



Photon Group Limited and Controlled Entities
ABN 97 091 524 515

Preliminary Final Report

Appendix 4E

For the year ended 30 June 2010

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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 2009 to 30 June 2010.

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

Key information

In thousands of AUD ('000s)

Revenues from ordinary activities	down	10.13%	to 587,259
Profit/(Loss) after tax attributable to members	down	509.03%	to (87,566)
Net profit/(loss) for the period attributable to members	down	509.03%	to (87,566)

Dividends	Amount per security	Franked amount per security
Interim dividend – paid 30 March 2010	3.0 cents	3.0 cents
Total amount per share	3.0 cents	3.0 cents

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

NTA backing	2010	2009
Net tangible asset backing per ordinary share	(1.22)	(3.11)

Explanation of results

Summary of key results:

Photon's EBITDA for the year ended 30 June 2010 declined 48% to \$46.7 million. After considering the impact of adverse currency movements, the decrease in EBITDA is driven primarily by the decline in the Internet & E-Commerce division and one off costs which totalled \$28.4 million. The Normalised EBITDA (before one off costs) of \$75.1 million was down from \$93.0 million in the prior corresponding period.

The net loss after tax of \$87.6m is down from a net profit after tax of \$21.4 million in the prior corresponding period. This \$109 million decrease in NPAT is primarily driven by the one-off costs and the decline in EBITDA performance of the Internet & E-Commerce division discussed above, which also contributed to the recognition of an \$88.9 million impairment of intangible assets in this division during 2010.

Reconciliation of profit before tax to normalised EBITDA:

<i>In AUD millions</i>	2010	2009
Profit / (loss) before tax	(87.5)	38.0
Impairment of equity accounted investees	-	4.2
Impairment of intangible assets (ii)	88.9	-
Depreciation and amortisation expenses	21.1	20.5
Net finance expenses	24.2	26.6
EBITDA	46.7	89.3
One off costs (i)	28.4	3.7
Normalised EBITDA	75.1	93.0

(i) One off costs for the year include:

<i>In AUD millions</i>	2010	2009
Redundancy charges	2.9	3.7
Closed business costs	13.0	-
Incidental acquisition costs	1.3	-
Restructuring provision	6.2	-
Impairment of working capital	4.3	-
Other	0.7	-
Total one off costs	28.4	3.7

Photon's earnings have been normalised for the significant items discussed below, which are separately presented because of their nature, size and expected infrequent occurrence:

- The earnings have been normalised for the impact of \$13.0 million losses associated with businesses which were discontinued before or during the year ended 30 June 2010. This includes losses incurred prior to the sale of Geekversity and the closure of AdPartners, The Population, DVL, Future House and Crystal Storm;
- Impairment of working capital of \$4.3 million relates to the abnormal impairment of debtors, accrued revenue and work in progress, of which \$2.3 million of these impairments related to the Internet & E-Commerce division. These impairments relate to the non-recoverability of working capital as a result of adverse economic conditions and changes to the operating model of certain businesses;
- The restructuring provision of \$6.2 million relates to provisions for redundancies and onerous leases as a result of the organisational restructure announced in June 2010;
- Redundancies made during the year of \$2.9m (2009: \$3.7m).

(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 June 2010, the Board approved and announced an organisational restructure. Photon Group will now align itself across four divisions:

- (a) International Agencies – International specialised marketing services weighted towards public relations, communications strategy & research and data analytics.
- (b) Australian Agencies- Focused on providing broad spectrum of marketing services to Australian clients including above the line advertising, direct marketing, promotional campaigns, consumer research, public relations, corporate communications and digital agency services.
- (c) Australian Field Marketing – Outsourced sales forces and point of sale marketing
- (d) International Internet – primarily US facing search marketing group.

The four divisions represent the identified business segments of the Consolidated Entity.

The performance for each of these divisions for the year ended 30 June 2010 is as follows:

EBITDA	2010	2009
<i>In AUD millions</i>		
International Agencies	24.3	24.6
Australian Agencies	28.1	28.9
Australian Field Marketing	19.3	25.0
International Internet	(6.5)	19.7
Service Centre	(18.5)	(8.9)
Total EBITDA	46.7	89.3

EBITDA margin

International Agencies	24.1%	21.4%
Australian Agencies	18.9%	17.9%
Australian Field Marketing	16.3%	18.9%
International Internet	(59.5%)	63.9%
Total EBITDA margin	12.3%	20.3%

The performance for each of these divisions for the year ended 30 June 2010 after adding back the one off costs is as follows:

Normalised EBITDA	2010	2009
<i>In AUD millions</i>		
International Agencies	25.2	25.5
Australian Agencies	32.3	31.3
Australian Field Marketing	20.5	25.1
International Internet	6.3	19.7
Service Centre	(9.0)	(8.6)
Total Normalised EBITDA	75.1	93.0

EBITDA margin

International Agencies	24.7%	22.3%
Australian Agencies	22.0%	19.3%
Australian Field Marketing	17.3%	18.8%
International Internet	39.7%	64.1%
Total EBITDA margin	19.6%	21.0%

Normalisation adjustments are consistent with those noted in the one off costs categories on page 4.

Explanation of results (continued)

Division performance (continued)

Up until the announced organisational restructure in June 2010, the Consolidated Entity had been reporting under five divisions.

