PhotonGroup

Photon Group Limited
ABN 97 091 524 515
Appendix 4D
Preliminary final report
Half year ended 31 December 2010

Results for Announcement to the Market

Rule 4.2A.3

The current reporting period is 1 July 2010 to 31 December 2010.
The previous corresponding reporting period is 1 July 2009 to 31 December 2009.

Key information

In thousands of AUD

Revenues from ordinary activities	**down**	3.65%	to 289,773
Profit/(loss) after tax attributable to members	**down**	1412.65%	to (37,986)
Net profit/(loss) for the period attributable to members	**down**	1412.65%	to (37,986)

Dividends	Amount per security	Franked amount per security
-	-	-

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

The remainder of the information requiring disclosure to comply with listing rule 4.2A.3 is contained in the attached 31 December 2010 half year financial report and the additional information set out below.

Additional Information

NTA backing	**Current period**	**Previous corresponding period**
Net tangible asset backing per ordinary share	(0.12)	(1.43)

Explanation of results
Please refer to the attached 31 December 2010 half year financial report and Market Presentation for commentary and further information with respect to the results.

Photon Group Limited

and its controlled entities

31 December 2010 half-year financial report

ABN 97 091 524 515

Contents

Photon Group Limited and its controlled entities
Directors' report

The directors present their report together with the consolidated financial statement for the half-year ended 31 December 2010 and the review report thereon.

Directors

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

Brian Bickmore – Independent Non-Executive Chairman
Brian was appointed as a Non-Executive Director of the Company on 25 March 2004 and appointed Non-Executive Chairman on 1 July 2010. In 1980, Brian was a founding Executive of Austereo and served as a Director of the Company for almost 25 years until 2004. Brian was initially Austereo's Finance Director and from 1997, was the Group General Manager. Brian is a Director of oOH! Media Group Limited and was previously a Director of RG Capital Radio Limited. Brian is the Chairman of both the Audit Committee and the Remuneration Committee.

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

Roger Amos – Independent Non-Executive Director
Roger was appointed a Director of the Company with effect from 23 November 2010. Roger is a non-executive director of Austar United Communications Limited and Chairman of its audit and risk committee, Chairman of Tyrian Diagnostics Limited and a director and audit committee Chairman of REA Group Limited, which are all publicly listed Australian companies. He is the Chairman of Opera Foundation Australia and a Governor of the Cerebral Palsy Foundation. Roger retired in 2006 after 25 years as a Partner in the Assurance and Risk Advisory Service Division of KPMG, where he focused on the information, communication and entertainment sector and held a number of global roles. Roger is a Fellow of the Institute of Chartered Accountants and a member of the Australian Institute of Company Directors. Roger is a member of the Audit Committee.

Tim Hughes – Executive Chairman
Tim was appointed a Director of the Company on 2 June 2000 and was Executive Chairman from 2 June 2000 to 1 July 2010. Tim resigned as a Director on 11 August 2010.

Paul Gregory – Independent Non-Executive Director
Paul was appointed as a Non-Executive Director of the Company on 25 March 2004 and was a member of the Audit Committee and the Remuneration Committee. Paul resigned as a Director on 23 November 2010.

Photon Group Limited and its controlled entities
Directors' report (continued)

Principal activities

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

There were no significant changes in the nature of the activities of the Consolidated Entity during the half year ended on 31 December 2010.

Review and result of operations

In the six months ended 31 December 2010, the Consolidated Entity completed its recapitalisation after a strategic review. The recapitalisation proposal was approved by shareholders at a general meeting on 17 September 2010 and completed on 29 September 2010. The recapitalisation included a restructure of deferred consideration liabilities, a refinance of Photon's debt facilities for three years and completion of an equity raising of $102,454,224 through an underwritten placement and shareholder offer.

The consolidated earnings before interest, tax, depreciation, amortisation, loss on sales of subsidiaries and impairment (EBITDA) increased 8% to $32,892,363 (December 2009: $30,546,813). EBITDA for the prior half year ended 31 December 2009 included acquisition transaction costs of $1,170,320 expensed under the requirements of the revised AASB3 *Business Combinations* effective 1 July 2009, as well as non – recurring operating costs of $5,561,842 relating to the closed businesses. Normalised EBITDA for the current half year ended 31 December 2010 reduced 12% to $32,892,363 (December 2009: $37,278,974).

The net loss from ordinary activities after income tax attributable to owners of the parent entity was $37,986,480 (December 2009 net profit: $2,893,168).

