Photon Group Limited

And its controlled entities

ABN 97 091 524 515

Half Year Financial Report

For the six months ended 31 December 2004

Photon Group Limited
ABN 97 091 524 515

Contents

Photon Group Limited
ABN 97 091 524 515

Directors' Report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2004 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 Regional Media Pty Limited and is also a Director of Carinya Investment Management and 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 as a director of the Company on 2 June 2000 and is a member of the Remuneration Committee.

Matthew Bailey- Chief executive officer/ 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.

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 1 July 2000.

Anthony Armstrong- Non- executive director
Anthony has extensive experience in the marketing services industry having previously been Vice President International for the J Walter Thompson Co, Managing Director of J. Walter Thompson in Australia and Managing Director of J Walter Thompson Hong Kong. Anthony has been a director of WPP Australia and is currently a director of the National Trust of Australia and the Juvenile Diabetes Research Foundation. Anthony has a Master of Commerce from UNSW and Bachelor of Economics from University of Sydney. He was appointed as a director of the Company on 1 July 2000.

Susan McIntosh- Non-executive director
Susan is a Chartered Accountant with over 20 years experience in television production and distribution and radio broadcasting. 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- Non-executive director
Brian joined Austereo Limited in 1980 as a founding executive and recently resigned from Austereo Limited after 24 years. 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. He was appointed as a director of the Company on 25 March 2004 and is Chairman of the Audit Committee.

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Directors' Report (continued)

Directors ***(continued)***

Tim Tighe - Non-executive director

Tim is a Business Leader with extensive international experience. Tim is Managing Director of Hungry Jacks Australia. He was appointed as a director of the Company on 25 March 2004 and is Chairman of the Remuneration Committee.

Paul Gregory – Non-executive director

Paul is currently providing management services to Beachculture Aust Pty Ltd, a major national and international retailer of iconic international surf and street wear labels. 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 of the Company on 25 March 2004 and is a member of the Audit Committee and the Remuneration Committee.

Review and result 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.

During the half-year ended 31 December 2004 Photon Group Limited acquired 100% of the issued capital of The Leading Edge Marketing Research Consultants Pty Limited, a company that provides market research consultancy services including building brand and category value and targeting and identifying new category and product opportunities for clients.

The consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) grew 273% to $7,022,000 (December 2003: $1,885,000). Net profit from ordinary activities after income tax and before goodwill amortisation (NPATA) grew 420% to $3,554,000 (December 2003: $684,000). Net profit from ordinary activities after income tax (NPAT) grew 219% to $1,184,000 (December 2003: $371,000) which was impacted by goodwill amortisation charges together with the non-cash interest charge to the profit and loss account incurred for the difference between the nominal and the present value of the deferred portion of the consideration payable to The Leading Edge Market Research Consultants Pty Limited (TLE). Growth during the half year ended 31 December 2004 was attributable from a combination of acquisition and organic growth in existing companies.

Refer note 6 for further information concerning the acquisition of TLE.

Refer note 7 for further detail concerning the non-cash interest charge to the profit and loss account incurred for the difference between the nominal and the present value of the deferred portion of the consideration payable to TLE.

Events subsequent to balance date

Subsequent to balance date, the Company acquired 100% of the issued share capital of Orchard National Pty Limited and Orchard National (Southern) Pty Limited, companies which offer a broad and flexible service mix, including national merchandising, key accounts management and data analysis, in January 2005. The purchase price was $700,000 cash plus additional deferred cash payments to be tied to the earnings of both companies in the period through to 30 June 2006. The initial payment for the acquisition was funded using existing cash reserves.

The financial effects of the transaction have not been brought to account in the financial statements for the half-year ended 31 December 2004.

Dividend

For dividends proposed after 31 December 2004, see note 5.

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Directors' Report (continued)

Events subsequent to balance date (continued)

International Financial Reporting Standards

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. For further discussion concerning the process of assessment and implementation, see Note 10.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

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 23rd day of February 2005.

