

# HEADLINE

*Group Limited*

A.C.N. 060 199 082

APPENDIX 4E

PRELIMINARY FINAL STATEMENTS

**6-Month Year Ended 30 June 2008**

(with comparatives to 12-month year ended 31 December 2007)

For personal use only

**For the 6 months ended 30 June 2008**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	<b>June 08 6 Months \$ 000</b>	<b>% Change</b>	<b>Dec 07 12 Months \$ 000</b>
Revenues from sales of goods	<b>5,966</b>	(72)%	21,569
Profit from operating activities before tax	<b>(1,059)</b>	55%	(2,352)
Net profit after tax for the period attributable to members	<b>(1,102)</b>	60%	(2,782)
Basic earnings per share (cents)	<b>(0.92)</b>	n/a	(2.30)
Diluted earnings per share (cents)	<b>(0.92)</b>	n/a	(2.30)
Weighted no. of shares	<b>119,929</b>		120,882
Net tangible asset backing per ordinary share (cents)	<b>13.0</b>	(6)%	13.9

**DIVIDENDS**

Dividends (distributions)	Amount per Security	Franked amount per security
Final dividend	Nil	Nil
Previous corresponding period	Nil	Nil

**FINANCIAL INFORMATION**

See financial statements as attached.

## COMMENTARY

Dear Shareholder,

In order to further streamline the business and its costs, a decision was made by the Board to realign Headline's financial year to bring in line with the taxation year being 1<sup>st</sup> July to 30<sup>th</sup> June. As such, this report pertains to a short six month trading period.

Headline Group Limited ("HLD" or "the Company") reported a net operating loss before tax of \$1.06 million for the six months ended 30 June 2008. This compares to a net operating loss before tax of \$2.35 million in the twelve months ended 31 December 2007.

The loss of \$1.06 million is after a provision of \$0.52 million for a claim to a royalties' payment relating to a past HLD company. The claim was made very recently and as such the analysis required to qualify it is in its initial stages. We have consequently taken a very conservative approach in line with accounting requirements and provided for the full amount of the claim.

It should also be noted that due to the change in the structure of the Company, previous years' trading comparisons are not applicable.

- **Trading**

As previously reported, the Board has continued with the strategy of repositioning the business having sold off all but one trading division being Skansen which operates in the giftware market.

Skansen's peak trading and profitability occurs in the July to December half, and as such it has not greatly contributed to our performance in this truncated year.

The major improvement in this half and also looking forward is the reduction in corporate costs which were \$0.8 million compared to \$2.4 million in 2007. This trend will continue and the Board expects the Company to be cash positive in the current financial year.

It should be noted that the Company is debt free, with approximately \$7.0 million in cash on deposit moving to \$13.0 million in the medium term.

- **Operations**

- **Board**

It should be noted that the composition of the Board changed at an EGM held on 21<sup>st</sup> July 2008, where shareholders elected two new Directors to the Board:

- Mr Roger Montgomery being Chairman of Clime Capital, an entity representing 19.33% of Headline's stock.
- Mr Brent Dennison brings on board experience in strategic planning and projects executions.
- Mr John Fox vacated the position of Chairman at this meeting. We would like to take this opportunity to thank John for his positive and much appreciated contribution to the Company.

• **Looking Forward**

The Board remains focused on:

- Securing acquisition(s) in line with our available resources.
- A continued move towards maximising our cash position. As such the remaining property at Lisarow is now going to auction.
- Tight cost control.

• **Dividends**

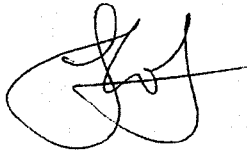
Although the Company is holding cash reserves, the Company is unable to pay dividends until it returns to profitability. The Company currently has franking credits of \$3 million enabling the payment of fully franked dividends of \$7 million.

The Company has consolidated tax losses of \$1.7 million and are subject to 'continuity of ownership' testing.

• **Audit**

The six month accounts are in the process of final audit.

Thank you.



Gordon Elkington  
Managing Director  
29 August 2008

# HEADLINE GROUP LIMITED & CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 JUNE 2008

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Preliminary financial statements of Headline Group Limited and subsidiaries for the year ended 30 June 2008 do not include all the notes of the type that would normally be included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance and financial position of the Group as the full financial report.

##### (a) Basis of preparation

The financial report has been prepared on an accrual basis based on historical cost, except for derivative financial instruments that have been measured at fair value.

Unless otherwise detailed in the notes, accounting policies have been consistently applied by the entities in the Group and are consistent with those applied in the December 2007 annual report.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

##### (b) Reporting period and prior year comparatives

The financial statements has been prepared for a period six months pursuant to an ASIC approval received by the Group on 22 February 2008. The previous reporting period was for a period of twelve months and hence the comparatives are not comparable.

##### (c) New accounting Standards and Interpretations not yet adopted

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

- AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the underlying net assets. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the impact on the Group's financial report.
- AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the company of the group as the standard is only concerned with disclosures.
- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standards does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect on the Group's disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The group has not adopted the standard early and will have no effect on the amounts recognised in the financial statements.

# HEADLINE GROUP LIMITED & CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 JUNE 2008

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Revised AASB 127 Consolidated and Separate Financial Statements changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous / retained investment when control is obtained / lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders. The group has not adopted the standard early and will have no effect on the amounts recognised in the financial statements.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

#### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Headline Group Limited and its subsidiaries referred to collectively throughout these financial statements as the "Group".