The Consolidated Entity's net profit from ordinary activities for the half year ended 31 December 2010 included the following significant non cash items:

- A loss on sale of disposed subsidiaries of $4,234,169 ($2,027,269 net of income tax)
- An impairment charge relating to assets classified as held for sale of $17,195,280
- An impairment charge on the Search Marketing cash generating unit (CGU) of $35,992,803

In the prior corresponding period the Consolidated Entity recorded an impairment charge of $2,058,698 in relation to the fair value adjustment of the non-controlling interest in Dark Blue Sea Limited on acquisition of a controlling interest in Dark Blue Sea Limited as required by the revised AASB 3 *Business Combinations* effective 1 July 2009.

Disposals

On 22 December 2010, the Consolidated Entity entered into a sale agreement to dispose of the businesses Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of $75,300,000 plus a deferred consideration arrangement expiring on 30 June 2011. On the same date, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds from the disposal of these businesses was received on completion at 12 January 2011. The Consolidated Entity recognised a loss on sale of $4,234,169 in the income statement for the half year ended 31 December 2010. The loss net of tax in the income statement was $2,027,269 after a benefit of $2,206,900 to income tax was recognised.

Photon Group Limited and its controlled entities
Directors' report (continued)

Review and result of operations (continued)

Disposals (continued)

The Consolidated Entity also resolved to dispose of the Sledge and Findology businesses for nominal consideration. The transactions are considered to be arms length. As such, these assets have been classified as held for sale as at 31 December 2010. An impairment charge of $17,195,280 has been recognised in the income statement for the half year ended 31 December 2010. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity will recognise a further loss on sale of $2,999,473 in relation to the respective amounts held in the foreign currency translation reserve as at 31 December 2010. The total loss on sale expected to be recognised in the income statement in relation to these two businesses is $20,194,753 for the year ended 30 June 2011.

Refer to note 17 Subsequent events for details on subsequent completions of the above disposals.

Acquisitions

There were no acquisitions during the half year ended on 31 December 2010.

Issue of shares and share options

On 29 September 2010, the Company issued 400,000,000 ordinary shares pursuant to a placement announced on 17 August 2010. These shares rank equally with existing shareholders.

On 29 September 2010, the Company issued 624,542,233 ordinary shares following the completion of rights issue announced on 17 August 2010. These shares rank equally with existing shareholders.

On 29 September 2010, the Company issued 263,133,333 ordinary shares to deferred consideration beneficiaries pursuant to the deferred consideration element of the recapitalisation proposal. 87,040,000 shares issued under such agreements are free of escrow conditions as individual earn out periods have been completed. The remaining 176,093,333 are subject to escrow conditions until such time as set out in individual deferred consideration agreements ending no later than 30 September 2013. These shares rank equally with existing shareholders.

On 29 September 2010, the Company issued 64,946,415 ordinary shares to the Chief Executive Officer, Jeremy Philips, under a long-term incentive plan as part of the recapitalisation proposal. The funding for the Chief Executive Officer's subscription of shares was facilitated by the Consolidated Entity providing a limited recourse loan.

On 29 October 2010, the Company issued 480,731 ordinary shares for no consideration to certain executives of Photon and its subsidiaries pursuant to an incentive based bonus scheme. These shares rank equally with existing shareholders.

Dividend

No dividend was declared during the half year ended on 31 December 2010 or after the interim balance sheet date but the date of this report.

Subsequent Events

For events subsequent to the interim balance sheet date, see note 17.

Photon Group Limited and its controlled entities
Directors' report (continued)

Lead auditor's independence declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 27 and forms part of the directors' report for the half year ended 31 December 2010.

Rounding off

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

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

Dated at Sydney this 16th day of February 2011.

Brian Bickmore
Director

Photon Group Limited and its controlled entities
Consolidated interim income statement

For the six months ended 31 December

In thousands of AUD	Note	2010	2009
Continuing operations			
Gross revenue		**289,773**	300,747
Directly attributable cost of sales		**(101,713)**	(104,410)
Net revenue		**188,060**	196,337
Other income		**199**	275
Total revenue		**188,259**	196,612
Employee expenses		**(125,424)**	(131,008)
Occupancy costs		**(8,955)**	(9,230)
Depreciation and amortisation expense		**(8,511)**	(10,275)
Insurance expense		**(613)**	(642)
Consultancy fees		**(6,024)**	(6,754)
Equipment hire charges		**(428)**	(447)
Travel expenses		**(2,766)**	(3,446)
Communication expenses		**(3,258)**	(3,661)
Other operating expenses		**(7,856)**	(9,590)
Present value interest expenses		**(5,162)**	(3,166)
Net finance expenses		**(9,837)**	(9,001)
Acquisition transaction costs		**(43)**	(1,170)
Impairment of intangible assets	8	**(53,188)**	(2,059)
Loss on sale of subsidiaries	6	**(4,234)**	-
Fair value adjustment to deferred consideration liability		**16,082**	-
Share of profit/(loss) of associates	10	**-**	(117)
(Loss)/profit before income tax		**(31,958)**	6,046
Income tax expense		**(6,109)**	(3,038)
(Loss)/profit for the period		**(38,067)**	3,008
(Loss)/profit for the period attributable to:			
Equity holders of the parent		**(37,986)**	2,893
Non-controlling interest		**(81)**	115
		(38,067)	3,008
Basic earnings per share (AUD cents)		**(4.14)**	0.94
Diluted earnings per share (AUD cents)		**(4.14)**	0.94

The condensed notes on pages 12 to 23 are an integral part of these consolidated interim financial statements.

