

Photon Group Limited
ABN 97 091 524 515
Appendix 4D
Preliminary final report
Half year ended 31 December 2006

Results for Announcement to the Market

Rule 4.2A.3

The current reporting period is 1 July 2006 to 31 December 2006

The previous corresponding reporting period is 1 July 2005 to 31 December 2005.

Key information

Revenues from ordinary activities	up	52.71%	to 129,132
Profit after tax attributable to members	up	35.03%	to 6,865
Net profit for the period attributable to members	up	35.03%	to 6,865

Dividends	Amount per security	Franked amount per security
Interim dividend – payable 3 April 2007	10.0 cents	10.0 cents

The record date for determining entitlements to the final dividend is 2 March 2007.

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 2006 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	(0.96)	(0.76)

Explanation of results

Please refer to the attached 31 December 2006 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 2006 half-year
financial report
ABN 97 091 524 515

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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 2006 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 is the Executive Chairman of Macquarie Media Group Limited and is also Chairman of Carinya Investment Management and a Director of the Sporting Chance Cancer Foundation. Tim Hughes has had a 20 year business career in television production and distribution, television broadcasting, radio, investment management and marketing services. Tim has a Bachelor of Business from UTS. He was appointed a director of the Company on 2 June 2000 and is a member of the Remuneration Committee.

Matthew Bailey- Chief executive officer /Executive director

Matthew joined Photon as CEO in 2004. In addition to this role he is responsible for the Photon subsidiary, The Bailey Group. Matthew has 16 years experience as CEO of The Bailey Group with extensive experience in retail selling, sales force strategy and brand development. Matthew has a Bachelor of Business from Swinburne University. He was appointed as a Director of the Company on 25 March 2004.

Tony Rowlinson – Chief Operating Officer / Executive director

Tony joined Photon as COO in 2005. Tony has had extensive FMCG and packaged goods experience having held senior positions in major blue-chip companies namely SCA, Nabisco, Coca-Cola and Bristol-Myers Squibb. Prior to joining Photon, Tony was Vice President of the Consumer Division of SCA Hygiene Australasia. Born and educated in Johannesburg, South Africa, Tony has had the privilege of getting global leadership experience, having worked in the UK and other areas of Europe, South Africa, Australia and New Zealand. He was appointed as a Director on the company on 22 February 2006.

Siimon Reynolds- Executive director

Siimon is Executive Chairman and Creative Director of Love Communications and is one of Australia's best known advertising experts. Siimon has over 20 years of experience in the marketing services sector. He has won many major global awards for creativity and has won 'Agency of the Year' twice. Siimon has lectured on marketing to over 50,000 business people and was previously a director of John Singleton Advertising Group Limited (now part of STW Communications Group Limited). He was appointed as a Director of the Company on 9 February 2000.

Susan McIntosh- Non-executive director

Susan is a Chartered Accountant with over 20 years experience in Media (television production and distribution and radio) and asset management. Susan is currently Managing Director of RG Capital Holdings (Australia) Pty Limited. She was appointed as a Director of the company on 2 June 2000 and is a member of the Audit Committee.

Brian Bickmore- Independent non-executive director

Brian joined Austereo Limited in 1980 as a founding executive and resigned in 2004 from Austereo Limited after 25 years, having served as Austereo's longest serving director. Brian served initially as Austereo's Finance Director and from 1997 was Group General Manager. In 2003 Brian was appointed as Managing Director Corporate Development and International Media. Brian was instrumental in the merger of the Triple M and Austereo businesses, a core element of Austereo's success. He also directed Austereo's international expansion. Brian also serves on the Board of Directors of Network Outdoor Australia Limited and is Chairman of the Artist & Entertainment Group Limited. He was appointed as a Director of the Company on 25 March 2004 and is Chairman of the Audit Committee and Chairman of the Remuneration Committee.

