Photon Group Limited
ABN 97 091 524 515
Appendix 4D
Preliminary final report
Half year ended 31 December 2008

Results for Announcement to the Market

Rule 4.2A.3

The current reporting period is 1 July 2008 to 31 December 2008
The previous corresponding reporting period is 1 July 2007 to 31 December 2007.

Key information
Australian dollar '000's

Revenues from ordinary activities	**up**	35.67%	to 333,226
Profit after tax attributable to members	**down**	39.19%	to 5,256
Net profit for the period attributable to members	**down**	39.19%	to 5,256

Dividends	Amount per security	Franked amount per security
Interim dividend – payable 7 April 2009	6 cents	6 cents

The record date for determining entitlements to the interim dividend is 27 March 2009.

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 2008 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	(2.83)	(3.37)

Explanation of results
Please refer to the attached 31 December 2008 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 2008 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 report for the half-year ended 31 December 2008 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:

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

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

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

Brian Bickmore- Independent non-executive director
Brian was appointed as a non-executive director of the Company on 25 March 2004. In 1980, Brian was a founding executive of Austereo and served as a director of the company for almost 25 years until 2004. Brian was initially Austereo's Finance Director and from 1997, was the Group General Manager. Brian is 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.

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

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 were specialist integrated marketing services, specialising in retail marketing and merchandising, advertising, public relations, graphic design, corporate communications, production of sales and promotional material and Point of Sales (POS), Point of Production (POP), and communications planning, email marketing, events management, direct marketing, market research services and online marketing.

There were no significant changes in the nature of the activities of the activities of the consolidated entity during the half year ended 31 December 2008.

Review and Result of Operations

The consolidated entity's underlying earnings before interest, tax, depreciation and amortisation (EBITDA) grew 39% to $40,271,000 (December 2007: $28,875,000), excluding an impairment charge of $4,214,854. Reported EBITDA of the consolidated entity was $36,056,000, an increase of 25% to the corresponding period.

The consolidated entity's underlying net profit from ordinary activities after income tax attributable to members of the parent entity grew 10% to $9,471,163 (December 2007: $8,642,700) excluding an impairment charge of $4,214,854. Reported net profit from ordinary activities after income tax attributable to members of the parent entity was $5,256,309.

Growth in underlying EBITDA and net profit was attributable to a combination of acquisitions and organic growth in existing companies.

Issue of shares / share options

On 15 July 2008, the Company issued 25,529,790 shares at an issue price of $3.00 pursuant to a rights issue. These shares will rank equally with existing shareholders.

On 29 September 2008, the Company issued 211,000 ordinary shares to employees exercising options under the Company's Employee Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2008. The exercise price of the options was $1.60 and these shares rank equally with existing shareholders

On 30 September 2008, the Company issued 434,650 ordinary shares to the vendors of Found Agency Pty Limited, as payment for deferred consideration. These shares are subject to voluntary escrow restrictions that will cease six months from issue date. These shares rank equally with other shareholders.

On 1 October 2008, the Company issued 250,000 options subject to performance hurdles based on EPS growth and employment conditions for no consideration to Mr Matthew Bailey under a scheme approved by shareholders at the Company's Annual General Meeting on 17 October 2006. The exercise price of the options is $3.16, being the Volume Weighted Average Share Price (VWAP) for the 30 days prior to 30 June 2008.

On 1 October 2008, the Company issued 1,730,000 options to employees under the Company's ESOS which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise price of these options is $2.73, being the VWAP for the 30 days prior to 26 August 2008.

On 31 October 2008, the Company issued 18,044 shares to certain employees of Photon and its subsidiaries pursuant to an incentive based bonus scheme. These shares rank equally with existing shareholders.

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

Review and Result of Operations (continued)

Dividend

For dividends proposed after 31 December 2008, see note 12.

Subsequent Events

For events subsequent to the interim balance sheet date, see note 12.

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

The lead auditor's independence declaration is set out on page 23 and forms part of the directors' report for the half year ended 31 December 2008.