Tim Hughes
Director

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Lead auditors 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, during the half-year ended 31 December 2004 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

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Peter Dore
Partner

Sydney,
23 February 2005

Photon Group Limited
ABN 97 091 524 515

Statement of financial performance

for the half year ended 31 December 2004

		Consolidated	
		31 December 2004 $'000	31 December 2003 $'000
Revenue from rendering of services		36,586	12,896
Other revenues from ordinary activities		267	405
Total revenue from ordinary activities		36,853	13,301
Employee expenses		(24,011)	(8,853)
Borrowing costs		(1,009)	(94)
Occupancy costs		(1,760)	(761)
Depreciation and amortisation expenses		(2,986)	(474)
Insurance expense		(197)	(107)
Consultancy fees		(738)	(263)
Equipment hire charges		(322)	(160)
Travel expense		(445)	(215)
Communication expense		(671)	(301)
Other expenses from ordinary activities		(1,709)	(918)
Share of net profit of associates and joint ventures accounted for using the equity method	8	101	246
Present value interest charges with respect to the deferred consideration of acquisitions	7	(390)	-
Profit from ordinary activities before related income tax expense		2,716	1,401
Income tax expense relating to ordinary activities		(1,652)	(481)
Net profit		1,064	920
Net (profit)/loss attributable to outside equity interests		120	(549)
Net profit attributable to members of the parent entity		1,184	371
Non-owner transaction changes in equity			
Net exchange difference relating to self-sustaining foreign operations		2	2
Total changes in equity from non-owner related transactions attributable to members of the parent entity recognised directly in equity		1,186	373
Basic earnings per share (cents):			
Ordinary shares		2.41	
Diluted earnings per share (cents):			
Ordinary shares		2.38	

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements as set out on pages 8 to 15.

Photon Group Limited
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Statement of financial position

as at 31 December 2004

	Note	Consolidated 31 December 2004 $'000	30 June 2004 $'000
Current assets			
Cash assets		6,023	5,994
Receivables		20,728	13,866
Other		3,849	1,571
Total current assets		30,600	21,431
Non-current assets			
Investments accounted for using the equity method		431	485
Other financial assets		104	179
Intangible assets		88,728	67,733
Property, plant and equipment		4,408	2,772
Deferred tax assets		2,037	888
Other		317	236
Total non-current assets		96,025	72,293
Total assets		126,625	93,724
Current liabilities			
Payables		21,106	12,450
Interest bearing liabilities		5,664	2,498
Current tax liabilities		2,588	3,059
Provisions		2,553	1,741
Total current liabilities		31,911	19,748
Non-current liabilities			
Payables		6,152	-
Interest bearing liabilities		25,035	12,468
Deferred tax liabilities		1,591	113
Provisions		771	246
Total non-current liabilities		33,549	12,827
Total liabilities		65,460	32,575
Net assets		61,165	61,149
Equity			
Contributed equity	3	62,157	62,190
Accumulated losses	4	(4,105)	(4,308)
Reserves		12	10
Total parent entity interest		58,064	57,892
Outside equity interests		3,101	3,257
Total equity		61,165	61,149

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Photon Group Limited
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Statement of cash flows

for the half year ended 31 December 2004

	Consolidated	
	31 December 2004 $'000	31 December 2003 $'000
Cash flows from operating activities		
Cash receipts in the course of operations	40,306	16,052
Cash payments in the course of operations	(34,027)	(13,182)
Interest received	79	84
Dividends received	155	-
Borrowing costs paid	(1,008)	(94)
Income taxes paid	(2,290)	(489)
Net cash provided by operating activities	3,215	2,371
Cash flows from investing activities		
Payments for property, plant & equipment	(2,355)	(448)
Payments for investments (net of cash acquired)	(13,828)	(366)
Proceeds from disposal of non-current assets	-	2
Net cash used in investing activities	(16,183)	(812)
Cash flows from financing activities		
Proceeds from issue of shares	-	15
Transaction costs from issue of shares	(33)	-
Proceeds from borrowings	15,000	-
Repayment of borrowings	(427)	(298)
Dividends paid to outside equity interest in controlled entities	(563)	(408)
Dividends paid to shareholders	(980)	-
Net cash provided by/(used in) financing activities	12,997	(691)
Net increase in cash held	29	868
Cash at the beginning of the financial period	5,994	5,542
Cash at the end of the financial period	6,023	6,410

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Notes to the financial statements

for the half-year ended 31 December 2004

1 Statement of significant accounting policies

(a) Basis of preparation

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year financial report is to be read in conjunction with the 30 June 2004 Annual Financial Report and any public announcements by Photon Group Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, are consistent with those applied in the 30 June 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

2 Segment reporting

Business segments

The consolidated entity has one business segment, being specialist marketing services.