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

Directors (continued)

Paul Gregory – Non-executive director

Paul is currently providing a number of Australian and International retail groups with management and strategic advice. Previously Paul has led a diversity of medium sized private retail companies, including Australian Geographic Pty Ltd and Red Earth Australia Pty Ltd, and has overseen the expansion of these companies at both a domestic and international level. He was appointed as a director on 25 March 2004 and is a member of the Audit Committee.

Review and results of operations

The consolidated entity during the course of the financial half-year continued to provide integrated marketing services, specialising in retail marketing and merchandising, advertising, public relations, graphic design, digital printing, production sales of promotion material and Point of Sales (POS), Point of Production (POP), media planning and communications, e-mail marketing, events management, direct marketing and market research services and on-line marketing.

Acquisitions

During the half-year ended 31 December 2006, Photon Group Limited acquired interests in the following entities:

Acquisition of wholly-owned entities

- On 17 July 2006, the Company acquired 90% of the issued share capital of iMega Pty Limited (iMega), an online performance-based marketing company. On 2 November 2006, the Company re-negotiated the acquisition to acquire 100% of the issued share capital of iMega.
- On 31 July 2006, the Company acquired 100% of the issued capital of AusRep Pty Limited (AusRep), a sales and merchandising company.
- On 10 August 2006, the Company acquired 100% of the issued capital of Jigsaw Strategic Research Pty Limited (Jigsaw), a research based consultancy company.
- On 21 December 2006, the Company acquired the remaining 40% of the issued capital of The Artel Group Pty Limited (Artel), taking the Company's ownership to 100%.

Acquisition of partly-owned entities

- On 15 September 2006, the Company acquired 51% of the issued capital of Belgiovane Williams Mackay Pty Limited (BWM), an advertising agency. Additionally, an option tied to the earnings of BWM up to 31 July 2012 for the remaining 49% minority interest exists at acquisition.

Acquisition of other investments

- On 8 December 2006, the Company acquired 19.8% of the issued capital of Dark Blue Sea Limited (DBS), an company specialising in the supply and distribution of online direct navigation traffic.

Further detail in relation to the above is provided in note 7 of the condensed notes to the consolidated interim financial statements.

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

Review and results of operations (continued)

Issue of shares / Share Options

On 30 August 2006, the Company issued 1,420,000 options to employees under the Company's Executive Share Options Scheme (ESOS). The exercise price of these options will be \$4.91, being the VWAP for the 30 days prior to 30 August 2006, the date on which the Remuneration Committee approved the issue of options (subject to shareholder approval). This issue was approved by shareholders at the Company's Annual General Meeting on 17 October 2006.

On 30 August 2006, the company approved the issue of 1,000,000 options over four years subject to performance hurdles based on EPS growth and employment conditions for no consideration to Mr Matthew Bailey which was approved by shareholders at the Company's Annual General Meeting. The exercise price for the options will be the Volume Weighted Average Share Price (VWAP) for the 30 days up to 30 June in the year in which the options are issued. On 28 November 2006, the Company issued 250,000 of the above options, which was approved by shareholders at the Company's Annual General Meeting. The exercise price of the options will be \$4.91, being the Volume Weighted Average Share Price (VWAP) for the 30 days prior to 30 August 2006, the date on which the Company's Remuneration Committee approved the issue of options.

On 13 September 2006, the Company issued 4,500,000 ordinary shares at \$5.50 per share under an unconditional placement to retire bank debt and pursue value-adding acquisitions. These shares rank equally with existing ordinary shares. The unconditional placement was subsequently approved by shareholders at the Company's Annual General Meeting.

On 23 October 2006, the Company issued 4,500,000 ordinary shares at \$5.50 per share under a conditional placement to retire bank debt and pursue value-adding acquisitions. These shares rank equally with existing ordinary shares. The conditional placement was approved by shareholders at the Company's Annual General Meeting.

