Net assets</b>		<b>298,432</b>	<b>266,193</b>
<b>Equity</b>			
Issued capital		477,284	369,268
Reserves		(27,803)	(11,873)
Retained earnings		(151,558)	(91,847)
<b>Total equity attributable to equity holders of the parent</b>		<b>297,923</b>	<b>265,548</b>
Non controlling interest		509	645
<b>Total equity</b>		<b>298,432</b>	<b>266,193</b>

**Consolidated statement of changes in equity**  
 For the year ended 30 June 2011

*In thousands of AUD ('000s)*

	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non controlling interest	Total equity
<b>Opening balance at 1 July 2009</b>	<b>255,500</b>	<b>8,695</b>	<b>9,542</b>	<b>(4,352)</b>	<b>(6,673)</b>	<b>262,712</b>	<b>1,993</b>	<b>264,705</b>
Profit/(Loss) for the period	-	(87,566)	-	-	-	(87,566)	(541)	(88,107)
Other comprehensive income for the period	-	-	-	2,287	(14,944)	(12,657)	(89)	(12,746)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(87,566)</b>	<b>-</b>	<b>2,287</b>	<b>(14,944)</b>	<b>(100,223)</b>	<b>(630)</b>	<b>(100,853)</b>
<b>Transactions with owners in their capacity as owners:</b>								
Shares issued	114,749	-	-	-	-	114,749	-	114,749
Shares issued as part of business combinations	3,732	-	-	-	-	3,732	-	3,732
Tax effect of transaction costs	1,015	-	-	-	-	1,015	-	1,015
Share issue costs	(5,728)	-	-	-	-	(5,728)	-	(5,728)
Dividends paid to equity holders	-	(12,976)	-	-	-	(12,976)	(718)	(13,694)
Share option expense	-	-	2,267	-	-	2,267	-	2,267
<b>Closing balance at 30 June 2010</b>	<b>369,268</b>	<b>(91,847)</b>	<b>11,809</b>	<b>(2,065)</b>	<b>(21,617)</b>	<b>265,548</b>	<b>645</b>	<b>266,193</b>
<b>Opening balance at 1 July 2010</b>	<b>369,268</b>	<b>(91,847)</b>	<b>11,809</b>	<b>(2,065)</b>	<b>(21,617)</b>	<b>265,548</b>	<b>645</b>	<b>266,193</b>
Profit/(Loss) for the period	-	(59,711)	-	-	-	(59,711)	(27)	(59,738)
Other comprehensive income for the period	-	-	-	1,459	(16,619)	(15,160)	(109)	(15,269)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(59,711)</b>	<b>-</b>	<b>1,459</b>	<b>(16,619)</b>	<b>(74,871)</b>	<b>(136)</b>	<b>(75,007)</b>
<b>Transactions with owners in their capacity as owners:</b>								
Shares issued	102,529	-	-	-	-	102,529	-	102,529
Shares issued as part of business combinations	12,436	-	-	-	-	12,436	-	12,436
Tax effect of transaction costs	2,978	-	-	-	-	2,978	-	2,978
Share issue costs	(9,927)	-	-	-	-	(9,927)	-	(9,927)
Share option expense	-	-	(770)	-	-	(770)	-	(770)
<b>Closing balance at 30 June 2011</b>	<b>477,284</b>	<b>(151,558)</b>	<b>11,039</b>	<b>(606)</b>	<b>(38,236)</b>	<b>297,923</b>	<b>509</b>	<b>298,432</b>

**Consolidated statement of cash flows**  
 For the year ended 30 June 2011

*In thousands of AUD ('000s)*

	<i>Note</i>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		631,557	663,171
Cash paid to suppliers and employees		(588,338)	(591,542)
Cash generated from operations		<u>43,219</u>	<u>71,629</u>
Interest received		528	426
Income taxes paid		(3,328)	(17,247)
Interest paid		<u>(14,274)</u>	<u>(19,076)</u>
<b>Net cash from operating activities</b>		<u><b>26,145</b></u>	<u><b>35,732</b></u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of non current assets		626	718
Payments of deferred consideration		(42,616)	(108,621)
Payments for equity accounted investments		–	(423)
Acquisition of controlled entities, net of cash	7	–	(16,848)
Disposal of controlled entities, net of cash	8	73,171	–
Acquisition of property, plant and equipment		(5,015)	(4,284)
Acquisition of other intangibles		–	(5,747)
Development expenditure		<u>(1,496)</u>	<u>(4,876)</u>
<b>Net cash used in investing activities</b>		<u><b>24,670</b></u>	<u><b>(140,081)</b></u>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		102,454	114,673
Transaction costs for the issue of share capital		(9,927)	(5,728)
Proceeds from borrowings		44,211	126,703
Repayment of borrowings		(188,673)	(115,349)
Finance lease payments		(2,542)	(2,343)
Dividends paid to shareholders of Photon Group		–	(12,976)
Dividends paid to non controlling interest in		–	(718)
<b>Net cash from financing activities</b>		<u><b>(54,477)</b></u>	<u><b>104,262</b></u>
Net increase in cash and cash equivalents		<b>(3,662)</b>	<b>(87)</b>
Effect of exchange rate fluctuations on cash held		<b>(536)</b>	<b>(710)</b>
Cash and cash equivalents at 1 July		<u><b>22,762</b></u>	<u><b>23,559</b></u>
<b>Cash and cash equivalents at 30 June</b>		<u><b>18,564</b></u>	<u><b>22,762</b></u>