Notes to the financial statements

for the half-year ended 31 December 2004

3 Contributed equity

	Consolidated	
	31 December 2004 $'000	30 June 2004 $'000
Share capital		
49,036,632 (June 2004: 49,036,632) ordinary shares,		
fully paid	62,157	62,190
Ordinary shares		
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.		
Ordinary shares		
Movements during the half-year / year		
Balance at beginning of half-year / year		
49,036,632 (June 2004: 21,149,722) shares	62,190	17,928
Shares issued:		
-4,000,000 shares issued for the exercise of options:		
January 2006 options at $0.75		
January 2006 options at $1.00	-	2,250
	-	1,000
-8,498,850 shares issued pursuant to acquisition of		
Barimos ("the Bailey Group") for $1.80 per share	-	15,298
-5,373,060 shares issued pursuant to acquisition agreements for the minority interests in controlled		
entities for $1.80 per share	-	9,671
-10,000,000 shares issued for cash pursuant to		
prospectus for $1.80 per share	-	18,000
- 15,000 shares issued for cash		
for $1 per share	-	15
Transaction costs arising from share issue under Prospectus and shares issued for acquisition of		
minority interests in controlled entities	(33)	(1,972)
Balance at end of half-year / year	62,157	62,190

Notes to the financial statements for the half-year ended 31 December 2004

4 Accumulated Losses

	Consolidated	
	31 December 2004 $'000	**31 December 2003 $'000**
Accumulated losses at beginning of the half-year	(4,308)	(5,595)
Net profit attributable to members of the parent entity	1,184	371
Dividends recognised during the half-year	(981)	-
Accumulated losses at end of the half-year	(4,105)	(5,224)

5 Dividends

Dividends paid or provided in the current financial period by Photon Group Limited (prior comparative period: Nil) are:

	Cents per share	Total amount $'000	Date of payment	Franked/ unfranked
Final – Ordinary shares	2.0c	981	11 October 2004	Franked

Franked dividends were franked at a rate of 30%

Subsequent events Since the end of the financial period, the directors proposed the following dividend:				
Interim – Ordinary shares	3.0c	1,471	4 April 2005	Franked

The financial effect of this dividend has not been brought to account in the consolidated entity financial statements for the half-year ended 31 December 2004 and will be recognised in subsequent financial reports.

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Notes to the financial statements

for the half-year ended 31 December 2004

6 Acquisition of controlled entities

Acquisition of entities

During the financial half-year the consolidated entity purchased all the issued capital in the following entities:

	Acquisition date	Shares acquired	Business activities
The Leading Edge Market Research Consultants Pty Limited (i)	1 July 2004	100%	Market research consulting services
The Leading Edge Market Research Consultants Limited (i)	1 July 2004	100%	Market research consulting services (currently a dormant company incorporated in the UK)

(i) All the issued capital of The Leading Edge Market Research Consultants Pty Limited and its controlled entity, The Leading Edge Market Research Consultants Limited were acquired by Photon Group Limited on 1 July 2004 (transaction settled 11 August 2004), for an initial cash payment of $15,000,000. Additional consideration is payable based on the EBITDA of the acquired entities in the years ending 30 June 2005, 2006 and 2007. A reasonable estimate has been made of such deferred payments and these have been discounted to present value as at acquisition date and included as current and non-current payables in the statement of financial position of the consolidated entity at 31 December 2004.

The operating results of the above entities have been included in the consolidated operating profit from the date of acquisition.

The consolidated entity did not gain control over any entities during the prior corresponding half-year period.

7 Deferred consideration on acquisition of controlled entities

AASB 1015, Acquisition of Assets requires that the fair value of any deferred cash consideration be included in the cost of the acquisition when the amount(s) of same can be reliably measured and that such consideration must be discounted back to present value as at the date of acquisition. Such accounting treatment as prescribed by AASB 1015 results in the difference between the present value and the nominal value of deferred consideration being amortised to the statement of financial performance on a straight line basis over the settlement term up to the settlement date.

The effect of the above described accounting treatment on the consolidated entity's profit before tax is $390,000. This treatment does not impact the cashflow of the consolidated entity.

8 Associate entities

Interest in associates

	Ownership Interest (consolidated)		Share of net profits (consolidated)	
Name	31 December 2004 %	31 December 2003 %	31 December 2004 $'000	31 December 2003 $'000
Bellamyhayden Pty Limited	40	50	101	158
Returnity Pty Limited	-	50	-	88
Total share of associates accounted for using the equity method			101	246

9 Contingent liabilities and contingent assets

There were no material changes in the contingent liabilities or contingent assets of the consolidated entity since 30 June 2004.