On 30 October 2006, the Company issued 305,667 ordinary shares to the vendors of The Leading Edge Market Research Consultants Pty Limited (The Leading Edge) which was approved by shareholders at the Company's Annual General Meeting. These shares were issued in place of deferred cash consideration. These shares rank equally with existing ordinary shares with the exception that the vendors have voluntarily elected to have these issued shares placed in escrow for a period of 12 months from the date of issue.

On 30 October 2006, the Company issued 348,134 ordinary shares. These shares were issued in place of deferred cash consideration resulting from acquisition agreements which allow for up to 100% of the deferred cash payments to be paid by the issue of Photon shares, at the election of the vendors of various companies. These shares rank equally with existing shareholders.

Further information on the terms of the share and option issues detailed above are outlined in the Notice of Annual General Meeting dated 15 September 2006. All shares issued pursuant to the exercise of options will rank equally with all other ordinary shares on issue.

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

Review and results of operations (continued)

Result

The consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) grew 62% to \$19,126,000 (December 2005: \$11,813,000). Net profit from ordinary activities after income tax (NPAT) attributable to the members of the parent entity grew 35% to \$6,865,000 (December 2005: \$5,084,000). Growth was attributable to a combination of acquisitions and organic growth in existing companies.

Dividend

For dividends proposed after 31 December 2006, see note 14.

Subsequent Events

For events subsequent to the interim balance sheet date, see note 14.

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

The lead auditor's independence declaration is set out on page 21 and forms part of the directors' report for the half year ended 31 December 2006.

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 21st day of February 2007.



Tim Hughes
Director

Photon Group Limited and its controlled entities

Consolidated interim income statement

For the six months ended 31 December 2006

In thousands of AUD

	31 Dec 2006	31 Dec 2005
Revenue from rendering of services	129,132	84,558
Directly attributable cost of sales	(44,496)	(27,030)
Net revenue from rendering of services	84,636	57,528
Other operating income	598	400
Total revenue	85,234	57,928
Employee expenses	(52,072)	(34,578)
Occupancy costs	(3,529)	(2,510)
Depreciation and amortisation expense	(4,012)	(2,130)
Insurance expense	(373)	(368)
Consultancy fees	(2,507)	(1,783)
Equipment hire charges	(499)	(375)
Travel expenses	(1,470)	(899)
Communication expenses	(1,780)	(1,321)
Other operating expenses	(3,692)	(4,180)
Finance costs	(4,039)	(2,010)
Share of profit of equity accounted investees	153	119
Profit before income tax	11,414	7,893
Income tax expense	(4,418)	(2,795)
Profit for the period	6,996	5,098
Attributable to:		
Equity holders of the parent	6,865	5,084
Minority interest	131	14
Profit for the period	6,996	5,098
Basic earnings per share attributable to ordinary equity holders	10.36 cents	8.83 cents
Diluted earnings per share attributable to ordinary equity holders	10.07 cents	8.58 cents

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 17.

Photon Group Limited and its controlled entities

Consolidated interim statement of changes in equity attributable to equity holders of the parent

For the six months ended 31 December 2006

In thousands of AUD

	31 Dec 2006	31 Dec 2005
Opening balance of equity attributable to equity holders of the parent	97,518	84,649
Contributed equity		
Tax effect of transaction costs	271	64
Share issue costs	(1,253)	(18)
Shares issued as part of business combinations	23,690	5,787
Shares issued	50,383	975
Foreign currency translation reserve		
Net exchange difference on translation of foreign controlled entity	40	7
Retained profits		
Dividends paid	(7,254)	(2,857)
Option reserve		
Share option expense	433	191
Revaluation reserve		
Net revaluation reserve movement	942	-
Net adjustments recognised directly in equity	67,252	4,149
Profit for the period	6,865	5,084
Closing balance of equity attributable to equity holders of the parent	<u>171,635</u>	<u>93,882</u>

The statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 17.