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 24th day of February 2009.

Tim Hughes
Director

Photon Group Limited and its controlled entities
Consolidated interim income statement

For the six months ended 31 December 2008 *In thousands of AUD*	**Note**	**31-Dec-08**	**31-Dec-07**
Revenue from rendering of services		333,226	245,612
Directly attributable cost of sales		(111,589)	(86,972)
Net revenue from rendering of services		221,637	158,640
Other income		616	755
Total revenue		222,253	159,395
Employee expenses		(145,064)	(103,474)
Occupancy costs		(9,440)	(6,361)
Depreciation and amortisation expense		(9,941)	(6,112)
Insurance expense		(719)	(593)
Consultancy fees		(8,311)	(6,429)
Equipment hire charges		(531)	(490)
Travel expenses		(4,813)	(3,355)
Communication expenses		(4,109)	(3,093)
Other operating expenses		(9,100)	(6,660)
Net finance expenses		(14,388)	(8,867)
Impairment loss	7	(4,215)	-
Share of profit/(loss) of associates		105	(65)
Profit before income tax		11,727	13,896
Income tax expense		(5,905)	(5,124)
Profit for the period		5,822	8,772
Attributable to:			
Equity holders of parent		5,256	8,643
Minority interest		566	129
Profit for the period		5,822	8,772
Basic earnings per share (AUD cents)		5.23 cents	11.48 cents
Diluted earnings per share (AUD cents)		5.23 cents	11.20 cents

Photon Group Limited and its controlled entities

Consolidated interim statement of changes in equity attributable to members of the parent entity

In thousands of AUD	Share Capital	Retained Earnings	Option Reserve	Cash flow hedge Reserve	Foreign Currency Translation Reserve	Revaluation Reserve	Total	Minority Interest	Total
Consolidated									
Opening balance at 1 July 2007	169,077	7,732	1,565	-	(1,208)	2,479	179,645	1,531	181,176
Shares issued	2,294	-	-	-	-	-	2,294	-	2,294
Shares issued as part of business combinations	8,973	-	-	-	-	-	8,973	-	8,973
Tax effect of transaction costs	(123)	-	-	-	-	-	(123)	-	(123)
Share issue costs	(107)	-	-	-	-	-	(107)	-	(107)
Minority interests acquired	-	-	-	-	-	-	-	-	-
Dividends paid to equity holders	-	(9,765)	-	-	-	-	(9,765)	-	(9,765)
Share option expense	-	-	1,160	-	-	-	1,160	-	1,160
Net revaluation reserve movement	-	-	-	-	-	1,439	1,439	-	1,439
Net exchange difference on translation of foreign controlled entities	-	-	-	-	(1,366)	-	(1,366)	-	(1,366)
Profit for the period	-	8,643	-	-	-	-	8,643	142	8,785
Closing balance at 31 December 2007	**180,114**	**6,610**	**2,725**	**-**	**(2,574)**	**3,918**	**190,793**	**1,673**	**192,466**
Consolidated									
Opening balance at 1 July 2008	180,371	10,850	5,914	697	(9,997)	-	187,835	1,815	189,650
Shares issued	76,984	-	-	-	-	-	76,984	-	76,984
Shares issued as part of business combinations	1,371	-	-	-	-	-	1,371	-	1,371
Tax effect of transaction costs	1,045	-	-	-	-	-	1,045	-	1,045
Share issue costs	(4,140)	-	-	-	-	-	(4,140)	-	(4,140)
Minority interests acquired	-	-	-	-	-	-	-	-	-
Dividends paid to equity holders	-	(17,396)	-	-	-	-	(17,396)	(764)	(18,160)
Share option expense	-	-	1,870	-	-	-	1,870	-	1,870
Net revaluation reserve movement	-	-	-	-	-	-	-	-	-
Net exchange difference on translation of foreign controlled entities	-	-	-	-	9,885	-	9,885	332	10,217
Effective portion of changes in fair value of cash flow hedges	-	-	-	(5,523)	-	-	(5,523)	-	(5,523)
Profit for the period	-	5,256	-	-	-	-	5,256	566	5,822
Closing balance at 31 December 2008	**255,631**	**(1,290)**	**7,784**	**(4,826)**	**(112)**	**-**	**257,187**	**1,949**	**259,136**

