

Photon Group Limited
ABN 97 091 524 515
Appendix 4D
Preliminary final report
Half year ended 31 December 2009

Results for Announcement to the Market

Rule 4.2A.3

The current reporting period is 1 July 2009 to 31 December 2009
The previous corresponding reporting period is 1 July 2008 to 31 December 2008.

Key information

Australian dollar '000's

Revenues from ordinary activities	down	9.75%	to 300,747
Profit after tax attributable to members	down	44.96%	to 2,893
Net profit for the period attributable to members	down	44.96%	to 2,893

Dividends	Amount per security	Franked amount per security
Interim dividend – payable 30 March 2010	3 cents	3 cents

The record date for determining entitlements to the interim dividend is 19 March 2010.

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 2009 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	(1.43)	(2.83)

Explanation of results

Please refer to the attached 31 December 2009 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 2009 half-year
financial report
ABN 97 091 524 515

Photon Group Limited and its controlled entities

Directors' report

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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 2009 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 and was appointed as a director of the Company with effect from 2 June 2000. Tim is also the Chairman of Carinya Investment Management and a Director of the Sporting Chance Cancer Foundation. Tim has had a 25-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 as a director of the Company with effect from 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 with effect from 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 with effect from 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. He is also 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 non-executive director of the Company with effect from 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 was 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 2009.

Review and result of operations

The consolidated earnings before interest, tax, depreciation, amortisation and impairment (EBITDA) reduced 24% to \$30,546,813 (December 2008: \$40,271,267). EBITDA for the current 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 Geekversity business which was sold in December 2009.

The consolidated entity recorded an impairment charge of \$2,058,698 (December 2008: \$4,214,854) 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. The fair value of the non controlling interest is deemed as 35 cents per share, being the final bid price under the takeover offer.

The consolidated entity's net profit from ordinary activities after income tax attributable to owners of the parent entity increased 2% to \$9,673,251 (December 2008: \$9,471,163) excluding the non - recurring Geekversity operating costs, acquisition transaction costs and an impairment charge of \$2,058,698 (December 2008: \$4,214,854). The reported net profit from ordinary activities after income tax attributable to owners of the parent entity was \$2,893,168 (December 2008: \$5,256,309).

Acquisitions

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 was announced on 1 October 2009. After gaining acceptance in excess of 90% of the share capital, the Company compulsorily acquired the remaining share capital in Dark Blue Sea Limited and therefore owns 100% of the share capital post the compulsory acquisition period. Further detail in relation to above is given in Note 6 of the notes to the financial statement.

Issue of shares and share options

On 21 August 2009, the Company issued 14,439,268 ordinary shares pursuant to a placement announced on 17 August 2009. These shares rank equally with existing shareholders including participation in the final dividend for the year ending 30 June 2009.

On 18 September 2009, the Company issued 58,639,842 ordinary shares following the completion of rights issue announced on 17 August 2009. These shares rank equally with existing shareholders.

On 30 September 2009, the Company issued 2,471,608 ordinary shares. These shares were issued to satisfy deferred consideration from acquisition agreements which allow deferred consideration to be paid by the issue of Photon Group Limited shares. These shares are subject to voluntary escrow restrictions that will cease six months from issue date. These shares rank equally with other shareholders.

Photon Group Limited and its controlled entities

Directors' report (continued)

Review and result of operations (continued)

Issue of shares and share options (continued)

On 27 October 2009, the Company issued 940,000 options to employees under the Company's Employee Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise price of these options is \$1.85, being the VWAP for the 30 days prior to 22 October 2009.

On 29 October 2009, the Company issued 25,495 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.

On 8 December 2009, the Company issued 400,000 options to senior executives under the Company's Employee Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. These options vest immediately and have an exercise price of \$1.80.

Dividend

For dividends proposed after 31 December 2009, see note 12.

Subsequent Events

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

Lead auditor's independence declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 22 and forms part of the directors' report for the half year ended 31 December 2009.

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 2010.