Photon Group Limited and its controlled entities

Consolidated interim balance sheet

As at 31 December 2006

In thousands of AUD

	31 Dec 2006	30 June 2006
Current assets		
Cash and cash equivalents	24,245	11,734
Trade and other receivables	41,874	37,742
Other assets	9,486	6,485
Total current assets	75,605	55,961
Non-current assets		
Receivables	272	42
Other financial assets	12,699	95
Investments accounted for using the equity method	536	470
Deferred tax assets	5,017	3,823
Property, plant and equipment	12,900	11,445
Other assets	678	708
Intangible assets	242,831	177,608
Total non-current assets	274,933	194,191
Total assets	350,538	250,152
Current liabilities		
Trade and other payables	54,819	47,897
Interest-bearing loans and borrowings	1,972	1,743
Employee benefits	5,519	4,642
Income tax payable	9,706	3,591
Provisions	2,122	595
Total current liabilities	74,138	58,468
Non-current liabilities		
Trade and other payables	19,243	20,010
Interest-bearing loans and borrowings	76,443	62,853
Deferred tax liabilities	4,972	4,024
Employee benefits	998	693
Provisions	2,907	3,025
Total non-current liabilities	104,563	90,605
Total liabilities	178,701	149,073
Net assets	171,837	101,079
Equity		
Issued capital	163,846	90,755
Reserves	2,098	682
Retained earnings	5,691	6,081
Total equity attributable to equity holders of the parent	171,635	97,518
Minority interest	202	3,561
Total equity	171,837	101,079

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 17.

Photon Group Limited and its controlled entities

Consolidated interim statement of cash flows

For the six months ended 31 December 2006

In thousands of AUD

	31 Dec 2006	31 Dec 2005
Cash flows from operating activities		
Cash receipts from customers	131,213	52,603
Cash paid to suppliers and employees	(111,188)	(41,405)
Cash generated from operations	20,025	11,198
Interest received	339	219
Income taxes received / (paid)	165	(4,398)
Interest paid	(2,685)	(1,410)
Dividends received	88	57
Net cash from operating activities	17,932	5,666
Cash flows from investing activities		
Payments for investments	(25,314)	(7,847)
Proceeds from disposal of non-current assets	23	-
Acquisition of controlled entities, net of cash acquired	(33,011)	(3,707)
Acquisition of property, plant and equipment	(1,627)	(1,276)
Net cash used in investing activities	(59,929)	(12,830)
Cash flows from financing activities		
Proceeds from the issue of share capital	50,383	975
Transaction cost for the issue of share capital	(1,253)	(18)
Proceeds from borrowings	62,359	11,042
Repayment of borrowings	(48,657)	(1,000)
Dividends paid to outside equity interest in controlled entities	(290)	-
Finance lease payments	(781)	(451)
Dividends paid to shareholders of Photon Group Limited	(7,254)	(2,856)
Net cash from financing activities	54,507	7,692
Net increase in cash and cash equivalents	12,511	528
Cash and cash equivalents at 1 July	11,734	9,788
Cash and cash equivalents at 31 December	24,245	10,316

This statement of cashflows is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 17.

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 2006 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 2006 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 2006.

The consolidated interim financial report was approved by the Board of Directors on 21st February 2007.

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

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 2006.

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 2006.

5. Changes in accounting policies

The following standards and amendments are available for early adoption at 31 December 2006, but have not been applied in this interim financial report:

AASB 7 Financial Instruments: Disclosures

AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings Per Share, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards, AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

The above are applicable for annual reporting periods beginning on or after 1 January 2007.