Photon Group Limited and its controlled entities
Consolidated interim statement of comprehensive income

For the six months ended 31 December *In thousands of AUD*	Note	2010	2009
Net (loss)/profit for the period		**(38,067)**	3,008
Other comprehensive income			
Cash flow hedge gain/(loss)		**1,395**	383
Foreign currency translation differences for foreign operations		**(16,350)**	(14,274)
Income tax on items of other comprehensive income		**(419)**	-
Other comprehensive income for the period net of tax		**(15,374)**	(13,891)
Total comprehensive income for the period		**(53,441)**	(10,883)
Total comprehensive income for the period attributable to:			
Equity holders of the parent		**(53,271)**	(10,897)
Non-controlling interest		**(170)**	14
		(53,441)	(10,883)

The condensed notes on pages 12 to 23 are an integral part of these consolidated interim financial statements.

Photon Group Limited and its controlled entities

Consolidated interim statement of changes in equity

In thousands of AUD	Share capital	Retained earnings	Option reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non controlling interest	Total equity
At 1 July 2009	**255,500**	**8,695**	**9,542**	**(4,352)**	**(6,673)**	**262,712**	**1,993**	**264,705**
Profit for the period	-	2,893	-	-	-	**2,893**	115	**3,008**
Other comprehensive income for the period net of tax	-	-	-	383	(14,173)	**(13,790)**	(101)	**(13,891)**
Total comprehensive income for the period	**-**	**2,893**	**-**	**383**	**(14,173)**	**(10,897)**	**14**	**(10,883)**
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	114,711	-	-	-	-	114,711	-	**114,711**
Issue of ordinary shares as part of business combinations	3,732	-	-	-	-	3,732	-	**3,732**
Share issue costs	(5,583)	-	-	-	-	(5,583)	-	**(5,583)**
Tax effect of transaction costs	1,271	-	-	-	-	1,271	-	**1,271**
Dividends paid to equity holders	-	(7,622)	-	-	-	(7,622)	(571)	**(8,193)**
Share options expense	-	-	1,682	-	-	1,682	-	**1,682**
At 31 December 2009	**369,631**	**3,966**	**11,224**	**(3,969)**	**(20,846)**	**360,006**	**1,436**	**361,442**
At 1 July 2010	**369,268**	**(91,847)**	**11,809**	**(2,065)**	**(21,617)**	**265,548**	**645**	**266,193**
Profit for the period	-	(37,986)	-	-	-	**(37,986)**	(81)	**(38,067)**
Other comprehensive income for the period net of tax	-	-	-	976	(16,261)	**(15,285)**	(89)	**(15,374)**
Total comprehensive income for the period	**-**	**(37,986)**	**-**	**976**	**(16,261)**	**(53,271)**	**(170)**	**(53,441)**
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	102,502	-	-	-	-	102,502	-	102,502
Issue of ordinary shares as part of business combinations	8,704	-	-	-	-	8,704	-	8,704
Share issue costs	(9,712)	-	-	-	-	(9,712)	-	(9,712)
Tax effect of transaction costs	2,914	-	-	-	-	2,914	-	2,914
Share options expense	-	-	(2,005)	-	-	(2,005)	-	(2,005)
At 31 December 2010	**473,676**	**(129,833)**	**9,804**	**(1,089)**	**(37,878)**	**314,680**	**475**	**315,155**

The condensed notes on pages 12 to 23 are an integral part of these consolidated interim financial statements.