The financial statements of all but one of the Group's subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Headline Group Limited has control.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

#### (e) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination.

The excess of the cost of the business combination over the net fair value of the Group's share of identifiable net assets acquired is recognised as goodwill.

#### (f) Segment reporting

A business segment is distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographic segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Foreign currency translation**

Both the functional and presentation currency of Headline Group Limited and its Australian subsidiaries is Australian Dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary Skansen Giftware (UK) Limited is Pounds Sterling (GBP).

As at the reporting date the assets and liabilities of the overseas subsidiary is translated into the presentation currency of Headline Group Limited at the rate of exchange ruling at the balance sheet date and the income statement is translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

**(h) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

**(i) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(j) Inventories**

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Finished goods and work-in-progress – cost of direct materials, freight and import charges.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**(k) Derivative financial instruments**

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

Forward currency contracts are entered into where agreements are made to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect against the possibility of loss from future

exchange fluctuations. The forward currency contracts are usually for no longer than 6 months.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) Derivative financial instruments (continued)**

The Company does not apply hedge accounting as it does not meet the very strict requirements of the standard. The fair value of forward currency contracts are recognised through the income statement when the underlying transaction is recognised in income. Net receipts and payments are recognised through the income statement. Any gains or losses arising from changes in fair value are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

**(l) Non-current assets and disposal groups held for sale and discontinued operations**

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

**(m) Investment in associates**

If applicable, the Group's investment in its associate is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate are used by the Group to apply the equity method.

Under the equity method, investments in the associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

The reporting date of the associate may be different to that of the Group but the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

**(n) Property, plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Land and buildings are measured at fair value, based on periodic but at least triennial valuations by external independent valuers, less accumulated depreciation on buildings and less any impairment losses recognised after the date of valuation.

Depreciation is calculated on a straight-line basis on all property, plant and equipment, other than freehold land.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(n) Property, plant and equipment (continued)**

Major depreciation periods are:	2008	2007
• Leasehold improvements	3 years	3 years
• Plant and equipment	5 to 15 years	5 to 15 years
• Buildings	40 years	40 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of fixed assets is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the item is derecognised.

**(o) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. It is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(p) Intangible assets**

*Acquired both separately and from a business combination*

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the other expenses line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

	<b>Trademarks</b>	<b>Trademarks</b>
Useful lives	Finite	Indefinite
Method used	Amortised over 3 years	Not amortised or revalued
Internally generated/ Acquired	Acquired	Acquired
Impairment Test/ Recovering amount testing	Amortisation method reviewed at each financial year end; reviewed annually for indicator of impairment	Annually and where an indicator of impairment exists

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

**Trademarks**

The useful life of trademarks is estimated as indefinite, other than those identified as having a finite life, and the cost method was utilised for their measurement.

**(q) Recoverable amount of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(r) Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(r) Leases (continued)**

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**(s) Trade and other payables**

Trade payables and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(t) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

*Finance costs*

Finance costs are recognised as an expense when incurred.

**(u) Provisions and employee leave benefits**

Provisions are recognised when the Group has a current obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual entitlements.

# HEADLINE GROUP LIMITED & CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 JUNE 2008

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (v) Share-based payment transactions

In 2003 the Group provided benefits to employees of the Group in the form of share-based payment transactions, whereby employees were granted rights over shares ('equity-settled transactions') as part of their salary and incentive scheme.

The Employee Share Option Plan is currently the only plan in place and no further options have been granted since 2003. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by management using the Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Headline Group Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the grant date fair value of the award (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest and (iii) the extent to which the vesting period has expired. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

##### (w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

##### (x) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time the goods have been despatched to the customer.

# HEADLINE GROUP LIMITED & CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 JUNE 2008

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (x) Revenue (continued)

###### Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

###### Dividends

Revenue is recognised when the Group's right to receive payments is established.

###### Royalties

Revenue is recognised when the Company receives the royalty statement from the licensee.

##### (y) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised; and
- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(y) Income Tax (continued)**

Headline Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Headline Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Headline Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

**(z) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(aa) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
  - the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
  - other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average numbers of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Continuing operations</b>					
Revenue		6,275	14,468	1,318	14,468
Total revenue	4	6,275	14,468	1,318	14,468
Cost of sales		(3,043)	(7,909)	-	(7,909)
Gross profit		3,232	6,559	1,318	6,559
Other income	5	-	19	-	19
Administration expenses		(3,765)	(6,076)	(1,334)	(6,076)
Distribution expenses		(32)	(80)	-	(80)
Marketing expenses		(188)	(444)	-	(444)
Occupancy expenses		(244)	(964)	(79)	(964)
Depreciation	6	(22)	(112)	(6)	(112)
Finance costs	6	-	(16)	-	(16)
Operating expenses		(4,251)	(7,692)	(1,419)	(7,692)
Debt forgiveness		(40)	(350)	(40)	(1,106)
Impairment of investments in subsidiary companies.		-	-	(2,058)	(2,465)
<b>Profit/(loss) from continuing operations before income tax expense</b>		<b>(1,059)</b>	<b>(1,464)</b>	<b>(2,199)</b>	<b>(4,685)</b>
Income tax (expense) / benefit	7	(43)	26	36	26
<b>Loss from continuing operations after income tax expense</b>		<b>(1,102)</b>	<b>(1,438)</b>	<b>(2,163)</b>	<b>(4,659)</b>
<b>Loss from discontinued operations after income tax</b>	8	-	(1,344)	-	-
<b>Net Loss attributable to members of Headline Group Limited</b>		<b>(1,102)</b>	<b>(2,782)</b>	<b>(2,163)</b>	<b>(4,659)</b>
<b>Earnings/(loss) per share for profit from continuing operations :</b>					
Basic earnings per share (cents per share)	20	(0.92)	(1.19)		
Diluted earnings per share (cents per share)	20	(0.92)	(1.19)		
<b>Earnings/(loss) per share for profit attributable to members of Headline Group Limited</b>					
Basic earnings per share (cents per share)	20	(0.92)	(2.30)		
Diluted earnings per share (cents per share)	20	(0.92)	(2.30)		
Dividends per share	9	-	1.50		