Condensed notes to the consolidated interim financial statements

6. Segment reporting

Business segments

For the six months ended 31 December 2006

	Marketing & Corporate Communications		Digital, Interactive & Internet		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
<i>In thousands of AUD</i>								
Revenue from rendering services	112,807	76,471	16,271	8,084	-	-	129,078	84,555
Directly attributable cost of sales	(39,313)	(27,008)	(5,182)	(21)	-	-	(44,495)	(27,029)
Net Revenue from rendering of services	73,494	49,463	11,089	8,063	-	-	84,583	57,526
Other operating income	431	256	83	61	-	-	514	317
Segment revenue	73,925	49,719	11,172	8,124	-	-	85,097	57,843
Unallocated revenue							137	85
Total revenue							85,234	57,928
Segment result	15,916	11,904	3,666	1,842	-	15	19,582	13,761
Unallocated expenses							(8,168)	(5,868)
Operating profit before income tax							11,414	7,893
Income tax expense							(4,418)	(2,795)
Profit for the period							6,996	5,098

* All segments are continuing operations

After re-assessing a detailed analysis of risk, return and profitability by area of business in accordance with AASB 114 *Segment Reporting*, the consolidated entity considers that it operates in two business segments:

- Marketing & Corporate Communications – market research, strategic services, merchandising, sales and marketing services, point of sales marketing, promotion and retail marketing solutions, advertising and branding services, brand communication services, events management, public relations and media, corporate design, visual marketing and technology consulting.
- Digital, Interactive & Internet – email, online marketing, interactive solutions and internet.

The 31 December 2005 comparative amounts have been restated to reflect the current business segment presentation.

Please refer to the consolidated financial report as at and for the year ended 30 June 2006 for descriptions of activities of all individual companies of the consolidated group.

Condensed notes to the consolidated interim financial statements

7. Acquisitions of subsidiaries

Acquisition of wholly-owned entities

- On 17 July 2006, the Company acquired 90% of the issued share capital of iMega Pty Limited (iMega), an online performance-based marketing company. The purchase price was an upfront payment of \$7,570,000 cash and the issue of 101,415 ordinary Photon shares at \$4.24 per share. On 2 November 2006, the Company re-negotiated the acquisition to acquire 100% of the issued share capital of iMega. The revised purchase price was the original upfront consideration plus \$15,740,171 cash and the issue of 2,262,769 ordinary Photon shares at \$5.86 per share. In addition, deferred consideration tied to the earnings of iMega is payable through to 30 June 2011.
- On 31 July 2006, the Company acquired 100% of the issued capital of AusRep Pty Limited (AusRep), a sales and merchandising company. The purchase price was an upfront payment of \$2,000,000 cash and the issue of 400,000 ordinary Photon shares at \$4.00 per share. In addition, deferred consideration tied to the earnings of AusRep is payable through to 30 June 2009.
- On 10 August 2006, the Company acquired 100% of the issued capital of Jigsaw Strategic Research Pty Limited (Jigsaw), a research based consultancy company. The purchase price was an upfront payment of \$5,000,000 cash. In addition, deferred consideration tied to the earnings of Jigsaw is payable through to 30 June 2009.
- On 21 December 2006, the Company acquired the remaining 40% of the issued capital in The Artel Group Pty Limited (Artel), taking the Company's ownership to 100%. The purchase price was determined in accordance with an independent valuation of the company.

Acquisition of partly-owned entities

- On 15 September 2006, the Company acquired 51% of the issued capital of Belgiovane Williams Mackay Pty Limited (BWM), an advertising agency. The purchase price was an upfront payment of \$7,282,800 cash and the issue of 1,262,857 ordinary Photon shares at \$4.41 per share. Additionally, an option tied to the earnings of BWM up to 31 July 2012 for the remaining 49% minority interest exists at acquisition.

Although only 51% of the issued capital was acquired by the company, the option tied to the earnings of BWM for the remaining 49% minority interest requires accounting for 100% of BWM earnings being included in the consolidated entity's result.

The above acquisitions cumulatively contributed \$809,145 to net profit after tax of the consolidated entity for the year half year ended 31 December 2006.

The revenue and profit or loss of the combined entity for the period if the acquisitions had been acquired on 1 July 2006 would not result in a materially different revenue and profit or loss for the period half year ended 31 December 2006 as the acquisitions were effected in the earlier part of the period.