Photon Group Limited and its controlled entities

Consolidated interim statement of financial position

In thousands of AUD	Note	31-Dec-10	30-Jun-10
Assets			
Cash and cash equivalents		**20,491**	22,762
Trade and other receivables		**70,141**	92,901
Receivable on sale of subsidiaries		**75,300**	-
Other assets		**16,405**	12,139
Income tax receivables		**9,999**	9,263
Assets classified as held for sale		**2,889**	-
Total current assets		**195,225**	137,065
Receivables		**210**	570
Other financial assets		**495**	565
Deferred tax assets		**6,139**	4,037
Plant and equipment		**14,292**	18,002
Other assets		**1,291**	1,151
Intangible assets		**493,914**	662,551
Total non-current assets		**516,341**	686,876
Total assets		**711,566**	823,941
Liabilities			
Trade and other payables		**63,850**	76,098
Deferred consideration payable		**35,908**	78,848
Interest-bearing loans and borrowings		**3,042**	45,540
Employee benefits		**6,957**	8,681
Income tax payable		**2,414**	2,952
Provisions		**4,873**	7,876
Liabilities classified as held for sale		**2,356**	-
Total current liabilities		**119,400**	219,995
Trade and other payables		**25**	26
Deferred consideration payable		**78,767**	90,690
Interest-bearing loans and borrowings		**191,308**	241,490
Deferred tax liabilities		**3,160**	1,165
Employee benefits		**1,809**	1,666
Provisions		**1,942**	2,716
Total non-current liabilities		**277,011**	337,753
Total liabilities		**396,411**	557,748
Net assets		**315,155**	266,193
Equity			
Issued capital		**473,676**	369,268
Reserves		**(29,163)**	(11,873)
Retained earnings		**(129,833)**	(91,847)
Total equity attributable to equity holders of the parent		**314,680**	265,548
Non-controlling interest		**475**	645
Total equity		**315,155**	266,193

The condensed notes on pages 12 to 23 are an integral part of these consolidated interim financial statements.

Photon Group Limited and its controlled entities
Consolidated interim statement of cash flows

For the six months ended 31 December

In thousands of AUD	2010	2009
Cash flows from operating activities		
Cash receipts from customers	**344,484**	344,320
Cash paid to suppliers and employees	**(321,769)**	(306,818)
Cash generated from operations	**22,715**	37,502
Interest received	**331**	202
Income taxes paid	**(4,567)**	(11,917)
Interest paid	**(10,168)**	(9,203)
Net cash from operating activities	**8,311**	16,584
Cash flows from investing activities		
Proceeds from disposal of non-current assets	**318**	219
Payments for investments	**(30,222)**	(75,126)
Payments for equity accounted investee	**-**	(423)
Acquisition of controlled entities, net of cash acquired	**-**	2,241
Cash balance included in net assets of entities disposed	**(1,920)**	-
Acquisition of property, plant and equipment	**(2,669)**	(2,128)
Development expenditure	**(1,125)**	(4,449)
Net cash used in investing activities	**(35,618)**	(79,666)
Cash flows from financing activities		
Proceeds from the issue of share capital	**102,454**	114,673
Transaction costs for the issue of share capital	**(9,712)**	(5,583)
Proceeds from borrowings	**5,398**	79,312
Repayment of borrowings	**(71,330)**	(111,152)
Finance lease payments	**(1,147)**	(1,154)
Dividends paid to owners of parent	**-**	(7,622)
Dividends paid to owners of non-controlling interest	**-**	(571)
Net cash from financing activities	**25,663**	67,903
Net increase/(decrease) in cash and cash equivalents	**(1,644)**	4,821
Effect of exchange rate fluctuation on cash held	**(479)**	(1,268)
Cash classified as asset held for sale	**(148)**	-
Cash and cash equivalents at beginning of the period	**22,762**	23,559
Cash and cash equivalents at end of period	**20,491**	27,112

For the purposes of the statement of cash flows, cash and cash equivalent includes cash on hand and at bank, short term deposits at call and outstanding bank overdrafts.

Photon Group Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

1. Reporting entity

Photon Group Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interest in associates.

The consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2010 is available at www.photongroup.com

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2010.

The consolidated interim financial report was approved by the Board of Directors on 16th February 2011.

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

3. Significant accounting policies

Except as described below, the accounting policies applied by the Consolidated Entity in this consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated annual financial report as at and for the year ended 30 June 2010.

Deferred consideration liability

In the current interim period, the Consolidated Entity restructured its deferred consideration liabilities. Deferred consideration arrangements now have capped amounts in relation to individual agreements.

Deferred consideration on business combinations is based on the lower of management's best estimate of the liability at the reporting date and the capped amounts of individual liabilities set out in the restructure agreements. The liability is discounted using a market interest rate for the liability and a present value interest charge in included in the income statement as the discount unwinds.

The payment of certain deferred consideration liabilities is now based on group financial performance and leverage ratio targets being met. Due to the restructure arrangements, movements in the estimated deferred consideration liability are no long adjusted through goodwill, rather are recognised in the income statement.

4. Estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The resulting accounting estimates will, by definition, not always equal the related actual results.

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

5. Operating segments

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

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

The Consolidated Entity considers it operates in four segments:

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of costs associated with the centralised management and governance of Photon Group Limited, such as interest bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.

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

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

Normalised EBITDA – earnings before one off items, interest, taxes, depreciation, amortisation, impairment charges and loss on sale of investments.

EBITDA – earnings before interest, taxes, depreciation, amortisation, impairment charges and loss on sale of investments.

EBIT – earnings before interest, taxes, impairment charges and loss on sale of investments.

The 31 December 2009 comparative amounts have been restated to reflect the current business segment presentation.