The accompanying notes form an integral part of this Income Statement.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**BALANCE SHEET**  
**FOR THE YEAR AS AT 30 JUNE 2008**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	10	7,137	7,131	6,758	7,131
Trade and other receivables	11	3,592	5,578	5,102	8,488
Inventories	12	1,604	836	-	836
Current tax asset		109	109	109	109
Other assets	13	97	159	-	159
		<b>12,539</b>	<b>13,813</b>	<b>11,969</b>	<b>16,723</b>
Assets classified as held for sale	8	4,653	4,838	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>17,192</b>	<b>18,651</b>	<b>11,969</b>	<b>16,723</b>
<b>NON-CURRENT ASSETS</b>					
Investments in controlled entities	14	-	-	3,900	2,125
Property, plant and equipment	15	583	306	21	306
Deferred income tax asset	7	178	188	63	188
<b>TOTAL NON-CURRENT ASSETS</b>		<b>761</b>	<b>494</b>	<b>3,984</b>	<b>2,619</b>
<b>TOTAL ASSETS</b>		<b>17,953</b>	<b>19,145</b>	<b>15,953</b>	<b>19,342</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	16	1,104	1,717	339	1,717
Provisions	17	782	265	578	265
		<b>1,886</b>	<b>1,982</b>	<b>917</b>	<b>1,982</b>
Liabilities directly associated with the assets classified as held for sale	8	365	326	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,251</b>	<b>2,308</b>	<b>917</b>	<b>1,982</b>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	17	99	112	-	112
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>99</b>	<b>112</b>	<b>-</b>	<b>112</b>
<b>TOTAL LIABILITIES</b>		<b>2,350</b>	<b>2,420</b>	<b>917</b>	<b>2,094</b>
<b>NET ASSETS</b>		<b>15,603</b>	<b>16,725</b>	<b>15,036</b>	<b>17,248</b>
<b>EQUITY</b>					
Issued capital	18	31,001	31,050	31,001	31,050
Reserves		13	(16)	134	134
Accumulated losses	19	(15,411)	(14,309)	(16,099)	(13,936)
<b>TOTAL EQUITY</b>		<b>15,603</b>	<b>16,725</b>	<b>15,036</b>	<b>17,248</b>

The accompanying notes form an integral part of this Balance Sheet.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		7,486	26,768	4,162	14,440
Payments to suppliers and employees		(7,964)	(25,176)	(1,535)	(15,098)
Finance costs		-	(43)	-	(16)
Income tax paid		(33)	-	-	-
Income tax refund		-	402	(27)	316
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES	10	(511)	1,951	2,600	(358)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of property, plant and equipment		(278)	(397)	691	(292)
Proceeds from sale of plastic business & Mastertech properties	8	-	7,720	-	-
Interest received		309	670	305	329
Investment in subsidiary		-	-	(3,900)	-
Repaid deferred Central Station settlement		412	13,013	-	13,013
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		443	21,006	(2,904)	13,050
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Share buyback		(49)	(389)	(49)	(389)
Finance lease principal paid		-	(138)	-	(15)
Equity dividends paid		-	(1,832)	-	(1,832)
Borrowings –Bills repaid		-	(14,520)	-	(14,520)
Borrowings – Bank loan repaid		-	(421)	-	-
Loans to/from controlled entities		-	-	(20)	10,431
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		(49)	(17,300)	(69)	(6,325)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(117)	5,657	(373)	6,367
Cash and cash equivalents at beginning of period		7,271	1,614	7,131	764
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	10	<b>7154</b>	<b>7,271</b>	<b>6,758</b>	<b>7,131</b>

The accompanying notes form an integral part of the Cash Flow Statement.