Notes to the preliminary final report  
For the year ended 30 June 2011

**Note 1. Statement of significant accounting policies**

a. Statement of compliance

The preliminary final report has been prepared in accordance with the ASX Listing Rule 4.3A and has been derived from the unaudited consolidated annual financial report. The consolidated annual financial report has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated annual financial report also complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The preliminary final report is presented in Australian dollars and has been prepared on the historical cost basis except for derivative financial instruments, business combinations acquired under revised AASB 3 *Business Combinations*, intangible assets, trade and other receivables, non-derivative financial liabilities and share-based payment transactions which are stated at their fair value.

The consolidated annual financial report is in the process of being audited and is expected to be made available on 31st August 2011. This preliminary final report does not include all the notes of the type normally included in a consolidated annual financial report. Accordingly, this report should be read in conjunction with any public announcements made by the Company during the year in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and ASX Listing Rules.

b. Going concern

Notwithstanding the net current liabilities and the after tax loss during the year, the consolidated financial statements have been prepared on a going concern basis which assumes the Consolidated Entity will continue its operations and be able to meet its obligations as and when they become due and payable. This assumption is based on an analysis of the Consolidated Entity's ability to meet its future cash flow objectives using its projected cash flows from operations and capacity under its debt facilities.

During the current financial year the Consolidated Entity completed a recapitalisation which included a capital raising of \$102,500,000 through an underwritten entitlement issue and placement, a restructure of deferred consideration payments and refinancing the Consolidated Entity's debt facilities. Additionally the Consolidated Entity completed a restructuring program which has streamlined and sold a number of operating businesses and used the proceeds of \$75,300,000 to repay borrowings. At 30 June 2011, the Consolidated Entity had \$150,000,000 of debt facilities in place which are due for refinance in September 2013, of which there was \$32,423,000 unused capacity available.

At 30 June 2011 the Consolidated Entity had an estimated gross current deferred consideration liability of \$40,823,000, of which \$11,810,000 will be satisfied by the issue of equity. Of the balance to be settled in cash, \$10,500,000 is subject to agreements entered into subsequent to balance date to fix the payment in July 2012. This amount along with remainder of the balance of the current liability to be settled in cash will be funded by drawing on unused capacity under the Consolidated Entity's debt facilities. The lender to the Consolidated Entity has agreed to adjust certain covenants contained in debt facilities to reflect the expected total debt balance (including drawings for deferred consideration payments) during the next 12 months and the current earnings run-rate. The covenants revert to the pre-adjusted levels at 30 June 2012. The financial statements are prepared on a going concern basis based on the assumption that current liabilities will be met through cash flows generated from operations and the company will remain in compliance with covenants at 30 June 2012 and thereafter as a result of a reduction in the debt balance, through proceeds from asset sales, and/or an increase in earnings from the run-rate achieved in the year ended 30 June 2011.

**Note 1. Statement of significant accounting policies (continued)**

c. Significant accounting policies

The accounting policies applied by the Consolidated Entity in this report are the same as those applied by the Consolidated Entity in the consolidated annual financial report for the year ended 30 June 2010.

d. Estimates

The preparation of this report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These 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.

In preparing this report, the significant judgements made by management in applying the Consolidated Entity's accounting policies and the key sources of uncertainty in estimation were the same as those that applied to the consolidated annual financial report for the year ended 30 June 2010.

*Critical accounting estimates and judgements:*

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Entity and that are believed to be reasonable under the circumstances.

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The estimates and assumptions 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.

(i) Impairment of goodwill and intangibles

The Consolidated Entity tests annually whether there is any impairment of goodwill. The recoverable amount of each cash generating unit (CGU) group has been determined by applying a 'value in use' method using assumptions of future profit margins and cash flows. Refer to Note 4 for the details of these assumptions and the potential impact of changes to the assumptions.

(ii) Intangible assets and business combinations

AASB 3 *Business Combinations* and AASB 138 *Intangible Assets*, the Australian standards on business combinations and intangibles respectively, require the acquirer to separately identify the acquiree's identifiable assets and liabilities, including other intangibles arising on acquisition. This means that the acquirer must recognise other intangible assets, separately from goodwill, where the definition of an intangible asset is met and the fair value of the intangible asset can be measured reliably.

Where significant business acquisitions are undertaken, the Directors commission an independent expert, having satisfied themselves that the expert was appropriately qualified to form a view and to assist them in determining the valuation of intangible assets separately identified and recognised as part of the business combination.

For further details, refer to Note 4.

**Note 1. Statement of significant accounting policies (continued)**

(iii) Share based payments

The grant date fair value of significant share based payment arrangements is determined by an appropriately qualified independent expert commissioned by the Directors. Inputs to the determination of fair value are subjective and include the market value of the instrument on the grant date, expected volatility of the Company's share price, the risk free interest rate, the dividend yield, the expected life of the instrument and the exercise price. Certain of these inputs are estimates.