Photon Group Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

5. Segment reporting (continued)

Operating segments

For the six months ended 31 December

In thousands of AUD

2010	International Agencies	Australian Agencies	Field Marketing	Search Marketing	Unallocated	Held for sale	Elimination	Consolidated
Gross revenue	67.273	138.145	69.526	17.436	-	-	(2.607)	289.773
Directly attributable cost of sales	(19.065)	(69.158)	(4.544)	(11.553)	-	-	2.607	(101.713)
Net revenue	48.208	68.987	64.982	5.883	-	-	-	188.060
Other operating income	82	43	74	-	-	-	-	199
Total revenue	48.290	69.030	65.056	5.883	-	-	-	188.259
Operating expenses	(40.141)	(54.496)	(53.348)	(5.093)	(2.289)	-	-	(155.367)
Significant costs	-	-	-	-	-	-	-	-
Normalised EBITDA	8.149	14.534	11.708	790	(2.289)	-	-	32.892
Reconciliation to EBITDA								
Significant costs	-	-	-	-	-	-	-	-
EBITDA	8.149	14.534	11.708	790	(2.289)	-	-	32.892
Depreciation and amortisation expense								(8.511)
EBIT								24.381
Impairment of intangible assets	-	-	-	(35.993)	-	-	-	(35.993)
Impairment intangible assets on assets held for sale	(5.098)	-	-	(12.097)	-	-	-	(17.195)
Loss on sale of subsidiaries	-	(4.234)	-	-	-	-	-	(4.234)
Fair value adjustment to deferred consideration liability								16.082
Net finance expenses								(14.999)
Operating profit before income tax								(31.958)
Income Tax Expense								(6.109)
Profit for the period								(38.067)
Goodwill	177.408	169.536	134.778	-	-	-	-	481.722
Other intangibles	3.536	5.735	2.921	-	-	-	-	12.192
Assets excluding intangibles	47.801	48.289	38.838	9.367	211.699	2.889	(141.231)	217.652
Total assets	228.745	223.560	176.537	9.367	211.699	2.889	(141.231)	711.566
Total liabilities	28.382	31.628	14.440	21.252	439.584	2.356	(141.231)	396.411

Photon Group Limited and its controlled entities
Condensed notes to the consolidated interim financial statements

5. Segment reporting (continued)

Operating segments

For the six months ended 31 December

In thousands of AUD

2009	International Agencies	Australian Agencies	Field Marketing	Search Marketing	Unallocated	Elimination	Consolidated
Gross revenue	78.850	142.503	65.547	17.291	-	(3.544)	300.747
Directly attributable cost of sales	(22.745)	(69.358)	(2.307)	(13.544)	-	3.544	(104.410)
Net revenue	56.105	73.145	63.340	3.747	-	-	196.337
Other operating income	31	223	21	-	-	-	275
Total revenue	56.136	73.368	63.361	3.747	-	-	196.612
Operating expenses	(42.402)	(57.062)	(52.363)	(7.148)	(6.973)	-	(165.948)
Significant costs	-	-	-	5.562	1.170	-	6.732
Normalised EBITDA	13.734	16.306	10.998	2.161	(5.803)	-	37.396
Reconciliation to EBITDA							
Significant costs	-	-	-	(5.562)	(1.170)	-	(6.732)
EBITDA	13.734	16.306	10.998	(3.401)	(6.973)	-	30.664
Depreciation and amortisation expense							(10.275)
EBIT							20.389
Share of profit/(loss) in equity accounted investee	-	-	-	(117)	-	-	(117)
Impairment equity accounted investee	-	-	-	(2.059)	-	-	(2.059)
Net finance expenses							(12.167)
Operating profit before income tax							6.046
Income Tax Expense							(3.038)
Profit for the period							3.008
As at 30 June 2010							
Goodwill	200.261	247.375	137.870	49.950	-	-	635.456
Other intangibles	5.659	9.357	3.945	8.134	-	-	27.095
Assets excluding intangibles	66.558	56.961	37.751	1.679	127.809	(129.368)	161.390
Total assets	272.478	313.693	179.566	59.763	127.809	(129.368)	823.941
Total liabilities	30.298	36.555	16.406	8.703	595.154	(129.368)	557.748

6. Disposal of subsidiaries

On 22 December 2010, the Consolidated Entity entered into a sale agreement to of dispose the businesses Be Interactive, C4 Communications, Returnity and Messagenet for consideration of $75,300,000. On the same date, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds on the disposal of these businesses was received on the completion date of 12 January 2011 and includes deferred consideration arrangements expiring on 30 June 2011.