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

CONSOLIDATED	Attributable to equity holders of the consolidated entity				
	Issued capital \$'000	Share option reserve \$'000	Foreign currency reserve \$' 000	Retained losses \$'000	Total \$'000
<b>As at 1 January 2007</b>	31,439	320	(87)	(9,881)	21,791
Currency translation differences	-	-	(63)	-	(63)
Net income (expense) recognised directly in equity	-	-	(63)	-	(63)
Net loss for the period	-	-	-	(2,782)	(2,782)
Total recognised income and expenses for the year	-	-	(63)	(2,782)	(2,845)
Share buyback	(389)	-	-	-	(389)
Shares based payments	-	(186)	-	186	-
Equity dividends	-	-	-	(1,832)	(1,832)
	(389)	(186)	-	(1,646)	(2,221)
<b>As at 31 December 2007</b>	<b>31,050</b>	<b>134</b>	<b>(150)</b>	<b>(14,309)</b>	<b>16,725</b>
Currency translation differences	-	-	29	-	29
Net income (expense) recognised directly in equity	-	-	29	-	29
Net loss for the period	-	-	-	(1,102)	(1,102)
Total recognised income and expenses for the year	-	-	29	(1,102)	(1,073)
Share buyback	(49)	-	-	-	(49)
<b>As at 30 June 2008</b>	<b>31,001</b>	<b>134</b>	<b>(121)</b>	<b>(15,411)</b>	<b>15,603</b>

The accompanying notes form an integral part of the Statement of Changes in Equity

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

PARENT	Attributable to equity holders of the consolidated entity				
	Issued capital \$'000	Share option reserve \$'000	Foreign currency reserve \$' 000	Retained losses \$'000	Total \$'000
<b>As at 1 January 2007</b>	31,439	320	100	(7,631)	24,228
Currency translation differences	-	-	(100)	-	(100)
Net income (expense) recognised directly in equity	-	-	(100)	-	(100)
Net loss for the period	-	-	-	(4,659)	(4,659)
Total recognised income and expenses for the year	-	-	(100)	(4,659)	(4,759)
Share buyback	(389)	-	-	-	(389)
Shares based payments	-	(186)	-	186	-
Equity dividends	-	-	-	(1,832)	(1,832)
	(389)	(186)	-	(1,646)	(2,221)
<b>As at 31 December 2007</b>	<b>31,050</b>	<b>134</b>	<b>-</b>	<b>(13,936)</b>	<b>17,248</b>
Net loss for the period	-	-	-	(2,163)	(2,163)
Total recognised income and expenses for the year	-	-	-	(2,163)	(2,163)
Share buyback	(49)	-	-	-	(49)
<b>As at 30 June 2008</b>	<b>31,001</b>	<b>134</b>	<b>-</b>	<b>(16,099)</b>	<b>15,036</b>

The accompanying notes form an integral part of the Statement of Changes in Equity

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>4. REVENUE</b>					
Revenue from sales of goods		5,966	14,139	-	14,139
Interest		309	329	305	329
Inter-company dividends received		-	-	1,013	-
<b>Total revenues from ordinary activities</b>		<b>6,275</b>	<b>14,468</b>	<b>1,318</b>	<b>14,468</b>
<b>5. OTHER INCOME</b>					
Sundry income		-	19	-	19
		-	19	-	19
<b>6. EXPENSES AND LOSSES/(GAINS)</b>					
<b>(a) Expenses – continuing operations</b>					
Depreciation of non-current assets		22	112	6	112
Bad and doubtful debts					
Trade debtors - other persons		127	184	127	184
<b>Finance costs expensed</b>					
Interest expense - other persons/corporations		-	16	-	16
<b>Total finance costs expensed</b>		-	16	-	16
<b>Employee benefits expense</b>					
Wages and salaries		1,915	4,068	344	4,068
Workers compensation costs		16	37	-	37
Superannuation costs		129	245	35	245
		2,060	4,350	379	4,350
<b>Rental – operating leases</b>		205	888	72	888
<b>(b) Significant Expenses</b>					
Impairment of goodwill on consolidation – discontinued operation		-	250	-	-
Impairment in value of inventory		-	374	-	374
Provision for royalties claims	17	522	-	522	-

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	CONSOLIDATED		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>7. INCOME TAX</b>				
Major components of income tax expense/(benefit) for the years ended 30 June 2008 and 31 December 2007 :				
<b>Income Statement</b>				
<i>Current income tax</i>				
Current income tax charge	33	-	27	-
Adjustments in respect of previous years and sale of Entertainment Division	-	(401)	-	(401)
Relating to origination and reversal of temporary differences	10	373	(63)	373
Adjustments in respect of previous years	-	2	-	2
Income tax benefit reported in the income statement	43	(26)	(36)	(26)
<b>Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate.</b>				
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate as follows:				
Accounting loss before tax from continuing operations	(1,059)	(1,464)	(2,199)	(4,685)
Loss before tax from discontinued operations	-	(888)	-	-
Total accounting loss before income tax	(1,059)	(2,352)	(2,199)	(4,685)
At the Group's statutory income tax rate of 30% (2007: 30%)	(318)	(706)	(660)	(1,405)
Non deductible expenses	178	404	482	38
Sale of businesses and properties	-	(306)	-	-
Non assessable inter-company debt forgiveness	-	-	-	331
Impairment (reversal) of investments	-	-	-	740
Other	3	(668)	-	(386)
Benefit of tax losses not brought to account	147	1,281	115	682
Reversal of prior year tax losses and timing differences	-	824	-	373
Adjustment to prior year tax accounts	33	(399)	27	(399)
Aggregate income tax expense/(benefit)	43	430	(36)	(26)
Aggregate income tax expense/(benefit) attributable to:				
Loss from continuing operations	43	(26)	(36)	(26)
Loss from discontinuing operations	-	456	-	-
Aggregate income tax expense (benefit)	43	430	(36)	(26)