The condensed notes on pages 10 to 19 are an integral part of these consolidated interim financial statements

Photon Group Limited and its controlled entities

Consolidated interim balance sheet

As at 31 December 2008	Note	31-Dec-08	30-Jun-08
In thousands of AUD			
Assets			
Cash and cash equivalents		28,659	38,823
Trade and other receivables		107,917	108,903
Other assets		14,596	22,458
Other financial assets		-	697
Total current assets		151,172	170,881
Non-current assets			
Receivables		795	801
Other financial assets		1,159	214
Investments in equity accounted investees	7	9,903	13,904
Deferred tax assets		10,743	10,086
Property, plant and equipment		22,641	22,437
Other assets		1,773	1,948
Intangible assets		549,495	502,257
Total non-current assets		596,509	551,647
Total assets		747,681	722,528
Liabilities			
Trade and other payables		128,048	108,056
Interest-bearing loans and borrowings		104,342	11,810
Employee benefits		8,099	7,853
Income tax payable		1,754	7,450
Provisions		2,022	2,136
Total current liabilities		244,265	137,305
Non-current Liabilities			
Trade and other payables		34,749	57,668
Interest-bearing loans and borrowings		188,253	320,725
Derivative Financial Instruments		4,827	-
Deferred tax liabilities		11,399	12,162
Employee benefits		1,627	1,550
Provisions		3,425	3,468
Total non-current liabilities		244,280	395,573
Total liabilities		488,545	532,878
Net assets		259,136	189,650
Equity			
Issued capital		255,631	180,371
Reserves		2,846	(3,386)
Retained earnings/(Accumulated losses)		(1,290)	10,850
Total equity attributable to equity holders of the parent		257,187	187,835
Minority interest		1,949	1,815
Total equity		259,136	189,650

The condensed notes on pages 10 to 19 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 2008		
In thousands of AUD	**31-Dec-08**	**31-Dec-07**
Cash flows from operating activities		
Cash receipts from customers	370,617	206,559
Cash paid to suppliers and employees	(338,800)	(182,456)
Cash generated from operations	31,817	24,103
Interest received/ (paid)	(11,875)	(7,034)
Income taxes received / (paid)	(12,122)	(3,938)
Dividends received	102	275
Net cash from operating activities	7,922	13,406
Cash flows from investing activities		
Payments for investments	(22,253)	(13,306)
Payments for available-for-sale financial assets	-	(1,159)
Payments for intangible assets	(2,176)	(789)
Proceeds from disposal of non-current assets	251	170
Acquisition of controlled entities, net of cash acquired	(5,443)	(150,595)
Acquisition of property, plant and equipment	(3,013)	(2,744)
Net cash used in investing activities	(32,634)	(168,423)
Cash flows from financing activities		
Proceeds from the issue of share capital	76,589	-
Proceeds from the exercise of share options	338	1,796
Transaction cost for the issue of share capital	(4,140)	(107)
Proceeds from borrowings	29,860	180,126
Repayment of borrowings	(68,547)	-
Dividends paid to outside equity interest in controlled entities	(1,009)	(1,044)
Finance lease payments	(1,192)	(1,077)
Dividends paid to shareholders of Photon Group Limited	(17,396)	(9,765)
Net cash from financing activities	14,503	169,929
Net increase in cash and cash equivalents	(10,209)	14,912
Cash and cash equivalents at 1 July	35,045	17,604
Effect of exchange rate fluctuation on cash held	2,479	-
Cash and cash equivalents at 31 December	27,315	32,516

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

Photon Group Limited and its controlled entities
Condensed notes to the 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 2008 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 2008 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 2008.