Assets and liabilities and cash flow of disposed entities

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

Assets

In thousands of AUD	
Cash and cash equivalents	1,920
Trade and other receivables	5,050
Other assets	1,023
Plant and equipment	1,252
Intangible assets	74,786
Deferred tax assets	402
Total assets disposed	**84,433**

Liabilities

In thousands of AUD	
Trade and other payables	2,830
Interest bearing loans and borrowings	657
Provisions	675
Deferred tax liabilities	737
Total liabilities disposed	**4,899**
Net assets attributable to disposed entities	**79,534**

Loss on disposal

In thousands of AUD	
Consideration received or receivable	75,300
Less net assets disposed of	(79,534)
Loss on disposal before income tax	(4,234)
Income tax benefit	2,207
Loss on disposal after income tax	**(2,027)**

Net cash inflow on disposal

In thousands of AUD	
Total consideration	75,300
Less received after 31 December 2010	(75,300)
Less cash and cash equivalents balance disposed of	(1,920)
Reflected in the consolidated statement of cash flows	**(1,920)**

Refer to Note 17 Subsequent events for details regarding completion and receipt of consideration.

7. Disposal group classified as held for sale

In connection with its ongoing strategic review, the Board of Directors resolved to dispose the businesses of Sledge and Findology for nominal consideration taking into account the future capital requirements and expected return on investment for both businesses. The transactions are considered to be arms length. These sales were completed on 13 January 2011 and 14 January 2011 respectively. As at 31 December 2010 both businesses were classified as a disposal group held for sale.

The major classes of assets and liabilities of Sledge and Findology at 31 December 2010 are as follows:

Assets

In thousands of AUD	
Cash and cash equivalents	148
Trade and other receivables	1,303
Plant and equipment	794
Intangible assets	140
Deferred tax assets	504
Assets classified as held for sale	**2,889**

Liabilities

In thousands of AUD	
Trade and other payables	1,847
Income tax payable	11
Provisions	36
Deferred tax liabilities	462
Liabilities directly associated with assets classified as held for sale	**2,356**
Net assets attributable to held for sale businesses	**533**

The Consolidated Entity has recognised an impairment charge of $17,195,280 as part of the loss on sale related to the disposal group held for sale by reducing the intangible assets including goodwill down to their recoverable amount as at 31 December 2010. Upon completion in January 2011 the Consolidated Entity expects to recognise a further loss of $2,999,473 in relation to the transfer of respective amounts held in the foreign currency translation reserve to the income statement which are released on completion. The total loss to be recognised in the income statement in relation to these two businesses is expected to be $20,194,753.

8. Impairment

For the six months ended 31 December 2010

Impairment charges

In thousands of AUD	**2010**	**2009**
Impairment of intangibles	35,993	-
Impairment relating to assets classified as held for sale	17,195	-
Impairment of equity accounted investee	-	2,059
	53,188	**2,059**

An impairment charge on intangible assets of $35,992,803 (31 December 2009: nil) was recognised in the income statement relating to the Search Marketing CGU.

Impairment tests for cash generating unit groups containing goodwill

Goodwill is tested on a division or unit basis, reflecting the synergies obtained by the division or business units. The aggregation of assets in CGU groups continues to be determined using both a service offering and geographical approach. The CGU groups are consistent with the operating segments of the Consolidated Entity.

The recoverable amount methodologies and assumptions for all of the CGU groups other than the Search Marketing CGU have remained materially consistent with those applied as at 30 June 2010, as disclosed in the 30 June 2010 annual financial report.

The Consolidated Entity re-assessed its projected cash flows at the interim reporting period based on forecasts from each CGU considered to be management's best estimate of the future cash flows at the time. Projected cash flows can differ from future actual results of cash flows and operations.

Impairment testing assumptions for CGU groups

	31 December 2010		**30 June 2010**	
	Discount rates	**Growth rates**	**Discount rates**	**Growth rates**
The following are attributable to each CGU Group for impairment testing:				
International Agencies	9.95%	5%	9.83%	7.5%
Australian Agencies	9.95%	5%	9.83%	7.5%
Australian Communications	9.95%	5%	9.83%	7.5%
Field Marketing	9.95%	5%	9.83%	7.5%
Search Marketing	12.90%	5%	12.78%	7.5%

The higher discount rate for the Search Marketing CGU reflects the risks and returns associated with that group of assets.

8. Impairment (continued)

Sensitivity range assumptions for impairment testing assumptions

The following sensitivity ranges are attributable to each CGU group for impairment testing excluding the Search Marketing CGU group for which the impairment loss was calculated on the assumptions detailed below:

	31 December 2010 sensitivity range		**30 June 2010 sensitivity range**	
	Discount rates	**Growth rates**	**Discount rates**	**Growth rates**
The following are attributable to each CGU Group for impairment testing:				
International Agencies	8.60-11.30%	0-10%	7.98-10.94%	5-10%
Australian Agencies	8.60-11.30%	0-10%	7.98-10.94%	5-10%
Australian Communications	8.60-11.30%	0-10%	7.98-10.94%	5-10%
Field Marketing	8.60-11.30%	0-10%	7.98-10.94%	5-10%

The adjustment to the sensitivity assumptions in relation to the growth rates used at 31 December 2010 is reflective of the historical growth rates achieved by each CGU.