(iv) Deferred consideration liability

Certain acquisitions of subsidiaries made by the Consolidated Entity contain arrangements for further consideration to be paid to vendors subject to certain targets being met. At each reporting date an estimate is made of whether such targets will be achieved and the Consolidated Entity's liability is then based on the achievement of such targets. The estimate is based on budgets and forecasts prepared by management of the subsidiary, subject to potential additional consideration. The nature of the arrangements means that at the reporting date there is uncertainty around the amount and timing of the liability to be paid in the future under such deferred consideration arrangements.

During the year ended 30 June 2011, the consolidated entity entered into agreements to restructure its deferred consideration liabilities such that substantially all agreements contain caps on the total liability. The consolidated entity has identified an estimate of the liability for future deferred consideration liabilities based on its best estimates of the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity up to the relevant capped liabilities. There is uncertainty around the actual payments that will be made subject to the performance of the relevant subsidiaries and the Consolidated Entity subsequent to the reporting date versus the targets. Actual future payments may be below the capped amounts however they may exceed the estimated liability.

(v) Impairment of receivables

The Consolidated Entity carries trade receivables at amortised cost less impairment. The impairment of these receivables is an estimate based on whether there is evidence suggesting that an event has occurred leading to a negative effect on the estimated future cash inflow. Events subsequent to the reporting date but prior to the signing of the financial statements which indicate a negative effect are taken into effect in the calculation of impairment. Future events may occur which change these estimates of the future cash inflows related to impaired trade receivables.

(vi) Revenue recognition

The Consolidated Entity recognises revenue from services rendered in proportion to the stage of completion of the transaction. Stage of completion estimates are determined by reference to the relative value of services completed in comparison to the total expected services to be completed in any specific project. The estimates require judgments and assumptions and actual results may differ to estimates as at the reporting date.

(vii) Utilisation of tax losses

The Consolidated Entity has recognised deferred tax assets on tax losses arising from capital losses generated from disposed subsidiaries during the reporting period. The recognition of tax losses as deferred tax assets is based on the assumption of future taxable capital gains in the same tax jurisdiction due to the recognition of fair value gains in relation to deferred consideration liabilities.

## **Note 2. Operating segments**

During the previous reporting period, the Consolidated Entity has realigned its organisational structure and now focuses on four business divisions which are the entity's operating segments based on regularly reviewed internal reporting and management by the Chief Executive Officer and the management team (the chief operating decision makers). The divisions are the basis for assessing performance and determining allocation of resources.

The operating segments are defined by management, based on the manner in which the services are provided and the geographies which each segment operates in, and report to the Chief Executive Officer and the management team on a monthly basis. Each operating segment is a reportable segment, and these are the sources of the Consolidated Entity's major risks and returns.

The Consolidated Entity considers it operates in four segments:

- International Agencies – International specialised marketing services weighted towards public relations, communications strategy and research and data analytics.
- Australian Agencies – Focused on providing a broad spectrum of marketing services to Australian clients including above the line advertising, direct marketing, promotional campaigns, consumer research, public relations and stakeholder communications.
- Australian Field Marketing – Outsourced merchandising and point of sale marketing.
- Search Marketing – primarily US facing search marketing group. This segment has been significantly restructured during the reporting period.

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 of costs associated with the centralised management and governance of Photon Group Limited, such as interest bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.

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

The measure of reporting to the chief operating decision maker is on a normalised EBITDA basis, which excludes significant items which are separately presented because of their nature, size and expected infrequent occurrence.

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

EBITDA before significant items – earnings before one off significant items, interest, taxes, depreciation, amortisation and impairment charges.

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

EBIT – earnings before interest, taxes and impairment charges.

**Note 2. Operating segments (continued)**

2011 In thousands of AUD	International Agencies	Australian Agencies	Field Marketing	Search Marketing	Total Segment	Unallocated	Eliminations	Consolidated
Gross revenue	132,800	254,480	125,782	31,476	544,538	–	(6,193)	538,345
Directly attributable cost of sales	(35,447)	(135,366)	(7,607)	(22,568)	(200,988)	–	6,193	(194,795)
Net revenue	97,353	119,114	118,175	8,908	343,550	–	–	343,550
Other income	138	153	118	–	409	–	–	409
Operating expenses	(79,412)	(96,676)	(98,223)	(8,077)	(282,388)	(8,316)	–	(290,704)
Significant one off costs	–	–	–	–	–	–	–	–
EBITDA	18,079	22,591	20,070	831	61,571	(8,316)	–	53,255
Depreciation & amortisation expenses								(15,296)
EBIT								37,959
Impairment relating to assets disposed	(5,098)	–	–	(12,097)	(17,195)	–	–	(17,195)
Impairment of intangibles	–	(34,293)	–	(35,993)	(70,286)	–	–	(70,286)
Loss on sale of subsidiaries	(665)	(4,272)	–	(1,866)	(6,803)	–	–	(6,803)
Fair value adjustment								29,739
Net finance expenses								(24,326)
Income tax expense								(8,826)
Profit for the period								(59,738)
Goodwill	176,791	135,246	134,745	–	446,782	–	–	446,782
Other intangibles	2,784	4,981	2,191	–	9,956	–	–	9,956
Assets excluding intangibles	47,653	39,123	33,597	7,728	128,101	173,916	(178,553)	123,464
Total assets	227,228	179,350	170,533	7,728	584,839	173,916	(178,553)	580,202
Liabilities	24,888	26,184	14,233	18,748	84,053	376,270	(178,553)	281,770
Total liabilities	24,888	26,184	14,233	18,748	84,053	376,270	(178,553)	281,770
Amortisation of Intangibles	2,185	2,299	1,709	923	7,116	–	–	7,116
Depreciation	1,752	3,437	1,675	577	7,441	739	–	8,180
Capital expenditure	1,213	1,960	957	124	4,254	761	–	5,015
Development expenditure	640	190	106	560	1,496	–	–	1,496
Acquisition of intangibles	–	–	–	–	–	–	–	–