The consolidated interim financial report was approved by the Board of Directors on 24 February 2009.

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 2008.

The Company has elected to early adopt the following accounting standards and amendments:

- AASB 8 *Operating Segments*

Segment reporting

A segment is a distinguishable component of the consolidated entity that is engaged in providing services which is subject to risks and returns that are different from those of other segments. As a result of adopting AASB 8, the consolidated entity's format for segment reporting is operating segments, which is based on the group's management and internal reporting structure. Previously, segment information was presented in respect of the consolidated entity's business and geographical segments.

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. Actual results may differ from these estimates.

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 2008. Refer to Note 7 for additional information in relation to investments in equity accounted investees.

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

5. Segment reporting

Segment information

Identification of reportable segments
The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the management team (the chief operating decision makers) in assessing performance and in determining allocation of resources.
The operating segments are defined by management based on the manner in which the services are provided. Financial information about each of the operating business segments is reported 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.

Segments
The consolidated entity comprises the following five operating segments, with each segment representing a distinct service within the marketing and communications group:

- Strategic Intelligence – strategic media planning, market research, brand insights, marketing spend effectiveness and new product ideas
- Internet Marketing Communications – technology enabled marketing solutions in the interactive, digital and mobile sectors
- Field Marketing & Experiental – point of sale execution plus experiential marketing allowing consumers to experience brands
- Integrated Communications & Digital – integrated brand strategies through traditional media, below the line, point of sale, and customer incentives
- Specialised Communications – public affairs, public relations, corporate communications, impactful design and event management

The 31 December 2007 comparative amounts have been restated to reflect the current business segment presentation.

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

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

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

5. Segment reporting (continued)

Operating segments
For the six months ended 31 December 2008

	Strategic Intelligence		Integrated Communications & Digital		Field Marketing		Internet Marketing, Communcations		Specialised Communications Services		Eliminations		Consolidation	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Net revenue from rendering of services	**38,222,936**	**16,520,210**	**45,739,422**	**38,894,066**	**74,960,800**	**60,653,032**	**20,955,628**	**13,086,930**	**41,759,049**	**29,486,390**	**-**	**-**	**221,637,835**	**158,640,628**
Other operating income	260,404	31,053	39,582	70,189	41,959	208,513	349	489	273,599	62,600	-	-	615,893	372,844
Segment revenue	**38,483,340**	**16,551,263**	**45,779,004**	**38,964,255**	**75,002,759**	**60,861,545**	**20,955,977**	**13,087,419**	**42,032,648**	**29,548,990**	**-**	**-**	**222,253,728**	**159,013,472**
Unallocated revenue													-	382,150
Total revenue													**222,253,728**	**159,395,622**
Segment results (EBITDA)	4,942,368	3,023,593	6,713,817	5,473,148	14,004,276	10,656,078	10,743,188	6,095,188	8,442,468	7,270,181	**-**	**-**	**44,846,117**	**32,518,188**
Segment results (EBIT)	4,130,700	2,606,402	5,324,465	4,291,461	13,229,319	9,999,432	9,898,783	5,778,537	7,265,992	6,403,451	**-**	**-**	39,849,259	29,079,283
Unallocated expenses													(27,906,153)	(15,165,868)
Operating profit before income tax													11,727,394	13,896,007
Income Tax Expense													(5,905,145)	(5,124,459)
Profit for the period													**5,822,249**	**8,771,548**

6. Acquisitions of subsidiaries

In the current interim period, there were no individually material or significant acquisitions.

In the prior interim period, the following entities were acquired:

- On 17 July 2007, the Company acquired 100% of the issued capital of Messagenet Pty Limited (Messagenet), an SMS communication specialist company. The purchase price was an upfront payment of $6,000,000 cash. In addition, deferred consideration tied to the earnings of Messagenet is payable through to 30 June 2010.