No CGU group would be impaired at any of the points in the sensitivity ranges tested, however the reduction of growth rates and projected cash flows has reduced the headroom between the value in use and the carrying value of intangible assets in each CGU group.

In reviewing the reasonableness of the projected cash flows, the Board of Directors considered the projections for the remainder of the financial year ended 30 June 2011 relative to the actual performance since 1 July 2010. For the International Agencies CGU, the projected cash flows assume an increase from the current run rate to 31 January 2011 for the remainder of the financial year. Although the estimated cash flows for this CGU remain the best current estimate, an additional sensitivity on this CGU has been performed whereby the 31 January 2011 year-to-date cash flows have been extrapolated for the remainder of the financial year. The results showed no impairment.

Search Marketing CGU

An impairment charge on intangible assets of $35,992,803 (31 December 2009: nil) was recognised in the income statement relating to the Search Marketing CGU.

During the half year ended 31 December 2010 the Search Marketing group, which is a segment specialising in search marketing, experienced a further decline in trading due to continued weakness in the online global advertising marketing spend, changes in the market dynamics which restricted revenue generation and exposure to the weaker US dollar. Also during the half year, the Board of Directors resolved to sell the Findology business, which was therefore excluded from the Search Marketing CGU and classified as an asset held for sale.

The Consolidated Entity reviewed the likely future capital requirements, the return on investment in the Search Marketing CGU and the volatility of cash flows due to the changes in market dynamics, and significantly discounted the expected cash flows from the CGU. The Consolidated Entity therefore resolved to recognise an impairment charge on all goodwill and intangible assets in the Search Marketing CGU.

8. Impairment (continued)

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

In thousands of AUD	**31 December 2010**	**30 June 2010**
International Agencies	177,408	200,261
Australian Agencies	153,303	221,246
Australian Communications	16,233	26,129
Field Marketing	134,778	137,870
Search Marketing	-	49,950
	481,722	**635,456**

9. Earnings per share

In thousands of AUD	**2010**	**2009**
Net (loss)/profit for the year	(38,067)	3,008
Non controlling interest	81	(115)
Net (loss)/profit for the year attributable to shareholders	**(37,986)**	**2,893**

In thousands of shares		
Weighted average number of ordinary shares – basic (i)	916,613	307,626
Shares issuable under equity based compensation plans	-	21
Weighted average number of ordinary shares – diluted (ii)	**916,613**	**307,647**
Earnings per share – basic (AUD cents)	**(4.14)**	**0.94**
Earnings per share – diluted (AUD cents)	**(4.14)**	**0.94**

(i) The weighted number of shares outstanding includes an adjustment for the equity raising completed in September 2010. Also the earnings per share for the half year ended 31 December 2009 has been restated to take into account the equity raising.

(ii) The weighted number of share outstanding includes the incremental shares that would be issued upon the assumed exercise of stock options if the effect is dilutive. Because the company has a loss from continuing operations in the half year ended 31 December 2010, no potentially dilutive shares were included in the denominator computing diluted earnings per share since the impact on earnings per share would be anti-dilutive.

10. Acquisitions of subsidiaries

In the current interim period no acquisitions were made.

In the prior interim period the following acquisition was made:
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 compulsory acquired the remaining share capital in Dark Blue Sea Limited and therefore owns 100% of the share capital following completion of the compulsory acquisition. Prior to the takeover bid, the Company had a 29.79% interest in Dark Blue Sea Limited. The purchase price for the remaining 70.21% interest in Dark Blue Sea acquired in the half year ended 31 December 2009 was $19,745,633, of which $737,087 was paid during the period and $19,008,546 was paid in January 2010.

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

Effect of acquisitions for the half year ended 31 December 2009

In thousands of AUD	
Cash paid	737
Cash payable	19,009
Fair value of previously held equity interest	8,379
Total consideration	**28,125**

The total of all acquisitions had the following effect on the Consolidated Entity's assets and liabilities:

Acquirees' net assets at the acquisition date

In thousands of AUD	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	233	-	233
Trade and other receivables	1,038	-	1,038
Cash and cash equivalents	2,978	-	2,978
Deferred tax assets	195	-	195
Intangible assets	2,632	6,495	9,127
Other Assets	1,690	-	1,690
Trade and other payables	(1,934)	-	(1,934)
Deferred consideration	(1,706)	-	(1,706)
Provisions	(569)	-	(569)
Deferred tax liability	-	(280)	(280)
Tax receivable	11	-	11
Provisional fair value of identifiable net assets	**4,568**	**6,215**	**10,783**
Non-controlling interest in identifiable net assets	-		
Goodwill on acquisition	**17,342**		
The cash inflow on acquisition is as follows			
Cash paid	737		
Cash (acquired)	(2,978)		
Net cash outflow/(inflow)	**(2,241)**		

10. Acquisitions of subsidiaries (continued)

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

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 service 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.