Condensed notes to the consolidated interim financial statements

7. Acquisitions of subsidiaries (continued)

Effect of acquisitions (excluding iMega) for the half year ended 31 December 2006

The acquisitions (excluding iMega) 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	2,161	-	2,161
Intangible assets	5,608	-	5,609
Trade and other receivables	6,180	-	6,180
Cash and cash equivalents	3,747	-	3,746
Deferred Tax Asset	773	-	773
Other Assets	310	-	310
Trade and other payables	(4,262)	-	(4,262)
Interest Bearing Liabilities	(787)	-	(787)
Deferred Tax Liability	(44)	-	(44)
Provisions	(4,525)	-	(4,525)
Tax Liabilities	(316)	-	(316)
Other Liabilities	(1,878)	-	(1,878)
Net identifiable assets and liabilities	6,967	-	6,967
Goodwill and identifiable intangibles on acquisition	23,245		

Effect of iMega acquisition for the half year ended 31 December 2006

The iMega acquisition had the following effect on the consolidated entity's assets and liabilities:

iMega net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	35	-	35
Trade and other receivables	1,015	-	1,015
Cash and cash equivalents	1,787	-	1,787
Deferred Tax Assets	91	-	91
Trade and other payables	(669)	-	(669)
Provisions	(39)	-	(39)
Tax Liabilities	(740)	-	(740)
Net identifiable assets and liabilities	1,480	-	1,480
Goodwill and identifiable intangibles on acquisition	41,430		

Condensed notes to the consolidated interim financial statements

7. Acquisitions of subsidiaries (continued)

Total acquisitions cash outflow for half year ended 31 December 2006

Total consideration	73,122
Consideration paid, satisfied in scrip	(20,859)
Deferred consideration	(13,718)
Cash (acquired)	<u>(5,534)</u>
Net cash outflow	<u>33,011</u>

Effect of acquisitions for the half year ended 31 December 2005

Companies acquired during the half year ended 31 December 2005 (being Counterpoint Marketing & Sales, Republicorp and Kaleidoscope Marketing Services) 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	227	-	227
Intangible assets	10,620	-	10,620
Trade and other receivables	1,488	-	1,488
Cash and cash equivalents	412	-	412
Trade and other payables	<u>(2,395)</u>	-	<u>(2,395)</u>
Net identifiable assets and liabilities	10,352	-	<u>10,352</u>
Outside equity interest	<u>10</u>		
Goodwill on acquisition	<u>5,610</u>		
Total consideration	15,972		
Consideration paid, satisfied in scrip	(4,000)		
Deferred consideration	(7,853)		
Cash (acquired)	<u>(412)</u>		
Net cash outflow	<u>3,707</u>		

Goodwill has arisen on the purchase of entities acquired during the half year as some intangibles such as customer relationships, and key employee relationships, did not meet the criteria for recognition as an intangible asset at the date of acquisition. In addition, the initial accounting for the above business combinations have been completed on a provisional basis at the end of the period as these entities acquired in the period are still being reviewed for valuation procedures to assess the intangible assets in existence at date of acquisition and whether such assets meet the criteria for separate recognition. The provisional accounting for each acquisition is finalised within twelve months from the date of acquisition.

During the period, the Counterpoint valuation of intangible assets was completed in line with the requirements to complete initial accounting for the acquisition within twelve months of acquisition date. The 31 December 2005 comparatives have been amended to reflect this completion of the initial accounting of the Counterpoint acquisition. No other amendments to provisional accounting of business combinations were completed during the current period.

Condensed notes to the consolidated interim financial statements

8. Associates and joint venture entities

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

Name	Ownership (%)		Share of net profit / (loss) (\$'000s)	
	2006	2005	2006	2005
Bellamyhayden Pty Limited	40	40	153	119

9. Income tax expense

The consolidated entity's effective tax rate for the six months ended 31 December 2006 was 39% (for the year ended 30 June 2006: 32%; for the six months ended 31 December 2005: 35%). The change in the effective tax rate was due to present value interest charges on deferred consideration for acquisitions and the amortisation of identifiable intangibles.