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	BALANCE SHEET		INCOME STATEMENT	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
<b>7. INCOME TAX (continued)</b>				
<b>Deferred income tax</b>				
Deferred income tax at 30 June 2008 relates to the following				
<i>CONSOLIDATED</i>				
<i>Deferred tax liabilities</i>				
Accelerated depreciation for tax purposes	-	-	-	29
Fair value adjustment to land and buildings	(321)	(321)	-	246
Advances for acquisitions of movie titles	-	-	-	-
Other	-	-	-	11
Gross deferred tax liabilities	<u>(321)</u>	<u>(321)</u>		
<i>Made up as follows:</i>				
Continuing operations	-	-		
Discontinuing operations	<u>(321)</u>	<u>(321)</u>		
	<u>(321)</u>	<u>(321)</u>		
<i>Deferred tax assets</i>				
Leave entitlements	107	108	(2)	(73)
Other employee related	27	8	18	32
Capital tax losses	-	-	-	(622)
Stock obsolescence and other accruals	14	72	(56)	(447)
Gross deferred tax assets	<u>148</u>	<u>188</u>		
<i>Made up as follows:</i>				
Continuing operations	148	188		
Discontinuing operations	-	-		
	<u>148</u>	<u>188</u>		
Deferred tax income/(expense)			<u>(40)</u>	<u>(824)</u>
<i>Aggregate deferred income tax expense is attributable to:</i>				
Continuing operations			(40)	(373)
Discontinuing operations			-	(451)
			<u>(40)</u>	<u>(824)</u>
<i>PARENT</i>				
<i>Deferred tax liabilities</i>				
Other	-	-	-	-
Gross deferred tax liabilities	<u>-</u>	<u>-</u>		
<i>Deferred tax assets</i>				
Leave entitlements	16	108	(92)	1
Other employee related	-	8	(8)	(16)
Accruals and other	17	72	(55)	(358)
Gross deferred tax assets	<u>33</u>	<u>188</u>		
Transfer of deferred tax asset to subsidiary			187	-
Deferred tax income/(expense)			<u>33</u>	<u>(373)</u>

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

CONSOLIDATED		PARENT ENTITY	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

**7. INCOME TAX (continued)**

**Tax losses**

Unused tax losses for which no deferred tax asset has been recognised	1,662	3,189	1,662	3,189
	<b>1,662</b>	<b>3,189</b>	<b>1,662</b>	<b>3,189</b>

**TAX CONSOLIDATION**

Headline Group Limited and its 100% owned subsidiaries are a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on the basis as if they were individual tax entities.

**8. DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE**

**a) Details of operations disposed**

Discontinued operations in 2007 were related to the disposal of the Housewares Plastic business and Mansfield properties. The properties in Lisarow which form part of the property division are treated as "Assets held for sale".

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**8. DISCONTINUED OPERATIONS (continued)**

**b) FINANCIAL PERFORMANCE OF OPERATIONS DISPOSED AND HELD FOR SALE**

	2007					Consol- idated
	Operations disposed		Operations held for sale			
	Housewares Division -Plastics	Property Division -Mansfield	Giftware Division (UK)	Property Division -Lisarow	Other	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	7,168	-	236	286	26	7,716
Expenses *	(8,641)	(12)	(449)	(487)	(7)	(9,596)
Gross profit/(loss)	(1,473)	(12)	(213)	(201)	19	(1,880)
Gain/(Loss) on disposal	(1,101)	2120	-	-	-	1,019
Finance costs	(16)	(4)	-	(7)	-	(27)
Profit/(loss) before tax from discontinued operations	(2,590)	2,104	(213)	(208)	19	(888)
Tax benefit (expense):	(83)	(494)	-	121	-	(456)
Profit/(loss) for the year from discontinued operations	(2,673)	1,610	(213)	(87)	19	(1,344)

\* Includes impairment loss on Goodwill in Xten Innovations Pty Ltd of \$250,000

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**8. DISCONTINUED OPERATIONS (continued)**

**c) ASSETS AND LIABILITIES – HELD FOR SALE**

The major classes of assets and liabilities at 30 June 2008 are as follows:

	Property Division Lisarow \$'000
<b>Assets</b>	
Land & Buildings	4,622
Other assets	14
Cash and cash equivalents	17
Assets classified as held for sale	<u>4,653</u>
<b>Liabilities</b>	
Trade and other payables	44
Deferred tax liabilities	321
Liabilities directly associated with assets classified as held for resale	<u>365</u>

**Property division assets**

i) One property at Lisarow (Gosford, NSW) is listed for sale and a contract for sale has been executed in regard to the sale of the other property also at Lisarow on 10 April 2008. Settlement is expected to be in October 2008. Both properties are included in the assets and liabilities of operations held for sale.