\*All segments are continuing operations



**Note 2. Operating segments (continued)**

2010 In thousands of AUD	International Agencies	Australian Agencies	Field Marketing	Search Marketing	Total Segment	Unallocated	Eliminations	Consolidated
Gross revenue	152,567	277,274	125,808	38,317	593,966	–	(6,707)	587,259
Directly attributable cost of sales	(45,095)	(135,700)	(7,320)	(27,244)	(215,359)	–	6,707	(208,652)
Net revenue	107,472	141,574	118,488	11,073	378,607	–	–	378,607
Other income	280	306	41	165	792	–	–	792
Operating expenses	(83,517)	(113,463)	(99,424)	(17,711)	(314,115)	(18,485)	–	(332,600)
Significant one off costs	862	3,908	1,196	12,962	18,928	9,446	–	28,374
EBITDA before significant one off costs	25,097	32,325	20,301	6,489	84,212	(9,039)	–	75,173
Reconciliation to EBITDA								
Significant one off costs	(862)	(3,908)	(1,196)	(12,962)	(18,928)	(9,446)	–	(28,374)
EBITDA	24,235	28,417	19,105	(6,473)	65,284	(18,485)	–	46,799
Depreciation & amortisation expenses								(21,096)
EBIT								25,703
Share of loss of equity accounted investee				(117)				(117)
Impairment of investment in equity accounted investee				(2,059)				(2,059)
Impairment of intangibles				(86,871)				(86,871)
Fair value adjustment								(52)
Net finance expenses								(24,125)
Income tax expense								(586)
Profit for the period								(88,107)
Goodwill	210,185	237,451	137,870	49,950	635,456	–	–	635,456
Other intangibles	5,659	9,357	3,945	8,134	27,095	–	–	27,095
Assets excluding intangibles	66,558	56,961	37,751	1,679	162,949	127,809	(129,368)	161,390
Total assets	282,402	303,769	179,566	59,763	825,500	127,809	(129,368)	823,941
Liabilities	30,298	36,555	16,406	8,703	91,962	595,154	(129,368)	557,748
Total liabilities	30,298	36,555	16,406	8,703	91,962	595,154	(129,368)	557,748
Amortisation of Intangibles	2,528	4,789	1,833	4,004	13,154	–	–	13,154
Depreciation	2,125	3,336	1,077	600	7,138	804	–	7,942
Capital expenditure	1,048	1,688	928	402	4,066	218	–	4,284
Development expenditure	1,122	1,084	151	2,519	4,876	–	–	4,876
Acquisition of intangibles	–	–	–	5,747	5,747	–	–	5,747

**Note 3. Earning per share**

<b>In thousands of AUD</b>	<b>2011</b>	<b>Consolidated 2010</b>
Net loss for the year	<b>(59,738)</b>	(88,107)
Non-controlling interest	<b>27</b>	541
Net loss for the year attributable to shareholders	<b>(59,711)</b>	(87,566)
In thousands of shares		
Weighted average number of ordinary shares – basic <sup>(i)</sup>	<b>1,199,177</b>	326,331
Shares issuable under equity-based compensation plans <sup>(ii)</sup>	–	–
Weighted average number of ordinary shares – diluted	<b>1,199,177</b>	326,331
Earnings per share – basic (AUD cents)	<b>(4.98)</b>	(26.83)
Earnings per share – diluted (AUD cents)	<b>(4.98)</b>	(26.83)

- (i) The weighted average number of shares outstanding includes an adjustment for the equity raising completed on 29 September 2010 after receiving shareholder approval at a general meeting on 17 September 2010. The earnings per share for the year ended 30 June 2010 included an adjustment for the equity raising on 29 September 2010, August 2009 and rights issue which was completed in September 2009.
- (ii) The weighted average shares outstanding includes the incremental shares that would be issued upon the assumed exercise of stock options if the effect is dilutive. Because the Consolidated Entity has a loss from continuing operations in 2011, no potentially dilutive shares were included in the denominator computing diluted earnings per shares since the impact on earnings per share would be anti-dilutive.