11. Investments accounted for using the equity method

Investments in associates

The Consolidated Entity accounts for investments in associates using the equity method.

The Consolidated Entity has the following investments in associates:

	Consolidated	
In thousands of AUD	**2010**	**2009**
Movements in carrying amount of associated entities		
Carrying amount at the beginning of the period	**-**	**10,132**
Acquisition of interest in associated entity	**-**	**423**
Share of associate entity profit/(loss)	**-**	**(117)**
Dividends received from associates	**-**	**-**
Impairment	**-**	**(2,059)**
Reclassification to controlled entity	**-**	**(8,379)**
Carrying amount at the end of the period	**-**	**-**

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

In accordance with Australian Accounting Standard AASB 3 *Business Combinations* the Company remeasured its previously held equity interest in Dark Blue Sea at fair value on 7 December 2009 and recognised the resulting impairment loss of $2,058,698 in the income statement for the half year ended 31 December 2009. The fair value of the equity interest was deemed at 35 cents per share, being the final price under the takeover offer.

12. Income tax expense

The Consolidated Entity's effective tax rate for the 6 months ended 31 December 2010 was 29%, (for the six months ended 31 December 2009: 37%) excluding the impairment charge on intangible assets and on assets classified as held for sale. The effective tax rate was in line with the Consolidated Entity's weighted income tax rate across its relevant tax jurisdictions. The reduction in the effective tax rate as compared to the prior corresponding period was due to the net credit on share based payments expenses in the income statement in the current period.

13. Loans and borrowings

Details regarding issuance and repayments of borrowings in the current period are provided in the cash flow statement of this condensed interim financial report. During the interim period the Company used funds raised from its placement and rights issue in September 2010 to pay down debt under existing financing arrangements. Please refer to the consolidated annual financial report as at and for the year ended 30 June 2010 for details regarding financing arrangements.

During the interim period the Consolidated Entity agreed with its lender to refinance its existing debt facilities with a $230,000,000 cash advance facilities and a $45,000,000 bank guarantee facility. The bank guarantee facility has been 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 have a term of three years, expiring in September 2013 and will have financial covenants and margins substantially in line with the existing facilities.

Refer to Note 16 Subsequent events for details of refinance of debt facilities after 31 December 2010.

14. Provisions

Restructuring provision

As at 30 June 2010, the Consolidated Entity had a restructuring provision of $6,226,816. During the interim period the Consolidated Entity utilised $2,989,104 of the provision for expenses associated with its operational restructure. The balance of the restructuring provision of $3,237,712 is expected to be utilised in future periods. There have been no reversals of any restructuring provision costs in the interim period.

15. Contingencies

Contingent liabilities

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company in respect of third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 31 December 2010.

16. Related parties

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the consolidated annual financial report as at and for the year ended 30 June 2010.

17. Subsequent events

Completion of disposals and assets classified as held for sale

The Consolidated Entity completed the sale of Be Interactive, C4 Communications, Returnity and Messagenet on 12 January 2011 on which date the consideration of $75,300,000 was received. Proceeds were used to repay existing debt.

The Consolidated Entity completed the sales of Sledge and Findology for nominal consideration on 13 January 2011 and 14 of January 2011 respectively.

Refinance of debt facilities

Following the repayment of debt in relation to the sale agreements completed on 12 January 2011, the Consolidated Entity's debt facility limits have been reduced from $230,000,000 to $150,000,000 for the remainder of the facility term, ending 30 September 2013, and the margin on debt has been significantly reduced.

Photon Group Limited and its controlled entities
Directors Declaration

In the opinion of the directors of Photon Group Limited (“the Company”):

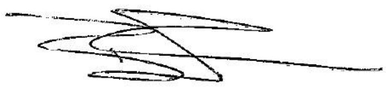
1. the financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position as at 31 December 2010 and the performance for the half-year ended on that date of the Consolidated Entity; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 16th day of February 2011.

Signed in accordance with a resolution of the directors:



Brian Bickmore
Director

KPMG

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

We have reviewed the accompanying half year financial report of Photon Group Limited (the Company), which comprises the consolidated interim statement of financial position as at 31 December 2010, consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half year period ended on that date, notes 1 to 17, comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year's end or from time to time during the half year period.

Directors' responsibility for the half year financial report

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Photon Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Photon Group Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and

b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Kevin Leighton
Partner

Sydney
16 February 2011

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of Photon Group Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) No contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Kevin Leighton
Partner

Sydney

16 February 2011