**d) ASSETS AND LIABILITIES – HELD FOR SALE OPERATIONS**

The major classes of assets and liabilities at 31 December 2007 are as follows:

	Giftware Division (UK) \$'000	Property Division -Lisarow \$'000	Consolidated \$'000
<b>Assets</b>			
Land & Buildings	-	4,643	4,643
Trade and other receivables	26	20	46
Other assets	-	9	9
Cash and cash equivalents	135	5	140
Assets classified as held for sale	<u>161</u>	<u>4,677</u>	<u>4,838</u>
<b>Liabilities</b>			
Trade and other payables	3	2	5
Deferred tax liabilities	-	321	321
Liabilities directly associated with assets classified as held for resale	<u>3</u>	<u>323</u>	<u>326</u>
<b>Net assets attributable to discontinued operations</b>	<u>158</u>	<u>4,354</u>	<u>4,512</u>

# HEADLINE GROUP LIMITED & CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

## e) ASSETS AND LIABILITIES AND CASH FLOW INFORMATION OF DISPOSED ENTITIES/OPERATIONS

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

Net assets attributable to discontinued Operations:	2007		Total
	Housewares Division -Plastics	Property Division -Mansfield	
	\$'000	\$'000	\$'000
Intangibles	492	-	492
Property, Plant and Equipment	2,552	2,164	4,716
Inventory	1,493	-	1,493
	<u>4,537</u>	<u>2,164</u>	<u>6,701</u>
<b>Consideration received or receivable:</b>			
Cash	3,894	4,350	8,244
Total disposal consideration	<u>3,894</u>	<u>4,350</u>	<u>8,244</u>
Less disposal expenses	(458)	(66)	(524)
Less net assets disposed of	<u>(4,537)</u>	<u>(2,164)</u>	<u>(6,701)</u>
Gain/(Loss) on disposal before income tax	(1,101)	2,120	1,019
Income tax benefit/(expense)	(83)	(494)	(577)
Gain on disposal after income tax	<u>(1,184)</u>	<u>1,626</u>	<u>442</u>
<b>Net cash inflow on disposal:</b>			
Cash and cash equivalents consideration *	3,436	4,284	7,720
Less cash and cash equivalents balance net of bank overdraft disposed of	-	-	-
Reflected in the consolidated cash flow statement	<u>3,436</u>	<u>4,284</u>	<u>7,720</u>

\*Cash consideration is net of any disposal expenses

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	Notes	CONSOLIDATED		PARENT ENTITY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>9. DIVIDENDS PAID</b>					
Dividends paid during the year					
2006 Final dividend : 1.50 ¢ per share 100% franked		-	(1,832)	-	(1,832)
	23	-	(1,832)	-	(1,832)
<b>Franking credit balance</b>					
The amount of franking credits available for the subsequent financial year are :					
Franking account balance as at the end of the financial year at 30% (2007: 30%)					
				2,996	3,013
Franking debits that will arise from the refund of income tax payable as at the end of the financial year					
				-	(50)
				<u>2,996</u>	<u>2,963</u>

The tax rate at which paid dividends have been franked was 30% in 2007

**DIVIDEND HISTORY**

<u>Ordinary Dividend</u> <u>Dividend Type</u>	<u>Cents per share</u>	<u>Franked</u>	<u>Pay Date</u>
Final 2006	1.50 cents	100%	30 April 2007
Interim 2006	0.75 cents	100%	9 November 2006
Final 2005	1.25 cents	100%	29 May 2006
Interim 2005	0.50 cents	100%	22 December 2005
Final 2004	1.75 cents	100%	4 May 2005
Interim 2004	1.25 cents	100%	8 November 2004
Final 2003	1.75 cents	100%	2 April 2004

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
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CONSOLIDATED		PARENT ENTITY	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

**10. CASH AND CASH EQUIVALENTS**

Cash at bank and in hand

7,137	7,131	6,758	7,131
<b>7,137</b>	<b>7,131</b>	<b>6,758</b>	<b>7,131</b>

Cash at bank and in hand earns interest at floating rates based on daily deposit rates

The fair value of cash and cash equivalents is \$7,137,000 ( 2007: \$7,131,000)

**Reconciliation of cash to cash flow statement**

For the purposes of the cash flow statement, cash and cash equivalents comprise the following at 30 June 2008

Cash at bank and in hand

7,137	7,131	6,758	7,131
<b>7,137</b>	<b>7,131</b>	<b>6,758</b>	<b>7,131</b>

Cash at bank and in hand attributable to discontinued operations ( note 8)

17	140	-	-
<b>7,154</b>	<b>7,271</b>	<b>6,758</b>	<b>7,131</b>

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES  
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	CONSOLIDATED		PARENT ENTITY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>10. CASH AND CASH EQUIVALENTS (continued)</b>				
<b>Reconciliation of the net loss after tax to the net cash flows from operations</b>				
Net loss after tax	(1,102)	(2,782)	(2,163)	(4,659)
Depreciation of non-current assets	22	451	6	112
Inter-company loans forgiven	-	-	-	757
Profit on sale of disposal of subsidiaries/business assets	-	(1,019)	-	-
Impairment of inter-company investment	-	-	2,058	2,465
Impairment of goodwill	-	250	-	-
Doubtful debts provision	100	-	-	-
Transfer interest received to investing cash flows	(309)	(670)	(305)	(329)
Inter-company dividends	-	-	(1,013)	-
Loss on debt forgiveness	-	350	-	-
Other non-cash items	29	(20)	-	-
<b>Changes in assets and liabilities</b>				
(Increase)/decrease in trade receivables	1,520	4,849	4,262	282
(Increase)/decrease in inventory	(768)	1,974	836	1,167
(Increase)/decrease in tax asset	-	5	-	(83)
(Increase)/decrease in deferred tax asset	10	1,112	(63)	-
(Increase)/decrease in prepayments	57	411	159	55
(Decrease)/increase in trade and other payables	(574)	(2,877)	(1,378)	(413)
(Increase)/decrease in currency translation reserve	-	-	-	(100)
(Decrease)/increase in provisions	504	202	201	15
(Decrease)/increase in deferred tax liability	-	(285)	-	373
Net cash flow from operating activities	(511)	1,951	2,600	(358)

The consolidated entity and the parent entity have bank bills/letter of credit facility.