Tim Hughes
Director

Photon Group Limited and its controlled entities

Consolidated interim income statement

For the six months ended 31 December

In thousands of AUD

	Note	2009	2008
Continuing operations			
Gross revenue		300,747	333,226
Directly attributable cost of sales		<u>(104,410)</u>	<u>(111,589)</u>
Net revenue		196,337	221,637
Other income		<u>275</u>	<u>616</u>
Total revenue		<u>196,612</u>	<u>222,253</u>
Employee expenses		(131,008)	(145,064)
Occupancy costs		(9,230)	(9,440)
Depreciation and amortisation expense		(10,275)	(9,941)
Insurance expense		(642)	(719)
Consultancy fees		(6,754)	(8,311)
Equipment hire charges		(447)	(531)
Travel expenses		(3,446)	(4,813)
Communication expenses		(3,661)	(4,109)
Other operating expenses		(9,590)	(9,100)
Net finance expenses		(12,167)	(14,388)
Acquisition transaction costs		(1,170)	-
Impairment of investment in equity accounted investee	7	(2,059)	(4,215)
Share of profit/(loss) of associates		<u>(117)</u>	<u>105</u>
Profit before income tax		<u>6,046</u>	<u>11,727</u>
Income tax expense		<u>(3,038)</u>	<u>(5,905)</u>
Profit for the period		<u>3,008</u>	<u>5,822</u>
Profit for the period attributable to:			
Owners of the parent		2,893	5,256
Non-controlling interest		<u>115</u>	<u>566</u>
		<u>3,008</u>	<u>5,822</u>
Earnings per share for profit			
Basic earnings per share (AUD cents)		1.87 cents	4.92 cents
Diluted earnings per share (AUD cents)		<u>1.87 cents</u>	<u>4.92 cents</u>

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	2009	2008
Net profit for the period		3,008	5,822
Other comprehensive income			
Cash flow hedge gain/(loss) taken to equity		383	(5,523)
Foreign currency translation (loss)/gain taken to equity		(14,274)	10,217
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		(13,891)	4,694
Total comprehensive income for the period		(10,883)	10,516
Total comprehensive income for the period attributable to:			
Owners of the parent		(10,897)	9,618
Non-controlling interest		14	898
		(10,883)	10,516

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 2008	180,371	10,850	5,914	697	(9,997)	187,835	1,815	189,650
Profit for the period	-	5,256	-	-	-	5,256	566	5,822
Other comprehensive income	-	-	-	(5,523)	9,885	4,362	332	4,694
Total comprehensive income for the period	-	5,256	-	(5,523)	9,885	9,618	898	10,516
Transactions with owners in their capacity as owners:								
Issue of ordinary shares	76,984	-	-	-	-	76,984	-	76,984
Issue of ordinary shares as part of business combinations	1,371	-	-	-	-	1,371	-	1,371
Transaction costs on issue of ordinary shares	(4,140)	-	-	-	-	(4,140)	-	(4,140)
Tax effect of transaction costs	1,045	-	-	-	-	1,045	-	1,045
Dividends paid to equity holders	-	(17,396)	-	-	-	(17,396)	(764)	(18,160)
Share based payments expense	-	-	1,870	-	-	1,870	-	1,870
At 31 December 2008	255,631	(1,290)	7,784	(4,826)	(112)	257,187	1,949	259,136
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	-	-	-	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
Transaction costs on issue of ordinary shares	(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 based payments 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

The condensed notes on pages 11 to 18 are an integral part of these consolidated interim financial statements

Photon Group Limited and its controlled entities

Consolidated interim statement of financial position

	Note	31-Dec-09	30-Jun-09
<i>In thousands of AUD</i>			
Assets			
Cash and cash equivalents		27,112	23,559
Trade and other receivables		96,433	110,025
Other assets		18,667	18,707
Total current assets		142,212	152,291
Receivables		1,045	991
Other financial assets		565	223
Investments in equity accounted investees	7	-	10,132
Deferred tax assets		11,397	9,117
Plant and equipment		19,005	20,691
Other assets		1,192	2,337
Intangible assets		617,192	580,781
Total non-current assets		650,396	624,272
Total assets		792,608	776,563
Liabilities			
Trade and other payables		146,744	148,609
Interest-bearing loans and borrowings		4,087	35,927
Employee benefits		8,028	8,286
Income tax payable		(76)	6,907
Provisions		2,045	2,265
Total current liabilities		160,828	201,994
Trade and other payables		19,525	44,747
Interest-bearing loans and borrowings		236,002	248,392
Deferred tax liabilities		10,061	11,851
Employee benefits		1,879	1,710
Provisions		2,871	3,164
Total non-current liabilities		270,338	309,864
Total liabilities		431,166	511,858
Net assets		361,442	264,705
Equity			
Issued capital		369,631	255,500
Reserves		(13,591)	(1,483)
Retained earnings		3,966	8,695
Total equity attributable to equity holders of the parent		360,006	262,712
Non-controlling interest		1,436	1,993
Total equity		361,442	264,705