**Note 4. Intangible assets**

In thousands of AUD	2011	Consolidated 2010
<b>Goodwill</b>		
At cost	566,947	710,750
Impairment	(120,165)	(75,294)
	<b>446,782</b>	<b>635,456</b>
<b>IT related intellectual property</b>		
At cost	12,200	18,611
Accumulated amortisation	(3,284)	(7,378)
Impairment	(8,884)	(5,836)
	<b>32</b>	<b>5,397</b>
<b>Contracts and customer relationships</b>		
At cost	33,420	40,160
Accumulated amortisation	(24,614)	(25,975)
Impairment	(739)	(46)
	<b>8,067</b>	<b>14,139</b>
<b>Brand names</b>		
At cost	751	751
Accumulated amortisation	(713)	(588)
	<b>38</b>	<b>163</b>
<b>Internally generated intangible assets</b>		
At cost	7,398	20,908
Accumulated amortisation	(3,451)	(7,817)
Impairment	(2,128)	(5,695)
	<b>1,819</b>	<b>7,396</b>
Total intangible assets, net carrying value	<b>456,738</b>	<b>662,551</b>

**Reconciliations**

Reconciliations of the carrying amounts of intangibles are set out below:

**Goodwill**

Carrying amount at the beginning of the year	635,456	547,202
Acquisitions through business combinations	301	19,017
Disposal of subsidiaries	(72,692)	–
Adjustments through deferred consideration <sup>(i)</sup>	(540)	169,302
Impairment	(78,325)	(75,294)
Effect of movement in exchange rate	(37,418)	(24,771)
Carrying amount at the end of the year	<b>446,782</b>	<b>635,456</b>

**IT related intellectual property**

Carrying amount at the beginning of the year	5,397	1,845
Acquisitions through business combinations	–	5,561
Disposal of subsidiaries	(113)	–
Additions	–	5,747
Impairment	(4,458)	(5,836)
Amortisation	(699)	(1,844)
Effect of movement in exchange rate	(95)	(76)
Carrying amount at the end of the year	<b>32</b>	<b>5,397</b>

**Contracts and customer relationships**

Carrying amount at the beginning of the year	14,139	21,095
Acquisitions through business combinations	–	1,502
Disposal of subsidiaries	(160)	–
Impairment	(693)	(46)
Amortisation	(4,035)	(6,672)
Effect of movement in exchange rate	(1,184)	(1,740)
Carrying amount at the end of the year	<b>8,067</b>	<b>14,139</b>

**Note 4. Intangible assets (continued)**

In thousands of AUD	2011	Consolidated 2010
<b>Brand name</b>		
Carrying amount at the beginning of the year	163	288
Amortisation	(125)	(125)
Carrying amount at the end of the year	38	163
<b>Internally generated intangible assets</b>		
Carrying amount at the beginning of the year	7,396	10,351
Acquisitions through business combinations	–	2,632
Disposal of subsidiaries	(2,049)	–
Additions	1,496	4,876
Impairment	(2,338)	(5,695)
Amortisation	(2,257)	(4,513)
Effect of movement in exchange rate	(429)	(255)
Carrying amount at the end of the year	1,819	7,396

(i) Adjustments through deferred consideration are in relation to business combinations arising before 1 July 2009 for which changes to the estimates of amounts payable in deferred consideration are adjusted against goodwill.

**Amortisation charge**

The amortisation charge of \$7,116,000 (2010: \$13,154,000) is recognised in the depreciation and amortisation expense in the income statement.

**Impairment charge**

In thousands of AUD	2011	Consolidated 2010
Impairment of intangibles	70,286	86,871
Impairment relating to assets disposed during year	17,195	–
Impairment of equity accounted investee	–	2,059
	87,481	88,930

**Impairment of intangible assets in the year ended 30 June 2011:**

*Search Marketing CGU group impaired:*

During the year ended 30 June 2011 the Search Marketing cash generating unit (CGU) group continued to experience declines in trading due to the same factors disclosed in the annual report for financial year ended 30 June 2010. As a result of this, the Consolidated Entity reviewed the likely future capital requirements, the return on investment in the Search Marketing CGU and the volatility of the cash flows due to the changes in the market dynamics, and significantly discounted the expected cash flows from the CGU. The Consolidated Entity therefore recognised an impairment charge on all goodwill and intangible assets in the Search Marketing CGU. An impairment charge on intangible assets of \$35,993,000 was recognised in the income statement relating to the Search Marketing CGU.

*Australian Agency CGU group impaired:*

During the year ended 30 June 2011, the Australian Agency CGU, which provides a range of integrated marketing and advertising services in Australia, lost a significant client contract. The Consolidated Entity reviewed the future cash flows of the Australian Agency CGU and have adjusted for the estimated cash flow impact of this client contract. As the carrying value of the Australian Agency CGU is higher than its recoverable amount based on its value in use, the Consolidated Entity has recognised an impairment charge against the goodwill of the Australian Agency CGU in the income statement of \$34,293,000.

The estimate of the value in use for the Australian Agency CGU group impairment testing was determined using:

- A post tax discount rate of 9.64% (2010: 9.83%);
- Growth rate of 3% for 4 years from the best estimate of the CGU group future cash flows (2010: 7.5%); and
- Long-term growth rate of 3% into perpetuity (2010: 3%).

#### **Note 4. Intangible assets (continued)**

##### ***Impairment relating to assets disposed during the year:***

During the year ended 30 June 2011, the Consolidated Entity disposed of the Sledge and Findology businesses. An impairment charge of \$17,195,000 was recognised in the income statement to recognise these assets at their recoverable amount at the date of classification as held for sale. See Note 8 Disposal of subsidiaries for further details.