The performance under the division structure prior to the organisational restructure for year ended 30 June 2010 is as follows:

EBITDA	2010	2009
<i>In AUD millions</i>		
Strategic Intelligence	11.1	12.0
Integrated Communications	15.0	14.4
Field Marketing	23.0	27.5
Internet & E-Commerce	1.2	28.9
Specialised Communications	14.9	15.3
Service Centre	(18.5)	(8.8)
Total EBITDA	46.7	89.3
EBITDA margin		
Strategic Intelligence	17.3%	15.9%
Integrated Communications	18.3%	16.4%
Field Marketing	18.0%	19.5%
Internet & E-Commerce	3.1%	51.1%
Specialised Communications	21.6%	19.3%
Total EBITDA margin	12.3%	20.3%

Strategic Intelligence

Strategic Intelligence EBITDA was down by 8% in FY2010 on the prior period as a result of adverse currency movements, continued declines in the market research sector and a weaker performance in the 2H2010 by Naked Communications, offset by margin improvements across the division. On a constant currency basis, FY2010 EBITDA was up 4% on the prior period.

Integrated Communications & Digital

The Integrated Communications & Digital division showed EBITDA growth of 4% in FY2010 over the prior period as a result of continuing strong growth in the two large Australian integrated agencies, BWM and BMF. On a constant currency basis, FY2010 EBITDA was up 4% on the prior period.

Field Marketing

Field Marketing EBITDA was down 16% in FY2010 off a very strong prior period result due to adverse currency movements, budget constraints from certain international clients and margin pressure in the demonstrations market. On a constant currency basis, FY2010 EBITDA was down 13% on the prior period.

Internet & E-Commerce

Internet & E-Commerce EBITDA was down 96% in FY2010 as a result of the impact of the material losses made by the Geekdom and Geekversity businesses which were closed and sold respectively during the 12 month period to 30 June 2010, and the abnormal impairment of working capital within the division. These items are included in the above table of one off costs. The balance of the underperformance was largely driven by the declines in earnings performance of the search engine marketing businesses. On a constant currency basis, FY2010 EBITDA was also down 96% on the prior period.

Explanation of results (continued)

Division performance (continued)

Specialised Communications

Specialised Communications EBITDA was down 3% in FY2010 on the prior period, with strong earnings performance from the European public relations agencies, Hotwire and Frank PR, margin improvements due to operational efficiency and some recovery in the corporate communications and experiential agencies offset by adverse currency movements. On a constant currency basis, FY2010 EBITDA was up 12% on the prior period.

Service Centre

Service Centre EBITDA was down 110% in FY2010 on the prior period as a result of \$9.5 million of one-off costs primarily related to the operational restructure, redundancies and transaction costs.

Constant currency basis refers to the elimination of the impact of foreign exchange movements. The constant currency calculation uses the year ended 30 June 2009 EBITDA in local currencies based on a year ended 30 June 2010 average exchange rate as follows – 1GBP = 1.79AUD and 1USD = 1.13AUD.

The performance under the division structure prior to the organisational restructure for year ended 30 June 2010 after adding back the one off costs is as follows:

Normalised EBITDA	2010	2009
<i>In AUD millions</i>		
Strategic Intelligence	11.8	12.8
Integrated Communications	17.9	15.7
Field Marketing	24.2	27.6
Internet & E-Commerce	14.6	29.1
Specialised Communications	15.6	16.4
Service Centre	(9.0)	(8.6)
Total Normalised EBITDA	75.1	93.0

EBITDA margin

Strategic Intelligence	18.5%	16.9%
Integrated Communications	22.7%	17.8%
Field Marketing	19.0%	19.6%
Internet & E-Commerce	34.1%	51.5%
Specialised Communications	22.5%	20.7%
Total EBITDA margin	19.6%	21.0%

The key drivers of normalised EBITDA performance within each of operating division for the year ended 30 June 2010 are consistent with the EBITDA earnings drivers presented, with the exception of the \$28.4 million of normalisation adjustments which are excluded from the EBITDA analysis. The majority of the normalisation adjustments relate to the Internet & E-Commerce division (\$13.4 million) primarily associated with the closure or sale of Geekdom and Geekversity businesses and abnormal impairment of working capital, and the Service Centre (\$9.5 million) predominately associated with restructuring, transaction costs and redundancies.

Events subsequent to year end reporting date

Recapitalisation Proposal

Since 7 June 2010, Photon has conducted a strategic review of its capital structure. On 17 August 2010, the Company announced a recapitalisation proposal which includes the following elements:

- a restructure of the deferred consideration payments;
- refinancing the Company's debt facilities; and
- raising a minimum of \$102.5 million through an underwritten entitlement issue and placement.

Please refer to the announcement released to the Australian Securities Exchange on 17 August 2010 for further details of the recapitalisation proposal.

Equity raising

The Company announced an equity raising of \$102.5 million on 17 August 2010. The equity raising includes an underwritten entitlement issue of \$62.5 million and an underwritten placement of \$40 million. The two components of the underwritten equity raising require shareholder approval which will be sought at a general meeting on 17 September 2010. Subject to receiving shareholder approval, the equity raising is expected to be completed on 29 September 2010. The proceeds from the equity raising (net of fees) will be used to pay down existing debt and to satisfy current deferred consideration liabilities due on or around 30 September 2010.