Photon Group Limited and its controlled entities

Consolidated interim statement of cash flows

For the six months ended 31 December

In thousands of AUD

	2009	2008
Cash flows from operating activities		
Cash receipts from customers	344,320	370,617
Cash paid to suppliers and employees	<u>(306,818)</u>	<u>(338,800)</u>
Cash generated from operations	37,502	31,817
Interest received	202	525
Income taxes paid	(11,917)	(12,122)
Interest paid	(9,203)	(12,400)
Dividends received	-	102
Net cash from operating activities	<u>16,584</u>	<u>7,922</u>
Cash flows from investing activities		
Proceeds from disposal of non-current assets	219	251
Payments for investments	(75,126)	(22,043)
Payments for equity accounted investee	(423)	(211)
Acquisition of controlled entities, net of cash acquired	2,241	(5,443)
Acquisition of property, plant and equipment	(2,128)	(3,013)
Development expenditure	<u>(4,449)</u>	<u>(2,175)</u>
Net cash used in investing activities	<u>(79,666)</u>	<u>(32,634)</u>
Cash flows from financing activities		
Proceeds from the issue of share capital	114,673	76,589
Proceeds from the exercise of share options	-	338
Transaction costs for the issue of share capital	(5,583)	(4,140)
Proceeds from borrowings	79,312	29,860
Repayment of borrowings	(111,152)	(68,547)
Finance lease payments	(1,154)	(1,192)
Dividends paid to owners of parent	(7,622)	(17,396)
Dividends paid to owners of non-controlling interest	<u>(571)</u>	<u>(1,009)</u>
Net cash from financing activities	<u>67,903</u>	<u>14,503</u>
Net increase/(decrease) in cash and cash equivalents	4,821	(10,209)
Effect of exchange rate fluctuation on cash held	(1,268)	2,479
Cash and cash equivalents at beginning of the period	<u>23,559</u>	<u>35,045</u>
Cash and cash equivalents at end of period	<u>27,112</u>	<u>27,315</u>

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 2009 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 2009 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 2009.

The consolidated interim financial report was approved by the Board of Directors on 16th 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 2009.

On 1 July 2009, the revised AASB 3 Business Combinations became effective, which resulted in a significant impact to the company. Prospectively from 1 July 2009, the company applies the following for business combinations:

- All transaction acquisition costs are recognised in the income statement.
- All deferred consideration estimates are estimated at fair value at the time of commencement of the deferred consideration period and any adjustment from the initial estimate of fair value are recognised in the income statement.
- On obtaining control on any business combination, the company fair values any existing non controlling interest in the acquiree on the date control is achieved, recognised in the income statement.

As revised AASB 3 applies prospectively, there is no impact on prior periods.

Revised AASB 101: Presentation of Financial Statements (2007) and consequential amendments in AASB 2009-6: Amendments to Australian Accounting Standards. A separate Consolidated interim statement of comprehensive income has been presented in the Consolidated Interim Financial Report as a result of the adoption of this standard. The statement presented changes in equity during a period other than those changes resulting from transactions with owners.

Photon Group Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

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 2009. Refer to Note 7 for additional information in relation to investments in equity accounted investees.

5. Segment reporting

Segment information

Identification of reportable segments

Segment information is presented in respect of the consolidated entity's operating 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

In accordance with AASB 114 Segment Reporting, the consolidated entity has assessed a detailed analysis of risk, return and profitability by area of business, the consolidated entity considers that it operates in five segments, with each segment representing a distinct service within the marketing and communications group:

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

The 31 December 2008 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, amortisation and before impairment adjustments.

EBIT – earnings before interest, taxes and before impairment adjustments.

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

	Strategic Intelligence		Integrated Communications & Digital		Field Marketing		Internet & E Commerce		Specialised Communications		Consolidation	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net revenue	33,831	38,223	42,750	42,764	67,759	73,967	17,137	25,263	34,860	41,420	196,337	221,637
Other operating income	18	260	36	30	28	51	-	-	193	275	275	616
Segment revenue	33,849	38,483	42,786	42,794	67,787	74,018	17,137	25,263	35,053	41,695	196,612	222,253
Segment results (EBITDA)	7,267	4,942	9,414	5,420	12,928	15,034	311	11,949	7,717	7,501	37,637	44,846
Segment results (EBIT)	6,099	3,571	7,816	3,587	11,206	13,269	(3,020)	9,740	5,699	5,193	27,800	35,360
Share of profit / (loss) in equity accounted investee							(117)	105			(117)	105
Impairment of investment in equity accounted investee							(2,059)	(4,215)			(2,059)	(4,215)
Unallocated expenses											(19,578)	(19,523)
Operating profit before income tax											6,046	11,727
Income Tax Expense											(3,038)	(5,905)
Profit for the period											3,008	5,822

Photon Group Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

6. Acquisitions of subsidiaries

In the current interim period, following entities were acquired:

On 7 December 2009, the Company acquired a controlling interest in Dark Blue Sea Limited, as a result of acceptances under the takeover offer which commenced on 1 October 2009. After gaining acceptances in excess of 90% of the share capital, the Company compulsorily acquired the remaining share capital in Dark Blue Sea Limited and therefore owns 100% of the share capital post the compulsory acquisition period. Prior to the takeover bid, the Company had a 29.79% interest in Dark Blue Sea Limited. 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	<u>28,125</u>

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

Acquirees' net assets at the acquisition date

<i>In thousands of AUD</i>	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	4,724	-	4,724
Other Assets	1,690	-	1,690
Trade and other payables	(1,934)	-	(1,934)
Deferred consideration	(1,706)	-	(1,706)
Provisions	(569)	-	(569)
Tax receivable	11	-	11
Provisional fair value of identifiable net assets	<u>6,660</u>	-	<u>6,660</u>
Non-controlling interest in identifiable net assets	-	-	-
Goodwill on acquisition	<u>21,465</u>	-	-

The cash inflow on acquisition is as follows

Cash paid	737
Cash (acquired)	(2,978)
Net cash outflow/(inflow)	<u>(2,241)</u>

Photon Group Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

6. Acquisitions of subsidiaries (continued)

The purchase price of Dark Blue Sea not paid prior to 31 December 2009 is expected to be settled in January 2010 in accordance with the takeover offer.

Fair value adjustments represent identifiable intangible assets net of deferred tax liabilities acquired in connection with the business combination. As at 31 December 2009, the purchase price allocation of Dark Blue Sea has not yet been completed and therefore in accordance with provisional business combination accounting under AASB 3 *Business Combinations*, the entire value of the excess of the purchase consideration over the fair value of the net assets and liabilities acquired has been allocated to goodwill. The Company expects to complete the purchase price allocation within the required provisional business combination timeframe and allocate any intangible assets identified and recognisable under AASB 138 *Intangible Assets*.

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

In the prior interim period, there were no individually material or significant acquisitions. The total of all acquisitions had the following effect on the consolidated entity's assets and liabilities:

Acquirees' net assets at the acquisition date

<i>In thousands of AUD</i>	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	<u>1,040</u>	<u>119</u>	<u>1,159</u>
Outside equity interest	-		
Goodwill on acquisition	<u>6,345</u>		

Total acquisitions cash outflow for half year ended 31 December 2008

Total consideration	7,334
Deferred consideration	(934)
Cash (acquired)	(957)
Net cash outflow	<u>5,443</u>

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

7. 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:

<i>In thousands of AUD</i>	Consolidated	
	2009	2008
Movements in carrying amount of associated entities		
Carrying amount at the beginning of the period	10,132	13,904
Acquisition of interest in associated entity	423	399
Share of associate entity profit/(loss)	(117)	145
Dividends received from associates	-	(101)
Impairment	(2,059)	(4,215)
Reclassification to controlled entity	(8,379)	-
Carrying amount at the end of the period	-	10,132

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

In accordance with Australian Accounting Standard AASB 3 *Business Combinations* the Company has 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 has been deemed at 35 cents per share, being the final price under the takeover offer.

8. Income tax expense

The consolidated entity's effective tax rate for the 6 months ended 31 December 2009 was 37%, (for the six months ended 31 December 2008: 37%) excluding the impairment charge. The effective tax rate was higher than the corporate rate due to non deductible items including 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 2009 was 50% (for the six months ended 31 December 2008: 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. During the interim period the Company used funds raised from its placement in August 2009 and rights issue in September 2009 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 2009 for details regarding financing arrangements.

Photon Group Limited and its controlled entities

Condensed notes to the consolidated interim financial statements

9. Loans and borrowings (continued)

During the interim period the Company extended the maturity dates of its existing debt facilities such that the amounts drawn under the facility due on 30 April 2010 has been extended to 30 April 2012 and the amounts drawn under the facility due on 31 October 2010 has been extended to 31 October 2012. Following these extensions, the Company has no current debt at 31 December 2009.

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 2009.

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 2009.

Associates

During the six months ended 31 December 2009, the Company did not receive any dividends from associates (six months to 31 December 2008: \$101,538).

12. Subsequent events

Dividends

Subsequent to the interim balance sheet date, the directors have declared an interim 2010 dividend with respect to ordinary shares amounting to 3 cents per ordinary share to be paid on 30 March 2010. 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 2009 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 10 to 18, 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 2009 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 16th day of February 2010.

Signed in accordance with a resolution of the directors:



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 statement of financial position as at 31 December 2009, consolidated interim statement of comprehensive income, consolidated interim income statement, consolidated interim statement of changes in equity and consolidated interim statement of cash flows for the half-year 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 interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim 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 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 a conclusion 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 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 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 2009 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.



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 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 2009 and of its performance for the interim period 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

16 February 2010



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 2009 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

16 February 2010