- On 30 July 2007, the Company acquired 100% of the issued capital of ISS Consolidated Pty Limited (ISS Marketing), a promotional and marketing agency. The purchase price was an upfront payment of $5,000,000 cash and the issue of 158,228 ordinary Photon shares at $6.32 per share. In addition, deferred consideration tied to the earnings of ISS Marketing is payable through to 30 June 2011.

- On 1 August 2007, the Company acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited (Markson Sparks), a publicity company. The purchase price was an upfront payment of $3,000,000 cash. In addition, deferred consideration tied to the earnings of Markson Sparks is payable through to 30 June 2010.

- On 2 August 2007, the Company acquired 100% of the issued capital of Resource Experience Limited (REL Field Marketing), a field marketing company. The purchase price was an upfront payment of $17,842,125 cash. In addition, deferred consideration tied to the earnings of REL Field Marketing is payable through to 31 December 2012.

- On 29 August 2007, the Company acquired the remaining 60% of the issued capital of Bellamy Hayden Pty Limited (Bellamy Hayden), taking the Company's ownership to 100%. The purchase price was an upfront payment of $4,751,150 cash and the issue of 45,000 ordinary Photon Shares at $5.53 per share. In addition, deferred consideration tied to the earnings of Bellamy Hayden is payable through to 30 June 2011.

- On 3 September 2007, the Company acquired 100% of the issued capital of Club Sales and Merchandising Pty Limited and Club Food Brokerage Pty Limited (Club Sales), sales and merchandising businesses. The purchase price was an upfront payment of $7,377,000 cash and the issue of 100,000 ordinary Photon Shares at $6.23 per share. In addition, deferred consideration tied to earnings of Club Sales is payable through to 30 June 2011.

- On 11 September 2007, the Company acquired 100% of the issued capital of Lorica Group Limited (Corporate Edge), a communications and brand marketing business. The purchase price was an upfront payment of $13,881,531 cash. In addition, deferred consideration tied to the earnings of Corporate Edge is payable through to 31 December 2010.

- On 17 September 2007, the Company acquired 100% of the issued capital of BMF Advertising Pty Limited and 100% of the units of The BMF Unit Trust (BMF Advertising), an independent advertising agency. The purchase price was an upfront payment of $21,810,000 cash and the issue of 600,000 ordinary Photon Shares at $6.25 per share. In addition, deferred consideration tied to the earnings of BMF Advertising is payable through to 30 June 2010.

6. Acquisitions of subsidiaries (continued)

- On 2 October 2007, the Company acquired the remaining 49% of the issued capital of Found Agency (Found), a search engine marketing company. The purchase price was an upfront payment of $1,930,263 cash. In addition, deferred consideration tied to the earnings of Found Agency is payable through to 30 June 2010.

- On 12 October 2007, the Company acquired 100% of the issued capital of Frank Public Relations Limited (Frank PR), a public relations company. The purchase price was an upfront payment of $17,678,066 cash and $717,358 through the issue of loan notes. In addition, deferred consideration tied to the earnings of Frank PR is payable through to 31 August 2011.

- On 1 November 2007, the Company acquired 100% of the issued capital of North By Northwest Group Limited (Hotwire Group), a public relations agency. The purchase price was an upfront payment of $21,853,160 cash and $592,440 through the issue of loan notes. In addition, deferred consideration tied to earnings of Hotwire and Skywrite through to 31 December 2010.

- On 20 November 2007, the Company acquired 100% of the issued capital of Sledge Limited (Sledge), a brand experience agency. The purchase price was an upfront payment of $9,212,560 cash. In addition, deferred consideration tied to the earnings of Sledge through to 31 May 2011.

- On 5 December 2007, the Company acquired 100% of the issued capital of Findology Interactive Media Inc. and Way Internet Inc. (Findology), a leading search engine and online advertising agency. The purchase price was an upfront payment of $19,428,379 cash and the issue of 516,590 ordinary Photon Shares at $6.49 per share. In addition, deferred consideration tied to the earnings of Findology through to 30 June 2011.