##### ***Impairment of intangible assets in the year ended 30 June 2010:***

During the year ended 30 June 2010 the Search Marketing cash generating unit (CGU) group, which is a segment specialising in search marketing, experienced a significant decline in trading due to general weakness in the online global advertising spend market, a reliance on US online advertising spend, weakness in the domain name sales market and exposure to a weaker US dollar. During the year this CGU group also closed or divested the Geekversity, Future House, iMega and Crystal Storm businesses.

##### **Specific assets impaired:**

The Consolidated Entity closed various development projects within the Search Marketing CGU group including developed software and technology products and domain names which were assessed to have no individual recoverable amounts and therefore an impairment charge of \$11,531,000 was recognised. Customer relationships recognised for the closed businesses were also impaired in the amount of \$46,000.

##### **Specific goodwill impaired:**

The Consolidated Entity closed businesses identified above and therefore these businesses were excluded from the Search Marketing CGU group as they were no longer obtaining synergies from the CGU group. These businesses were assessed to have no recoverable amounts and therefore an impairment charge of \$41,264,000 was recognised.

##### **Search Marketing CGU group impaired:**

The recoverable amount of the CGU group was estimated based on its value in use excluding the closed or divested businesses and reflecting the best estimate of future cash flows for that CGU group. An impairment charge of \$34,030,000 was recognised relating to goodwill for the CGU group.

The estimate of the value in use for the Search Marketing CGU group impairment testing was determined using:

- A post tax discount rate of 12.78% (2009: 9.23%);
- Growth rate of 7.5% for 4 years from the best estimate of the CGU group future cash flows (2009: 7.5%); and
- Long-term growth rate of 3% into perpetuity (2009: 3%).

#### **Impairment tests for cash generating unit groups (CGU) containing goodwill**

Goodwill is tested for impairment on a division or business unit basis, reflecting the synergies obtained by the division or business unit. During the financial year ended 30 June 2010, the Consolidated Entity announced an organisational restructure. In doing so, the aggregation of assets for identifying CGU groups was adjusted to reflect the lowest level of management of the groups of assets and the synergies of the business groupings. The reorganization has not significantly changed the allocation of goodwill to CGUs but has resulted in previously separate CGUs being aggregated based on a management strategy to reduce the number of operating businesses and merging together similar businesses. The aggregation of assets in CGU groups continues to be determined using both a service offering and geographical approach. The CGU groups are consistent with the operating segments of the Consolidated Entity.

The recoverable amount of a CGU group is assessed using calculation methodologies based on value-in-use calculation. The recoverable amount methodologies and assumptions for all of the CGU groups other than the Search Marketing CGU have remained materially consistent with those applied as at 30 June 2010, as disclosed in the 30 June 2010 annual financial report.

**Note 4. Intangible assets (continued)**

Goodwill CGU group allocation

<b>In thousands of AUD</b>	<b>2011</b>	<b>Consolidated 2010</b>
<i>The Consolidated Entity's carrying amount of goodwill for each of the CGU groups identified:</i>		
International Agencies	<b>176,791</b>	200,261
Australian Agencies	<b>135,246</b>	221,246
Australian Communication	–	26,129
Field marketing	<b>134,745</b>	137,870
Search Marketing	–	49,950
	<b>446,782</b>	635,456

**Impairment tests for cash generating units containing goodwill**

Key assumptions used in the value in use approach to test for impairment relate to the discount rate and the medium-term and long-term growth rates applied to projected cash flows.

Projected cash flows:

The projected first year of cash flows are derived from results for the current financial year adjusted in some cases for expectations of future trading performance to reflect the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual results of operations and cash flows.

Discount rates:

The discount rate is based on the Consolidated Entity's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post tax discount rate.

Growth rates:

A growth rate of 3% (30 June 2010: 7.5%) has been applied to the cash flows of the first financial year to determine cash flows for the next four years. The five years of cash flows are discounted to present value. The reduction from 7.5% to 3% in the growth rate is a result of analysis of medium term historical trading performance and organic growth expectations and targets.

Long-term growth rate into perpetuity:

Long-term growth rates of 3% (30 June 2010: 3%) are used into perpetuity, based on expected long-range growth rates for the industry.

	2011 Inputs			2010 Inputs		
	Post-tax discount rate	Pre-tax discount rate	Forecast Growth rate	Post-tax discount rate	Pre-tax discount rate	Forecast Growth rate
Impairment testing assumptions for CGU groups						
International Agencies	9.64%	12.73%	3%	9.83%	13.03%	7.5%
Australian Agencies	9.64%	12.73%	3%	9.83%	13.03%	7.5%
Field Marketing	9.64%	12.73%	3%	9.83%	13.03%	7.5%
Search Marketing	12.90%	17.24%	3%	12.78%	17.24%	7.5%

The higher discount rate applied to the cash flows of the Search Marketing CGU group reflects the risks and returns associated with that group of assets. As all of the CGU's intangible assets have been impaired to nil during the current financial year, no impairment testing was required for this CGU as at 30 June 2011.