**Financing facilities available**

At reporting date, the following financing facilities had been negotiated and were available:

<b>Total facilities</b>				
Bank overdraft	900	900	900	900
Bank bills	-	-	-	-
Trade finance	200	200	200	200
Standby bank bills	2,300	2,300	2,300	2,300

**Non-cash financing and investing activities**

During the year the consolidated entity and the parent entity did not acquire any plant and equipment by way of finance leases.

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>11. TRADE AND OTHER RECEIVABLES (CURRENT)</b>					
Trade receivables		2,955	4,409	229	4,409
Provision for impairment of receivable		(138)	(18)	(100)	(18)
		<b>2,817</b>	<b>4,391</b>	<b>129</b>	<b>4,391</b>
Vendor loan		775	1,187	775	1,187
Loan to controlled entities (wholly owned)		-	-	4,198	2,910
		<b>3,592</b>	<b>5,578</b>	<b>5,102</b>	<b>8,488</b>
<b>12. INVENTORIES (CURRENT)</b>					
Finished goods		1,604	836	-	836
Provision for diminution in value		-	-	-	-
		<b>1,604</b>	<b>836</b>	<b>-</b>	<b>836</b>
<b>13. OTHER ASSETS (CURRENT)</b>					
Prepayments		83	109	-	109
Other		14	50	-	50
		<b>97</b>	<b>159</b>	<b>-</b>	<b>159</b>
<b>14. INVESTMENTS IN CONTROLLED ENTITIES (NON-CURRENT)</b>					
<b>Investments comprise:</b>					
Shares in controlled entities – unlisted at cost		-	-	14,993	11,093
Less provision for impairment		-	-	(11,093)	(8,968)
		<b>-</b>	<b>-</b>	<b>3,900</b>	<b>2,125</b>

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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	CONSOLIDATED		PARENT ENTITY	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
<b>15. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)</b>				
Plant and equipment				
At cost	1,508	2,076	35	2,076
Accumulated depreciation	(925)	(1,770)	(14)	(1,770)
<b>Total written down value</b>	<b>583</b>	<b>306</b>	<b>21</b>	<b>306</b>

Assets pledged as security

Included in "Held for Sale Operations" (Refer Note 8(c)) are Freehold Land and Buildings which first mortgages have been granted as security for bank facilities.

Reconciliations of the carrying amount of fixed assets at the beginning and end of the current financial year.

**Plant and equipment**

Carrying amount at beginning	306	126	306	126
Additions	643	397	-	397
Disposals	(344)	(105)	(279)	(105)
Depreciation expense	(22)	(112)	(6)	(112)
	<b>583</b>	<b>306</b>	<b>21</b>	<b>306</b>

**16. TRADE AND OTHER PAYABLES (CURRENT)**

Trade Payables	1,104	1,717	339	1,717
	<b>1,104</b>	<b>1,717</b>	<b>339</b>	<b>1,717</b>

Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged:

US Dollars	221	278	-	278
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**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**17. PROVISIONS**

Current employee benefits <sup>1</sup>	260	265	56	265
Disputed royalties claims (a)	522	-	522	-
	<u>782</u>	<u>265</u>	<u>578</u>	<u>265</u>
Non-current employee benefits	99	112	-	112
	<u>99</u>	<u>112</u>	<u>-</u>	<u>112</u>

- (a) On 19 August 2008, Headline received a claim from the Australian Mechanical Copyright Owners Society Limited for an amount of \$522,000. The claim arises due to AMCOS's recent audit conducted on Destra who purchased our Entertainment Division on 30 September 2006.

Responsibly, a provision has been recognised for this amount in the results.

The Company has appointed an independent expert to investigate the claim and reserves its right to dispute the claim until the investigation has qualified its validity and/or quantum.

**(b) Movement in provision**

Movements in each class of provision during the financial period, other than employee benefits, are set out below

<b>Consolidated-2008</b>	<b>Disputed royalty claim \$'000</b>
Carrying amount at the start of the year	-
Amount provided during the year	<u>522</u>
Carrying amount at the end of year	<u>522</u>

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2008**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>18. ISSUED CAPITAL AND RESERVES</b>					
<b>(a) ISSUED AND FULLY PAID</b>					
- 119,690,390 ordinary shares fully paid (2007: 120,045,847)		31,001	31,050	31,001	31,050

**(b) MOVEMENT IN SHARES ON ISSUE**

	Notes	2008		2007	
		Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year		120,045,847	31,050	122,113,347	31,439
Share buy-back	(i)	(355,457)	(49)	(2,067,500)	(389)
End of the financial year		119,690,390	31,001	120,045,847	31,050

(i) Share buyback plan announced 13 April 2007 (Appendix 3C).