The above acquisitions cumulatively contributed $1,027,591 to net profit after tax of the consolidated entity for the year half year ended 31 December 2007.

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

6. Acquisitions of subsidiaries (continued)

Effect of acquisitions for the half year ended 31 December 2008
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	101	-	101
Trade and other receivables	142	-	142
Cash and cash equivalents	957	-	957
Deferred tax assets	1	-	1
Intangible assets	-	170	170
Other Assets	50	-	50
Trade and other payables	-	-	-
Interest bearing liabilities	(70)	-	(70)
Deferred tax liabilities	-	(51)	(51)
Provisions	(20)	-	(20)
Tax liabilities	(72)	-	(72)
Other liabilities	(49)	-	(49)
Net identifiable assets and liabilities	1,040	119	1,159
Outside equity interest	-		
Goodwill on acquisition	6,345		
Total acquisitions cash outflow for half year ended 31 December 2008			
Total consideration	7,334		
Deferred consideration	(934)		
Cash (acquired)	(957)		
Net cash outflow	5,443		

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.

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

6. Acquisitions of subsidiaries (continued)

Effect of acquisitions for the half year ended 31 December 2007
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	4,752	-	4,752
Trade and other receivables	33,288	-	33,288
Cash and cash equivalents	12,493	-	12,493
Deferred tax assets	5,400	-	5,400
Intangible assets	1,493	8,445	9,938
Other Assets	7,210	-	7,210
Trade and other payables	(38,948)	-	(38,948)
Interest bearing liabilities	(123)	-	(123)
Deferred tax liabilities	(698)	(2,533)	(3,231)
Provisions	(1,776)	-	(1,776)
Tax liabilities	(990)	-	(990)
Other liabilities	(3,088)	-	(3,088)
Net identifiable assets and liabilities	19,013	5,912	24,925
Outside equity interest	-		
Goodwill on acquisition	168,183		
Total acquisitions cash outflow for half year ended 31 December 2007			
	184,643		
Total consideration			
Consideration paid, satisfied in scrip	(8,973)		
Deferred consideration	(11,036)		
Loan notes	(1,546)		
Cash (acquired)	(12,493)		
Net cash outflow	150,595		

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.

7. Investments accounted for using the equity method

Investments in associates

The consolidated entity accounts for investments in associates using the equity method.

Dark Blue Sea Limited was classified as an equity-accounted investment on 1 April 2008, being the date at which significant influence was obtained.

The consolidated entity has the following investments in associates:

Company	Ownership (%)		Share of net profit / (loss) ($'000s)	
	31-Dec-08	31-Dec-07	31-Dec-08	31-Dec-07
Bellamyhayden Pty Limited	100	100	-	(65)
Dark Blue Sea Limited	27	22	105	-
Total			**105**	**(65)**

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

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

The investment in Dark Blue Sea Limited (DBS) is included in the accounts of Photon on an equity accounted basis. The investment is held at cost in the Company and is equity accounted in the consolidated entity. Due to the decline in the company's share price to 31 December 2008, the quoted market value of the investment is less than its carrying amount in the company and the consolidated entity. The on market value of the investment in DBS at 31 December 2008 was $0.185 per share totalling $3,951,190. In accordance with AASB 136, the significant and prolonged decline in the share price of DBS is an indicator of impairment and consequently the Company has completed an independent valuation along with a value in use calculation to determine if its carrying amount exceeds its recoverable amount.

Although the share price of DBS has steadily decreased further since 30 June 2008, it has fallen in line with market trends during this period. Further, DBS shares are thinly traded (excluding trading specifically related to the on market buy-back conducted by DBS) and DBS is not researched by broking analysts. It is the opinion of the Board that the value of DBS cannot be reliably measured by reference to the listed share price.