Deferred consideration restructure

In August 2010 the Consolidated Entity entered into agreements with substantially all of the vendors of operating entities expected to receive future deferred consideration payments to restructure the terms of the deferred consideration payments. The effect of the restructured arrangements is to:

- provide an aggregate cap for substantially all of the estimated future deferred consideration payments of approximately \$176 million;
- reduce the total estimated deferred consideration to be paid in cash to \$149 million with approximately 15% of the aggregate final capped payments being paid in Photon shares (subject to shareholder approval); and
- approximately 50% of the aggregate estimated payments (\$82 million) only being made if the Consolidated Entity reaches certain hurdles in relation to financial performance and leverage ratio levels.

Refinance of debt facilities

The Company has agreed with its lender to refinance its existing debt facilities with \$230 million cash advance facilities and a \$45 million bank guarantee facility. The cash advance facilities in combination with operating cash-flow of the Consolidated Entity are anticipated to provide capacity to make future deferred consideration payments which are to be settled as cash. The bank guarantee facility will be drawn to provide bank guarantees to the beneficiaries for the cash portion of the deferred consideration payments due after 30 September 2010. The new facilities will have a term of three years expiring in September 2013 and will have financial covenants and margins substantially in line with the existing facilities.

In addition to the requirement of shareholder approval for the equity raising and the issue of shares as part of the deferred consideration restructure, the recapitalisation proposal will not proceed unless the following conditions are satisfied:

- the conditions to the underwriting agreement are satisfied or waived by the underwriters and the underwriting agreement is not terminated by the underwriters;
- the new debt facilities have been entered into, the conditions precedent to the new facilities are satisfied or waived and the new facilities have not been terminated due to an event of default; and
- the Consolidated Entity's lender has provided bank guarantees to the deferred consideration beneficiaries in respect of a portion of the deferred consideration payments due in cash after 30 September 2010.

Events subsequent to year end reporting date (continued)

If the recapitalisation proposal does not proceed, the original deferred consideration liabilities will remain in place and the Consolidated Entity will not be in a position to meet its cash deferred consideration payments under these original agreements due on or around 30 September 2010. The Consolidated Entity will also be in breach of its financial covenants on 30 September 2010.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2010.

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 2010

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	2010	2009
Gross revenue		587,259	653,455
Directly attributable costs of sales		(208,652)	(212,816)
Net revenue		378,607	440,639
Other income		792	1,233
Total revenue		379,399	441,872
Employee expenses		(260,267)	(281,110)
Occupancy costs		(20,178)	(19,133)
Depreciation and amortisation expense		(21,096)	(20,556)
Insurance expense		(1,186)	(1,384)
Consultancy fees		(13,542)	(15,210)
Equipment hire charges		(990)	(1,062)
Travel expenses		(5,266)	(8,964)
Communication expenses		(6,516)	(7,874)
Other operating expenses		(23,389)	(17,975)
Net finance expenses		(24,125)	(26,551)
Acquisition transaction costs		(1,266)	-
Share of profit/(loss) of associates		(117)	145
Fair value adjustment to deferred consideration liability		(52)	-
Impairment of intangible assets	4	(86,871)	-
Impairment of investment in equity accounted investee		(2,059)	(4,215)
Profit/(Loss) before tax		(87,521)	37,983
Income tax expense		(586)	(15,582)
Profit/(loss) for the period		(88,107)	22,401
Attributable to:			
Equity holders of the parent		(87,566)	21,408
Non controlling interest		(541)	993
Profit/(loss) for the period		(88,107)	22,401
Basic earnings per share (AUD cents)	3	(26.83)	10.00
Diluted earnings per share (AUD cents)	3	(26.83)	10.00

Consolidated statement of comprehensive income
 For the year ended 30 June 2010

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	2010	2009
Profit/(loss) for the period		(88,107)	22,401
Other comprehensive income			
Cash flow hedge gain/(loss) taken to equity		1,402	(5,049)
Foreign currency translation (loss)/gain taken to equity		(15,033)	3,497
Income tax on items of other comprehensive income		885	-
Other comprehensive income for the period net of tax		(12,746)	(1,552)
Total comprehensive income for the period		(100,853)	20,849
Attributable to:			
Equity holders of the parent		(100,223)	19,683
Non controlling interest		(630)	1,166
		(100,853)	20,849

Consolidated statement of financial position
 As at 30 June 2010

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	2010	2009
Assets			
Cash and cash equivalents		22,762	23,559
Trade and other receivables		92,901	110,025
Other assets		12,139	18,707
Income tax receivable		9,263	-
Total current assets		137,065	152,291
Receivables		570	991
Other financial assets		565	223
Investments in equity accounted investees		-	10,132
Deferred tax assets		13,464	9,117
Plant and equipment		18,002	20,691
Other assets		1,151	2,337
Intangible assets	4	662,551	580,781
Total non-current assets		699,303	624,272
Total assets		833,368	776,563
Liabilities			
Trade and other payables		76,098	81,901
Deferred consideration payable	5	78,848	66,708
Interest-bearing loans and borrowings	6	45,540	35,927
Employee benefits		8,681	8,286
Income tax payable		2,952	6,907
Provisions		7,876	2,265
Total current liabilities		219,995	201,994
Trade and other payables		26	23
Deferred consideration payable	5	90,690	44,724
Interest-bearing loans and borrowings	6	241,490	248,392
Deferred tax liabilities		10,592	11,851
Employee benefits		1,666	1,710
Provisions		2,716	3,164
Total non-current liabilities		347,180	309,864
Total liabilities		567,175	511,858
Net assets		266,193	264,705
Equity			
Issued capital		369,268	255,500
Reserves		(11,873)	(1,483)
Retained earnings		(91,847)	8,695
Total equity attributable to equity holders of the parent		265,548	262,712
Non controlling interest		645	1,993
Total equity		266,193	264,705