10. Other financial assets

Investments – listed equity securities

On 8 December 2006, the company acquired 19.8% of the issued capital of Dark Blue Sea Limited (DBS). The purchase price was a payment of \$10,939,500 cash, being 65 cents per share for 16,830,000 DBS ordinary shares. This investment is stated at fair value, with the resultant gain being recognised directly in equity.

The fair value of the financial instrument is the quoted price at the balance sheet date of 31 December 2006, being 73 cents per share.

The treatment and classification of this asset will be further reviewed in the second half of 2007, in line with developments on the outcome of Photon's bidder's statement lodged with the ASX.

11. Interest bearing loans and borrowings

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 2006 for details regarding financing arrangements.

12. Contingencies

Contingent liabilities

Indemnities

Indemnities have been provided to directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations still outstanding at 31 December 2006.

The Bailey group have received income tax assessments relating to disallowed deductions with respect to amounts claimed for income tax purposes. The Bailey Group has objected to such income tax assessments. As part of the "Bailey Share Purchase Agreement", the Bailey interests have indemnified The Bailey Group against any claim by the ATO and to this end have placed cash funds amounting to \$4,500,000 in escrow pending settlement of this outstanding income tax matter. It is estimated that should The Bailey Group be unsuccessful in its objection the amount payable to the ATO as at 31 December 2006 is \$1,613,130. This amount is included in the Balance Sheet as "tax indemnity" included within other current assets with a corresponding amount recorded as a current tax liability in the income statement.

Condensed notes to the consolidated interim financial statements

13. 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 2006.

Associates

During the six months ended 31 December 2006, dividends received from associates amounted to \$88,038 (six months to 31 December 2005: \$57,140).

14. Subsequent event

Acquisition of subsidiaries

On 12 January 2007, the Company acquired 51% of the issued capital of OBMedia, a performance based internet marketing group. The purchase price was an upfront payment of US\$6,564,000 cash and the issue of 215,012 ordinary Photon shares at \$5.93 per share. In addition, deferred consideration tied to the earnings of OBMedia is payable through to 31 December 2009.

On 14 February 2007, the Company acquired 100% of the issued capital of C4 Communications Pty Limited, a digital, experiential and multimedia company. The purchase price was an upfront payment of \$12,000,000 cash and the issue of 347,222 ordinary Photon shares at \$5.76 per share. In addition, deferred consideration tied to the earnings of C4 Communications is payable through to 30 June 2010.

Dividends

Subsequent to the interim balance sheet date, the directors have declared an interim 2007 dividend with respect to ordinary shares amounting to 10 cents per ordinary share to be paid on 3 April 2007. 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 2006 but will be recognised in subsequent financial reports.

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 7 to 17, 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 2006 and of its performance, as represented by the results of its operations and cash flows 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 21st day of February 2007.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Tim Hughes', written in a cursive style.

Tim Hughes
Director

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

Report on the Financial Report

We have reviewed the accompanying interim financial report of Photon Group Limited, which comprises the consolidated interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes (1 to 14) and the directors' declaration (set out on page 18) 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 Financial Report

The directors of the consolidated entity are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the interim 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 an opinion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 interim 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 2006 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 an interim 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim 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 2006 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



John Wigglesworth
Partner

Sydney

21 February 2007

**LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF
THE CORPORATIONS ACT 2001**

To the Directors of Photon Group Limited

I state that, to the best of my knowledge and belief in relation to the review for the half-year ended 31 December 2006 there have been:

- no contraventions of the audit independence requirements of the Corporations Act 2001 in relation to the review, other than contraventions covered by ASIC Class Order 05/910; and
- no contraventions of any applicable code of professional conduct in relation to the review.



KPMG



John Wigglesworth
Partner

Sydney

21 February 2007