On 18 December 2008 DBS management updated the market with its 2008 / 2009 first half profit guidance indicating that marketing conditions in the US online advertising industry were challenging, however, retail market domain sales have generally remain buoyant. While the weak Australian dollar, US dollar exchange rate has provided some relief from weak industry conditions, profit before tax was expected to be between A$0.5 million and A$0.7 million, which compares to A$2.7 million reported for the first half 2007 / 2008.

Based on DBS' management's earnings guidance the Company has updated its value in use calculation to determine the recoverable amount of the asset. The Company tested the value in use under a number of scenarios using discount rate range of 12.2% to 15.1% and a growth rate range to asses the value in use. Based on the analysis of the recoverable amount of the asset at 31 December 2008, the Company has recognised an impairment loss of $4,214,854 in the six month period to 31 December 2008. This reduced the carrying amount of the Company's investment to $9,903,146 at 31 December 2008.

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

In considering the recoverable amount of the investment in DBS, the Directors also obtained and considered an independent valuation from Lonergan Edwards Associates Limited on 10 February 2009. The Company has monitored the performance of DBS through the public announcements made subsequently to the date of the independent valuation, and will continue to monitor the performance of the business through each reporting period. No matters have arisen subsequent to the completion of the independent valuation on 10 February 2009 that would indicate that the investment is impaired further below the reduced carrying amount of $9,903,146.

The February 2009 independent valuation considered the value of DBS' domain name portfolio separately from it advertising intermediary business, reflecting the different nature, growth profile and risks associated with these businesses. The primary valuation methodology used for the advertising intermediary business was the capitalisation of earning method based on maintainable earnings before interest and tax (EBIT). The valuation was cross checked against revenue multiples together with the implied value of the domain name portfolio based on current earning levels and industry benchmarks. Further analysis was performed against recent comparable transactions and trading multiples of comparable companies. The primary valuation methodology used for the domain name portfolio was a discounted cash flow approach having regard to the number of sales of domain names, the number of unprofitable domain names and the revenue per unprofitable domain name. The valuation was cross checked against the implied value of the domain name portfolio based on current earning levels and industry benchmarks.

8. Income tax expense

The consolidated entity's effective tax rate for the 6 months ended 31 December 2008 was 37%, excluding the impairment charge (for the six months ended 31 December 2007: 37%). The effective tax rate was due to present value interest charges on deferred consideration for acquisitions, non-deductible share based payments expenses and the amortisation of identifiable intangibles. The consolidated entity's reported effective tax rate for 6 months ended 31 December 2008 was 50%.

9. 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. Please refer to the consolidated annual financial report as at and for the year ended 30 June 2008 for details regarding financing arrangements.

During the interim period, the Company used funds raised from its rights issue (see the Directors report) to repay down existing debt.

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

10. 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 2008.

11. 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 2008.

Associates

During the six months ended 31 December 2008, dividends received from associates amounted to $101,538 (six months to 31 December 2007: $253,652).

12. Subsequent events

Dividends

Subsequent to the interim balance sheet date, the directors have declared an interim 2009 dividend with respect to ordinary shares amounting to 6 cents per ordinary share to be paid on 7 April 2009. The financial effect of the dividend declared after the interim balance sheet date has not been brought to account in the financial statements for the half year ended 31 December 2008 but will be recognised in subsequent financial reports.

Loans and Borrowings

Subsequent to the interim balance sheet date, the Company has been in advanced discussions with ANZ regarding the extension of $100 million due in July 2009. Based on these discussions to date, the Company is confident that it will be able to announce the key terms of an extension shortly.

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 set out on pages 10 to 19, are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2008 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; 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 24th day of February 2009.

Signed in accordance with a resolution of the directors:

Tim Hughes
Director

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, which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the half-year period ended on that date, a statement of accounting policies and other explanatory notes 1 to 12 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.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Interim and Other Financial Reports 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 Group's financial position as at 31 December 2008 and its performance for the half-year 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.

Independence

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

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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 2008 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

John Wigglesworth
Partner

Sydney

24 February 2009

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 200

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 2008 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

John Wigglesworth
Partner

Sydney

24 February 2009

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