Consolidated statement of changes in equity
 For the year ended 30 June 2010

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
Opening balance at 1 July 2008	180,371	10,850	5,914	697	(9,997)	187,835	1,815	189,650
Profit for the period	-	21,408	-	-	-	21,408	993	22,401
Other comprehensive income for the period	-	-	-	(5,049)	3,324	(1,725)	173	(1,552)
Total comprehensive income for the period	-	21,408	-	(5,049)	3,324	19,683	1,166	20,849
Transactions with owners in their capacity as owners:								
Shares issued	77,042	-	-	-	-	77,042	-	77,042
Shares issued as part of business combinations	1,371	-	-	-	-	1,371	-	1,371
Tax effect of transaction costs	862	-	-	-	-	862	-	862
Share issue costs	(4,146)	-	-	-	-	(4,146)	-	(4,146)
Non controlling interests acquired	-	-	-	-	-	-	10	10
Dividends paid to equity holders	-	(23,563)	-	-	-	(23,563)	(998)	(24,561)
Share option expense	-	-	3,628	-	-	3,628	-	3,628
Closing balance at 30 June 2009	255,500	8,695	9,542	(4,352)	(6,673)	262,712	1,993	264,705
Opening balance at 1 July 2009	255,500	8,695	9,542	(4,352)	(6,673)	262,712	1,993	264,705
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)
Total comprehensive income for the period	-	(87,566)	-	2,287	(14,944)	(100,223)	(630)	(100,853)
Transactions with owners in their capacity as owners:								
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
Closing balance at 30 June 2010	369,268	(91,847)	11,809	(2,065)	(21,617)	265,548	645	266,193

Consolidated statement of cash flows
For the year ended 30 June 2010

<i>In thousands of AUD ('000s)</i>	<i>Note</i>	2010	2009
Cash flows from operating activities			
Cash receipts from customers		663,171	721,070
Cash paid to suppliers and employees		(590,911)	(645,532)
Cash generated from operations		<u>72,260</u>	<u>75,538</u>
Interest received		426	724
Income taxes paid		(17,247)	(17,353)
Interest paid		(19,076)	(21,687)
Dividends received		-	102
Net cash from operating activities		<u>36,363</u>	<u>37,324</u>
Cash flows from investing activities			
Proceeds from disposal of non current assets		718	523
Payments of deferred consideration		(108,621)	(34,174)
Payments for equity accounted investments		(423)	(399)
Acquisition of controlled entities, net of cash acquired	7	(16,848)	(5,443)
Acquisition of property, plant and equipment		(4,284)	(6,126)
Acquisition of other intangibles		(5,747)	-
Development expenditure		(4,876)	(6,155)
Net cash used in investing activities		<u>(140,081)</u>	<u>(51,774)</u>
Cash flows from financing activities			
Proceeds from the issue of share capital		114,672	76,589
Proceeds from the exercise of options		-	338
Transaction costs for the issue of share capital		(5,728)	(4,146)
Proceeds from borrowings		126,703	46,549
Repayment of borrowings		(115,349)	(90,041)
Finance lease payments		(2,342)	(2,550)
Dividends paid to shareholders of Photon Group Limited		(12,976)	(23,564)
Dividends paid to non controlling interest in controlled		(718)	(1,243)
Net cash from financing activities		<u>104,262</u>	<u>1,932</u>
Net increase in cash and cash equivalents		544	(12,518)
Effect of exchange rate fluctuations on cash held		(1,341)	1,032
Cash and cash equivalents at 1 July		<u>23,559</u>	<u>35,045</u>
Cash and cash equivalents at 30 June		<u>22,762</u>	<u>23,559</u>

Notes to the preliminary final report
For the year ended 30 June 2010

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 and business combinations acquired under revised AASB 3 *Business Combinations* 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 30th September 2010. This preliminary final report does not include all the notes of the type normally included in an 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 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 the successful completion of the recapitalisation proposal as described in the subsequent event section of this preliminary final report. The recapitalisation proposal includes:

- raising a minimum of \$102.5 million through an underwritten entitlement offer and placement;
- a restructure of the deferred consideration payments, including capping substantially all of the future expected payments and restructuring the timing and form of the payments; and
- refinancing the Consolidated Entity’s debt facilities, including extending the debt facilities terms to expire in September 2013 and establishing a bank guarantee facility to provide support to a portion of the deferred consideration payments.

The effect of the recapitalisation proposal is that it will enable the Consolidated Entity to make deferred consideration payments due by 30 September 2010 and avoid being in breach of financial covenants under the debt facilities at that date. The completion of the recapitalisation proposal will also provide funding capacity, along with operating cash flow to meet future deferred consideration payments.