	Notes	CONSOLIDATED		PARENT ENTITY	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>19 ACCUMULATED LOSSES</b>					
Balance at the beginning of the financial year		(14,309)	(9,881)	(13,936)	(7,631)
Operating Loss		(1,102)	(2,782)	(2,163)	(4,659)
Share based options cancelled and other adjustments		-	186	-	186
Total available for appropriation		(15,411)	(12,477)	(16,099)	(12,104)
Dividends paid	9	-	(1,832)	-	(1,832)
Balance at end of the financial year		(15,411)	(14,309)	(16,099)	(13,936)

**HEADLINE GROUP LIMITED & CONTROLLED ENTITIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2008	2007	2008	2007
	000's	000's	EPS	EPS
<b>20. EARNINGS PER SHARE</b>				
<b>Basic earnings per share</b>				
(a) Net loss from continuing operations	(\$1,102)	(\$1,438)	(0.92c)	(1.19c)
(b) Net loss from discontinuing operations	-	(\$1,344)	-	(1.11c)
(c) Net loss attributable to members of Headline Group Limited	(\$1,102)	(\$2,782)	(0.92c)	(2.30c)
(d) Weighted average number of ordinary shares (in thousands) on issue used in the calculation of basic earnings per share	119,929	120,882		
<b>Diluted earnings per share</b>				
(e) Net loss from continuing operations	(\$1,102)	(\$1,438)	(0.92c)	(1.19c)
(f) Net loss from discontinuing operations	-	(\$1,344)	-	(1.11c)
(g) Net loss attributable to members of Headline Group Limited	(\$1,102)	(\$2,782)	(0.92c)	(2.30c)
(h) Weighted average number of ordinary shares (in thousands) on issue used in the calculation of diluted earnings per share	119,929	120,882		

**21. SEGMENT INFORMATION**

**Primary segment**

**2008**

**Business Segments**

	Giftware	Property	Others	Total
	\$'000	\$'000	\$'000	\$'000
<b>REVENUE</b>				
Sales to customers outside consolidated entity	5,966	-	-	5,966
Unallocated revenue	-	-	-	309
Total segment revenue	5,966	-	-	6,275
<b>RESULT</b>				
Segment result	194	(38)	-	156
Unallocated revenue less unallocated expenses	-	-	-	(1,215)
Consolidated entity result	-	-	-	(1,059)
Income tax (expense)/benefit	-	-	-	(43)
Net profit/(loss) for the year	-	-	-	(1,102)
<b>Assets and liabilities</b>				
Segment assets	5,324	4,653	-	9,977
Unallocated assets	-	-	-	9,977
Total assets	-	-	-	7,976
Segment liabilities	1,069	365	-	1,434
Unallocated liabilities	-	-	-	1,434
Total liabilities	-	-	-	916
<b>Other segment information</b>				
Capital expenditure	363	-	-	363
Depreciation	64	22	6	92

# HEADLINE GROUP LIMITED & CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2008

## 21. SEGMENT INFORMATION (continued)

2007

### Business Segments

	Continuing operations				Discontinued operations				Consolidated
	Giftware	Other	Total continuing	Housewares	Giftware (UK)	Property	Other	Total discontinuing	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>REVENUE</b>									
Sales to customers outside consolidated entity	14,139	-	14,139	7,168	236	-	26	7,430	21,569
Other revenues from customers outside consolidated entity	-	-	-	-	-	-	-	-	-
Total segment revenue	14,139	-	14,139	7,168	236	-	26	7,430	21,569
<b>RESULT</b>									
Segment result	1,124	(2,572)	(1,448)	(2,590)	(213)	1,907	19	(877)	(2,325)
Finance costs			(16)	-	-	(11)	-	(11)	(27)
Unallocated expenses			-	-	-	-	-	-	-
Consolidated entity result			(1,464)	(2,590)	(213)	1,896	19	(888)	(2,352)
Income tax			26	(83)		(373)		(456)	(430)
Net profit/(loss) for the year			(1,438)	(2,673)	(213)	1,523	19	(1,344)	(2,782)

### Assets and liabilities

Segment assets	5,858	8,449	14,307	-	161	4,677	-	4,838	19,145
Unallocated assets	-	-	-	-	-	-	-	-	-
<b>Total assets</b>			14,307	-	161	4,677	-	4,838	19,145
Segment liabilities	1,706	387	2,093	-	3	323	-	326	2,419
Unallocated liabilities	-	-	-	-	-	-	-	-	-
<b>Total liabilities</b>			2,093	-	3	323	-	326	2,419
<b>Other segment information</b>									
Capital expenditure	329	-	329	68	-	-	-	68	397
Depreciation	71	17	88	311	3	49	-	363	451
Amortisation	-	-	-	-	-	-	-	-	-

### Secondary Segment

Headline Group Limited and its subsidiaries operate predominantly in one geographical area, being Australia, except Skansen Giftware (UK) Limited which operates in the United Kingdom. The entity does not meet the requirements of a separate reportable segment.

### 30. EVENTS SUBSEQUENT TO REPORTING DATE

No other matters or circumstances have arisen since the end of period which significantly affected the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the financial year subsequent to 30 June 2008.

In July 2008, Mr J Fox stepped down as Chairman of Headline Group. Mr R Montgomery and Mr B Dennison were appointed as directors of Headline Group.

A disputed royalty claim was received in August 2008.