**Note 4. Intangible assets (continued)**

**Sensitivity range assumptions for impairment testing assumptions**

The following sensitivity ranges are attributable to each CGU group for impairment testing for which the impairment loss was calculated on the assumptions above:

	2011 Sensitivity range		2010 Sensitivity range	
	Post-tax discount rate	Growth rate	Post-tax discount rate	Growth rate
International Agencies	8.29% –10.99%	0–10%	8.48% –11.18%	5–10%
Australian Agencies	8.29% –10.99%	0–10%	8.48% –11.18%	5–10%
Field Marketing	8.29% –10.99%	0–10%	8.48% –11.18%	5–10%

In the sensitivity ranges tested the International Agencies CGU would be impaired applying a 0% growth rate and a post-tax discount rate of 9.64% or by increasing the post-tax discount rate to 9.95% and reducing the growth rate to 2.5%. The estimated recoverable amount of the International Agencies CGU exceeds its carrying amount by approximately \$7,957,000 (30 June 2010: \$124,894,000). The Field Marketing CGU is not impaired at any of the sensitivity ranges tested.

**Note 5. Deferred consideration**

In thousands of AUD	Consolidated	
	2011	2010
Current liabilities		
Deferred consideration payable	<b>40,021</b>	78,848
	<b>40,021</b>	78,848
Non-current liabilities		
Deferred consideration payable	<b>49,933</b>	90,690
	<b>49,933</b>	90,690
Total deferred consideration payable current and non-current	<b>89,954</b>	169,538

Deferred consideration liabilities at year end reporting date are the present value of expected future payments.

During the year the consolidated entity entered into agreements to restructure its deferred consideration liability such that substantially all of the deferred consideration liabilities have been capped. The consolidated entity has estimated the liability for future deferred consideration liabilities based on the probability of the achievement of forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made subject to the performance of the relevant subsidiaries and the Consolidated Entity after the reporting date versus the forecast targets. The aggregate nominal capped deferred consideration liability at 30 June 2011 is \$120,859,000 of which \$105,245,000 has been estimated as a future liability (which is equivalent to the present value of expected future payments of \$89,954,000). Approximately 50% of the aggregate capped liability will only be made if the Consolidated Entity reaches certain financial performance and leverage ratio targets. Actual future payments may be below the capped amounts however they may exceed the estimated liability.

Of the estimated nominal current deferred consideration liability of \$40,021,000, \$11,810,000 will be satisfied by the issue of equity. Of the balance to be settled in cash, \$10,500,000 is subject to agreements entered into subsequent to balance date to fix the payment in July 2012. This amount along with remainder of the balance of the current liability to be settled in cash will be funded by drawing on unused capacity under the Consolidated Entities debt facilities.

**Note 6. Interest bearing loans and borrowings**

<b>In thousands of AUD</b>	<b>2011</b>	<b>Consolidated 2010</b>
<b>Current liabilities</b>		
Secured bank loans	–	38,801
Finance lease liabilities	572	803
Hire purchase lease liabilities	994	1,560
Loan notes payable	–	3,892
Derivative financial liability	476	484
	<b>2,042</b>	<b>45,540</b>
<b>Non-current liabilities</b>		
Secured bank loans	114,443	235,065
Other non-current loans	16	703
Finance lease liabilities	379	1,413
Hire purchase lease liabilities	691	1,843
Derivative financial liability	390	2,466
	<b>115,919</b>	<b>241,490</b>

**Terms and debt repayment schedule**

Terms and conditions of outstanding bank loans were as follows:

<b>In thousands of AUD</b>		<b>30 June 2011</b>		<b>Consolidated 30 June 2010</b>	
<b>Currency</b>	<b>Date of maturity</b>	<b>Face value</b>	<b>Carrying amount</b>	<b>Face value</b>	<b>Carrying amount</b>
AUD	31 Mar 2011	–	–	22,973	22,973
GBP	31 Mar 2011	–	–	15,828	15,828
USD	31 Oct 2011	–	–	31,103	31,103
GBP	31 Oct 2011	–	–	17,604	17,604
AUD	31 Oct 2011	–	–	28,150	28,150
AUD	30 Apr 2012	–	–	38,000	38,000
AUD	31 Oct 2012	–	–	70,581	70,581
GBP	31 Oct 2012	–	–	49,627	49,627
AUD	30 Sep 2013	48,605	48,605	–	–
GBP	30 Sep 2013	47,736	47,736	–	–
USD	30 Sep 2013	21,236	21,236	–	–
<b>Total secured bank loans<sup>(i)</sup></b>		<b>117,577</b>	<b>117,577</b>	<b>273,866</b>	<b>273,866</b>

(i) Represents the gross secured bank loans payable. In the current reporting period, ancillary borrowing costs of \$3,134,000 are applied against the gross balances resulting in a net secured bank loan payable of \$114,443,000. The ancillary costs are unwound over the term of the facility.



**Note 7. Acquisitions of subsidiaries**

The Consolidated Entity has adopted revised AASB 3 *Business Combinations* (2008) and amended AASB 127 *Consolidated and Separate Financial Statements* (2008) for business combinations occurring in the financial year commencing 1 July 2009.

There were no acquisitions during the year ended 30 June 2011.

In the prior period, the following entities were acquired:

On 7 December 2009, the Company acquired a controlling interest in Dark Blue Sea Limited, as a result of acceptances under the takeover offer which commenced on 1 October 2009. After gaining acceptances in excess of 90% of the share capital, the Company compulsorily acquired the remaining share capital in Dark Blue Sea Limited and therefore owns 100% of the share capital post the compulsory acquisition period. Prior to the takeover bid, the Company had a 29.79% interest in Dark Blue Sea Limited. The purchase price for the remaining 70.21% interest in Dark Blue Sea acquired during the year ended 30 June 2010 was \$19,826,000.