The equity raising and the issue of shares under the terms of the deferred consideration restructure is subject to shareholder approval which is being sought at a general meeting on 17 September 2010. In addition to the shareholder approvals, the recapitalisation proposal will not proceed unless the following conditions are satisfied:

- the conditions to the underwriting agreement are satisfied or waived by the underwriters and the underwriting agreement is not terminated by the underwriters;
- the new debt facilities have been entered into, the conditions precedent to the new facilities are satisfied or waived and the new facilities have not been terminated due to an event of default; and
- the Consolidated Entity’s lender has provided bank guarantees to the deferred consideration beneficiaries in respect of a portion of the deferred consideration payments due in cash after 30 September 2010.

Note 1. Statement of significant accounting policies (continued)

If the recapitalisation proposal does not proceed, the original deferred consideration liabilities will remain in place and the Consolidated Entity will not be in a position to meet its cash deferred consideration payments under these original agreements due on or around 30 September 2010. The Consolidated Entity will also be in breach of its financial covenants on 30 September 2010.

(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 2009 except the following:

- The Consolidated Entity has adopted revised AASB 3 *Business Combinations* (2008) effective 1 July 2009. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method.
- The Consolidated Entity has adopted amended AASB 127 *Consolidated and Separate Financial statements* effective 1 July 2009.
- The Consolidated Entity has adopted amended AASB 101 *Presentation of Financial Statements*. A separate statement of comprehensive income has been presented in the preliminary final report as a result of the adoption of this standard. The statement presents changes in equity during the period other than those changes resulting from transactions with owners.
- AASB 2009 – 2 *Improving Disclosures about Financial Instruments*.
- Restructuring – a provision for restructuring is recognised in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* when the Consolidated Entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

(d) Comparatives

Where applicable, various comparative balances have been reclassified to align with current year presentation. These amendments have no material impact on the financial statements.

(e) 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 2009.

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.

Note 1. Statement of significant accounting policies (continued)

(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.

(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 future earnings targets being met. At each reporting date an estimate is made of whether such future earnings targets will be achieved and based on such forecasts, at what earnings multiple payments will be made. The Consolidated Entity's liability is recorded based on the estimated achievement of such targets. The estimate is based on budgets and forecasts prepared by management of the subsidiary subject to review by Directors. The nature of the arrangements means that at the reporting date there is uncertainty around the amount of the liability to be paid in the future under such deferred consideration arrangements due to potential variations in earnings which in turn impacts the multiple used to calculate the final payments.

The uncertainty around such liabilities increasing was removed subsequent to the reporting date as the agreements with substantially all of the vendors entitled to receive future deferred consideration payments were renegotiated such that the liabilities were capped at approximately the amount of the estimated liability at 30 June 2010 and the form and timing of the payments adjusted. This capped amount was based on the best estimate of expected payments using management budgets and forecasts for future earnings of individual subsidiaries and the Consolidated Entity as a whole. There is still uncertainty around the actual payments that will be made as the forecast earnings targets must still be met by the subsidiaries for the vendors to receive the capped amount determined to be the outstanding liability subsequent to the reporting date. Actual future payments may be below the capped amounts, in which case the deferred consideration liability will be re-measured with the adjustment recognised in the income statement.

Note 1. Statement of significant accounting policies (continued)

(v) Impairment of receivables

The Consolidated Entity carries trade receivables 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.

Note 2. Segment reporting

The Consolidated Entity has re-aligned its organisational structure and will now focus around four business divisions which will be 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 now operates in four segments:

- (e) International Agencies – International specialised marketing services weighted towards public relations, communications strategy & research and data analytics.
- (f) Australian Agencies- Focused on providing broad spectrum of marketing services to Australian clients including above the line advertising, direct marketing, promotional campaigns, consumer research, public relations, corporate communications and digital agency services.
- (g) Australian Field Marketing – Outsourced sales forces and point of sale marketing
- (h) International Internet – primarily US facing search marketing group.

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 the Consolidated Entity 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.

Segment measure:

The measure of reporting to the chief operating decision maker is on a normalised EBITDA basis, which excludes one off 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:

Normalised EBITDA – earnings before one off 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.

The 30 June 2009 comparative amounts have been restated to reflect the current business segment presentation.

Note 2. Segment reporting (continued)

2010 In thousands of AUD ('000s)	International Agencies	Australian Agencies	Field Marketing	International Internet	Unallocated	Eliminations	Consolidated
Gross revenue	143,661	286,205	125,783	38,317	-	(6,707)	587,259
Directly attributable cost of sales	(43,607)	(137,191)	(7,317)	(27,244)	-	6,707	(208,652)
Net revenue	100,054	149,014	118,466	11,073	-	-	378,607
Other operating income	280	306	41	165	-	-	792
Total revenue	100,334	149,320	118,507	11,238	-	-	379,399
Operating expenses	(76,007)	(121,197)	(99,200)	(17,711)	(18,485)	-	(332,600)
One off costs	862	3,908	1,196	12,962	9,446	-	28,374
Normalised EBITDA	25,189	32,031	20,503	6,489	(9,039)	-	75,173
Reconciliation to EBITDA							
One off costs	(862)	(3,908)	(1,196)	(12,962)	(9,446)	-	(28,374)
EBITDA	24,327	28,123	19,307	(6,473)	(18,485)	-	46,799
Depreciation & amortisation expenses							(21,096)
EBIT							25,703
Share of loss of equity accounted investee							(117)
Impairment of investment in equity accounted investee							(2,059)
Impairment of intangible assets							(86,871)
Fair value adjustment on deferred consideration liability							(52)
Net finance expenses							(24,125)
Income tax expense							(586)
Profit/(loss) for the period							(88,107)
Goodwill	200,261	247,375	137,870	49,950	-	-	635,456
Other intangible assets	5,550	9,466	3,945	8,134	-	-	27,095
Assets excluding intangible assets	59,136	64,383	37,751	1,679	137,236	(129,368)	170,817
Total assets	264,947	321,224	179,566	59,763	137,236	(129,368)	833,368
Liabilities	27,607	39,246	16,406	8,703	604,581	(129,368)	567,175
Total liabilities	27,607	39,246	16,406	8,703	604,581	(129,368)	567,175
Amortisation of intangible assets	2,513	4,804	1,833	4,004	-	-	13,154
Depreciation	1,845	3,616	1,077	600	804	-	7,942
Capital Expenditure	979	1,757	928	402	218	-	4,284
Development Expenditure	1,091	1,115	151	2,519	-	-	4,876
Acquisition of intangibles	-	-	-	5,747	-	-	5,747

* All segments are continuing operations

Note 2. Segment reporting (continued)

2009 In thousands of AUD ('000s)	International Agencies	Australian Agencies	Field Marketing	International Internet	Unallocated	Eliminations	Consolidated
Gross revenue	162,006	294,875	137,951	67,373	-	(8,750)	653,455
Directly attributable cost of sales	(47,472)	(132,974)	(4,494)	(36,626)	-	8,750	(212,816)
Net revenue	114,534	161,901	133,457	30,747	-	-	440,639
Other operating income	451	713	69	-	-	-	1,233
Total revenue	114,985	162,614	133,526	30,747	-	-	441,872
Operating expenses	(90,396)	(133,673)	(108,555)	(11,235)	(8,853)	-	(352,712)
One off costs	965	2,326	116	47	216	-	3,670
Normalised EBITDA	25,554	31,267	25,087	19,559	(8,637)	-	92,830
Reconciliation to EBITDA							
One off costs	(965)	(2,326)	(116)	(47)	(216)	-	(3,670)
EBITDA	24,589	28,941	24,971	19,512	(8,853)	-	89,160
Depreciation & amortisation expenses							(20,556)
EBIT							68,604
Share of profit of equity accounted investee							145
Impairment of investment in equity accounted investee							(4,215)
Net finance expenses							(26,551)
Income tax expense							(15,582)
Profit/(loss) for the period							22,401
Goodwill	153,245	191,362	113,011	89,584	-	-	547,202
Other intangible assets	8,590	13,250	5,808	5,931	-	-	33,579
Investment in equity accounted investee	-	-	-	10,132	-	-	10,132
Assets excluding intangible assets	50,557	67,605	29,846	15,089	150,936	(128,383)	185,650
Total assets	212,392	272,217	148,665	120,736	150,936	(128,383)	776,563
Liabilities	24,900	43,243	17,328	11,627	543,143	(128,383)	511,858
Total liabilities	24,900	43,243	17,328	11,627	543,143	(128,383)	511,858
Amortisation of intangible assets	2,914	5,063	2,194	1,277	-	-	11,448
Depreciation	2,062	4,270	1,247	716	813	-	9,108
Capital Expenditure	1,949	2,301	893	906	77	-	6,126
Development Expenditure	1,339	1,701	306	2,809	-	-	6,155

* All segments are continuing operations

Note 3. Earning per share

<i>In thousands of AUD ('000s)</i>	2010	2009
Net (loss)/profit for the year	(88,107)	22,401
Non controlling interest	541	(993)
Net (loss)/profit for the year attributable to shareholders	<u>(87,566)</u>	<u>21,408</u>
 <i>In thousands of shares</i>		
Weighted average number of ordinary shares – basic (i)	326,353	214,178
Shares issuable under equity based compensation plans (ii)	-	35
Weighted average number of ordinary shares – diluted	<u>326,353</u>	<u>214,213</u>
 Earnings per share – basic	 (26.83)	 10.00
Earnings per share – diluted	(26.83)	10.00

- (i) The weighted average number of shares outstanding includes an adjustment for the equity raising announced after year end reporting date which is expected to be completed on 29 September 2010 subject to receiving shareholder approval at a general meeting on 17 September 2010. Also earnings per share for the year ended 30 June 2009 has been restated to take into effect the expected equity raising in September 2010 as well as actual equity raisings in the form of a placement which was completed in August 2009 and a rights issue which was completed in September 2009. Note that the earnings per share basic and diluted included in the consolidated annual financial report may differ from those presented above as Photon may issue up to a further \$15.0 million in new shares at 10 cents per share to accommodate the top up component and additional new share applications as part of equity raising.
- (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 2010, 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. For fiscal year ended 30 June 2010, 42,090 shares were excluded from the calculation of diluted earnings per share because their inclusion would be anti – dilutive.