From 7 December 2009, as a result of acquiring a controlling interest, the equity accounting method no longer applies and Dark Blue Sea forms part of the consolidated financial statements of the Consolidated Entity.

The purchase price for the other acquisition during the period, which is not individually significant, is contingent upon future earnings of the business acquired.

**Effect of acquisitions for the year ended 30 June 2010**

The acquisitions had the following effect on the Consolidated Entity's assets and liabilities.

**Acquiree's identifiable assets and liabilities assumed at the acquisition date**

In thousands of AUD	Recognised values	Fair value adjustments	Carrying amounts
Plant and equipment	256		256
Intangible assets	2,632	6,580	9,212
Trade and other receivables	1,173		1,173
Cash and cash equivalents	2,978		2,978
Deferred tax asset	195		195
Other assets	1,702		1,702
Trade and other payables	(1,942)		(1,942)
Deferred tax liability	-	(306)	(306)
Provisions	(577)		(577)
Tax asset	11		11
Other liabilities	(1,706)		(1,706)
	4,722	6,274	10,996

Consideration transferred		Goodwill	
Cash	19,826	Total consideration transferred	29,665
Transfer from equity accounted investee	8,379	Incidentals on prior acquisitions	348
Contingent consideration	1,460	Less fair value on identifiable net assets	(10,996)
	29,665		19,017

The above acquisitions cumulatively contributed \$3,067,629 of net revenues to the total net revenue and \$3,373,884 of net losses to the total loss after tax and of the Consolidated Entity for the year ended 30 June 2010.

The full year net revenue effect, if the above acquisitions had been acquired on 1 July 2009, would have been to increase net revenue by \$4,511,132.

The full year net loss after tax effect, if the above acquisitions were acquired on 1 July 2009, would have been to reduce the loss after tax by \$468,356.

**Note 7. Acquisitions of subsidiaries (continued)**

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

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

*Contingent/deferred consideration:*

Contingent/deferred consideration is based on the achievement of specific targets of both the subsidiary acquired and the Consolidated Entity. The fair value of the deferred consideration at acquisition was calculated by estimating future earnings and an estimate of whether such targets will be achieved.

Any changes to the contingent/deferred consideration during the year are recognised in the income statement as a fair value adjustment to deferred consideration.

The consolidated entity has estimated the liability for future deferred consideration liabilities based on the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made in respect of the performance of the relevant subsidiaries and the Consolidated Entity subsequent to the reporting date versus the forecast targets. Approximately 50% of the aggregate capped liability will only be made if the Consolidated Entity reaches certain financial performance and leverage ratio targets. Actual future payments may be below the capped amounts however they may exceed the estimated liability.

**Note 8. Disposal of subsidiaries**

On 22 December 2010, the Consolidated Entity entered into a sale agreement to dispose of the businesses Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of \$75,300,000 plus a deferred consideration arrangement that expired on 30 June 2011. On 22 December 2010, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds from the disposal of these businesses was received on 12 January 2011. The Consolidated Entity recognised a loss on sale of \$4,272,238 in the income statement for the year ended 30 June 2011.

On 22 December 2010 the Consolidated Entity also resolved to dispose of the Sledge and Findology businesses for nominal consideration. The transactions were considered to be arms-length. During the year, an impairment charge of \$17,195,280 was recognised in the income statement in relation to these assets. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity recognised a further loss on sale of \$2,530,342 in relation to the respective amounts held in the foreign currency translation reserve at the date of sale.

An income tax benefit of \$3,379,623 was recognised in the income statement in relation to the above disposals of subsidiaries.

**Assets and liabilities and cash flow of disposed entities**

The major classes of assets and liabilities of the disposed group are as follows:

<b>In thousands of AUD</b>	<b>Carrying amounts</b>
<b>Assets</b>	
Cash and cash equivalents	2,068
Trade and other receivables	6,563
Other assets	924
Plant and equipment	2,046
Intangible assets	75,014
Deferred tax assets	906
<b>Total assets disposed</b>	<b>87,521</b>
<b>Liabilities</b>	
Trade and other payables	4,885
Interest bearing loans and borrowings	657
Provisions	712
Deferred tax liabilities	1,199
<b>Total liabilities disposed</b>	<b>7,453</b>
<b>Net assets attributable to disposed entities</b>	<b>80,068</b>
<b>Loss on disposal</b>	
<b>In thousands of AUD</b>	
Consideration received or receivable	75,723
Less net assets disposed of	(80,068)
Less Foreign currency translation reserve recognised in income statement	(2,458)
Loss on disposal before income tax	<b>(6,803)</b>
Income tax benefit	3,380
Loss on disposal after income tax	<b>(3,423)</b>
<b>Net cash inflow on disposal</b>	
<b>In thousands of AUD</b>	
Total consideration	75,723
Less cash and cash equivalents balance disposed of	(2,068)
Less settlement of liability with subsidiary on disposal	(484)
Reflected in the consolidated statement of cash flows	<b>73,171</b>