Note 4. Intangible assets

In thousands of AUD ('000s)

	2010	2009
Goodwill		
At cost	710,750	547,202
Impairment	(75,294)	-
	<u>635,456</u>	<u>547,202</u>
IT related intellectual property		
At cost	18,611	7,378
Accumulated amortisation	(7,378)	(5,533)
Impairment	(5,836)	-
	<u>5,397</u>	<u>1,845</u>
Contracts and customer relationships		
At cost	40,160	40,434
Accumulated amortisation	(25,975)	(19,339)
Impairment	(46)	-
	<u>14,139</u>	<u>21,095</u>
Brand names		
At cost	751	751
Accumulated amortisation	(588)	(463)
	<u>163</u>	<u>288</u>
Internally generated intangible assets		
At cost	20,908	13,650
Accumulated amortisation	(7,817)	(3,299)
Impairment	(5,695)	-
	<u>7,396</u>	<u>10,351</u>
Total intangible assets, net carrying value	<u>662,551</u>	<u>580,781</u>

Note 4. Intangible assets (continued)

<i>In thousands of AUD ('000s)</i>	2010	2009
Reconciliations		
Reconciliations of the carrying amounts of intangibles are set out below:		
Goodwill (acquired)		
Carrying amount at the beginning of the year	547,202	462,632
Acquisitions through business combinations	19,017	11,693
Adjustments through deferred consideration	169,302	65,228
Impairment	(75,294)	-
Effect of movement in exchange rate	(24,771)	7,649
Carrying amount at the end of the year	635,456	547,202
IT related intellectual property (acquired)		
Carrying amount at the beginning of the year	1,845	3,137
Acquisitions through business combinations	5,561	224
Additions	5,747	-
Impairment	(5,836)	-
Amortisation	(1,844)	(1,564)
Effect of movement in exchange rate	(76)	48
Carrying amount at the end of the year	5,397	1,845
Contracts and customer relationships (acquired)		
Carrying amount at the beginning of the year	21,095	30,066
Acquisitions through business combinations	1,502	170
Impairment	(46)	-
Amortisation	(6,672)	(7,662)
Effect of movement in exchange rate	(1,740)	(1,479)
Carrying amount at the end of the year	14,139	21,095
Brand name(acquired)		
Carrying amount at the beginning of the year	288	414
Amortisation	(125)	(126)
Carrying amount at the end of the year	163	288
Internally generated intangible assets		
Carrying amount at the beginning of the year	10,351	6,008
Acquisitions through business combinations	2,632	218
Additions	4,876	6,155
Impairment	(5,695)	-
Amortisation	(4,513)	(2,097)
Effect of movement in exchange rate	(255)	67
Carrying amount at the end of the year	7,396	10,351

Amortisation charge

The amortisation charge of \$13,154,000 (2009: \$11,448,000) is recognised in the depreciation and amortisation expense in the income statement.

Note 4. Intangible assets (continued)

Impairment charge

An impairment charge on intangible assets of \$86,871,000 (2009: Nil) was recognised in the income statement.

During the year ended 30 June 2010 the International Internet 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 International Internet 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 International Internet 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.

International internet 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 International Internet 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%)
- Long term growth rate of 3% into perpetuity (2009: 3%)

Impairment tests for cash generating unit groups 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 year 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 aggregation of assets in CGU groups continue to be determined using both a service offering and geographical approach. The CGU groups are consistent with the new operating segments of the Consolidated Entity.

Goodwill CGU group allocation

In thousands of AUD ('000s)

The Consolidated Entity's carrying amount of goodwill for each of the CGU groups identified:

	2010	2009
International Agencies	200,261	153,245
Australian Agencies	221,246	164,556
Australian Communication	26,129	26,807
Field marketing	137,870	113,011
International Internet	49,950	89,583
	635,456	547,202

Note 4. Intangible assets (continued)

Impairment tests for cash generating units containing goodwill

The recoverable amount of a CGU group is assessed using calculation methodologies based on value-in-use calculation.

Key assumptions used in the 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 cash flows are derived from budgets to be approved by the Directors for the next financial year which reflect the best estimate of the CGU group's cash flows at the time. The budgets are derived from a combination of historical trading performance and expectations of the CGU group based on market and life cycle factors. 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 7.5% on the cash flows for next financial year is used to determine cash flows for the next four years. The five years of cash flows are discounted to present value. The growth rate is sourced from historical trading performance and organic growth expectations.

Long term growth rate into perpetuity:

Long term growth rates of 3% are used into perpetuity based on expected long range growth rates.

Impairment testing assumptions for CGU groups

	2010 Inputs		2009 Inputs	
	Discount rate	Growth rate	Discount rate	Growth rate
The following inputs are attributable to each CGU group for impairment testing:				
International Agencies	9.83%	7.5%	9.23%	7.5%
Australian Agencies	9.83%	7.5%	9.23%	7.5%
Australian Communication	9.83%	7.5%	9.23%	7.5%
Field marketing	9.83%	7.5%	9.23%	7.5%
International Internet	12.78%	7.5%	9.23%	7.5%

The higher discount rate applied to the cash flows of the International Internet CGU group reflects the risks and returns associated with that group of assets. If this discount rate above had been applied in the prior reporting period, it would not have resulted in any impairment charge.

Sensitivity range assumptions for impairment testing assumptions

	2010 Sensitivity range		2009 Sensitivity range	
	Discount rate	Growth rate	Discount rate	Growth rate
The following sensitivity ranges are attributable to each CGU group for impairment testing excluding International Internet CGU group for which the impairment loss was calculated on the assumptions above:				
International Agencies	8.48% to 11.18%	5-10%	7.98% to 10.94%	5-10%
Australian Agencies	8.48% to 11.18%	5-10%	7.98% to 10.94%	5-10%
Australian Communication	8.48% to 11.18%	5-10%	7.98% to 10.94%	5-10%
Field marketing	8.48% to 11.18%	5-10%	7.98% to 10.94%	5-10%

No CGU group, excluding the International Internet CGU group, would be impaired at any of the sensitivity ranges tested.

Note 5. Deferred consideration

<i>In thousands of AUD ('000s)</i>	2010	2009
Deferred consideration		
Current	78,848	66,708
Non-current	90,690	44,724
	<u>169,538</u>	<u>111,432</u>

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

As disclosed in the subsequent events note, the Consolidated Entity has entered into agreements to restructure its deferred consideration liabilities after the reporting date such that substantially all of the deferred consideration liabilities have been capped. On the assumption that all other variables remain the same in relation to critical assumptions and judgements made at 30 June 2010, the Consolidated Entity expects the present value liability of the restructured deferred consideration liability to be approximately \$161.7million.

Note 6. Interest bearing loans and borrowings

<i>In thousands of AUD ('000s)</i>	2010	2009
Current liabilities		
Secured bank loans	38,801	33,558
Finance lease liabilities	803	908
Hire purchase lease liabilities	1,560	1,280
Loan notes payable	3,892	-
Derivative financial liability	484	181
	<u>45,540</u>	<u>35,927</u>
Non-current liabilities		
Secured bank loans	235,065	239,548
Other non-current loans	703	516
Finance lease liabilities	1,413	1,928
Hire purchase lease liabilities	1,843	2,228
Derivative financial liability	2,466	4,172
	<u>241,490</u>	<u>248,392</u>

Terms and conditions of outstanding loans were as follows:

<i>In thousands of AUD ('000s)</i>		30 June 2010		30 June 2009	
Currency	Date of maturity	Face value	Carrying amount	Face value	Carrying amount
AUD	30 April 2010	-	-	33,558	33,558
AUD	31 October 2010	-	-	59,805	59,805
GBP	31 October 2010	-	-	57,735	57,735
AUD	31 March 2011	22,973	22,973	46,000	46,000
GBP	31 March 2011	15,828	15,828	-	-
USD	31 October 2011	31,103	31,103	20,509	20,509
GBP	31 October 2011	17,604	17,604	20,552	20,552
AUD	31 October 2011	28,150	28,150	34,947	34,947
AUD	30 April 2012	38,000	38,000	-	-
AUD	31 October 2012	70,581	70,581	-	-
GBP	31 October 2012	49,627	49,627	-	-
Total secured bank loans		<u>273,866</u>	<u>273,866</u>	<u>273,106</u>	<u>273,106</u>

As disclosed in the subsequent events note, the Consolidated Entity has entered into agreements to refinance its debt facilities after the reporting date.

Note 7. Effect of acquisitions for the year ended 30 June 2010

In the current period, the following entities were acquired:

Dark Blue Sea Limited

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. Consequently, Dark Blue Sea Limited and its controlled entities forms part of the consolidated financial statements of the Consolidated Entity from 7 December 2009.

There were no other materially significant acquisitions during the year.

No control was lost over any entities during the year.

Particulars in relation to controlled entities

During the year the following entities formed part of the Consolidated Entity which were not controlled entities in the previous corresponding period:

Controlled entities	Consolidated Entity interest	
	2010	2009
	<i>%</i>	<i>%</i>
Dark Blue Sea Limited	100	28.25
Dark Blue Sea Enterprises Pty Limited	100	28.25
Fabulous Parking Pty Limited	100	28.25
DarkBlue.com Pty Limited	100	28.25
DBS Administration Pty Limited	100	28.25
Fabulous.com Pty Limited	100	28.25
Pageseeker.com Pty Limited	100	28.25
Protopixel Pty Limited	100	28.25
Roar.com Pty Limited	100	28.25
Fabulous.com.au Pty Limited	100	28.25
Yexa Pty Limited	100	28.25
Whois Privacy Pty Limited	100	28.25
Domain Active Europe Limited	100	28.25
Domain Active Pty Limited	100	28.25

Note 7. Effect of acquisitions for the year ended 30 June 2010 (continued)

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

Acquiree's net assets at the acquisition date <i>In thousands of AUD ('000s)</i>	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	256		256
Intangible assets	4,724	6,580	11,304
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)
Net identifiable assets	<u>6,814</u>	<u>6,274</u>	<u>13,088</u>
Non-controlling interest in identifiable net assets	-		-
Goodwill on acquisition	<u>16,577</u>		
Total consideration	29,665		
Deferred consideration	(1,460)		
Transfer from equity accounted investee	(8,379)		
Cash (acquired)	<u>(2,978)</u>		
Net cash outflow	<u>16,848</u>		

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

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

Note 8. Dividends

	Cents Per share	Total Amount \$'000	Date of payment	Franked / Unfranked
2010				
Final 2009 – Ordinary shares	6.5c	7,622	11 th September 2009	Franked
Interim 2010 – Ordinary shares	3.0c	<u>5,354</u>	30 th March 2010	Franked
		12,976		

Franked dividends declared or paid during the year were franked at the tax rate of 30%.