10 Events subsequent to balance date

Acquisition of entity

Subsequent to balance date, the Company acquired 100% of the issued share capital of Orchard National Pty Limited and Orchard National (Southern) Pty Limited, companies which offer a broad and flexible service mix, including national merchandising, key accounts management and data analysis, in January 2005. The purchase price was $700,000 cash plus additional deferred cash payments to be tied to the earnings of both companies in the period through to 30 June 2006. The initial payment for the acquisition was funded using existing cash reserves.

The financial effects of the transaction have not been brought to account in the financial statements for the half-year ended 31 December 2004.

Dividend

For dividends proposed after 31 December 2004, see note 5.

Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This half-year financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ending on 31 December 2004.

Implementation project

The consolidated entity has put a project plan in place to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005. The consolidated entity's implementation project consists of three phases as described below:

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.
This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;

10 Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

Assessment and planning phase (continued)

- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The assessment and planning phase is completed in most respects as at 31 December 2004.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase has commenced with work progressing in each of the areas detailed below which incorporate:

- formulating revised accounting policies and procedures for compliance with AIFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of AIFRS;
- developing revised AIFRS disclosures;
- designing accounting and business processes to support AIFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

The design phase is expected to be completed by 30 June 2005.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable to consolidated entity to generate the required disclosures of AASB 1 as it progresses through its transition to AIFRS.
Except for certain training that has been given to operational staff, the consolidated entity has not yet commenced the implementation phase. However, the consolidated entity expects this phase to be substantially complete by 30 June 2005.

The key potential implications of the conversion to AIFRS on the consolidated entity are as follows:

Intangibles (including goodwill) and impairment testing

Under AIFRS goodwill will not be systematically amortised on a straight-line basis over the period which the benefits are expected to be arise being a period no longer than 20 years, as currently required under Australian GAAP. Instead the carrying value of the group's assets including goodwill will be reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying value of an asset, or in certain circumstances the asset's related cash generating unit, exceeds its recoverable amount. The full amount of impairment loss will be recognised in the statement of financial performance in the year the impairment arises.

Notes to the financial statements
for the half-year ended 31 December 2004

10 Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

Intangibles (including goodwill) and impairment testing (continued)

AIFRS requires goodwill and other relevant assets should be allocated on a reasonable and consistent basis to the cash generating units of the business to the extent possible. The extent to which goodwill is allocated to these cash generating units will determine the strict test applied to determine whether goodwill and cash generating operations have been impaired. Under AIFRS, when determining whether an asset is impaired, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where intangibles are assessed as having infinite useful lives, amortisation charges will be reduced but additional write downs may be required due to annual impairment tests. Impairment testing under AIFRS is more rigorous than under Australian GAAP and may result in additional writedowns either on transition or during future financial periods.

Income tax

The conversion to AIFRS will change from an income statement liability approach to a balance sheet approach which may result in more deferred tax assets and liabilities, and as tax effects follow the underlying transaction, they can be recognised in equity as well as income tax expense. Additional deferred tax assets may be recognised as a result of the change in recognition criteria to "probable" rather than "virtually certain" or "beyond reasonable doubt".

Equity-based compensation

AIFRS will require expensing of equity-based compensation in the form of shares and options over the period of service by the employee to which the options relate. As a result, under the AIFRS regime, employee benefit expense increases due to the expensing of the fair value of options and shares over the vesting period.

For equity settled share based payment plans, the fair value of the options are measured at grant date and expensed over the vesting period. The expense recognised is adjusted through the income statement for forfeiture due to non-market or service conditions not being met. The fair value includes an adjustment for market conditions.

Foreign Currency

Exchange rate differences in relation to foreign operations are recognised in a separate component of equity. Individual entities maintain their ledgers in their functional currency and are translated to the consolidated entity's presentation currency for reporting purposes.

Goodwill and fair value adjustments recognised on acquisition are treated as assets of the acquired entity and are therefore translated at the spot rate at each reporting date. This will impact the consolidated goodwill balance and reserves.

10 Events subsequent to balance date (continued)

International Financial Reporting Standards (continued)

Financial Instruments

The recognition of hedge instruments and related debt must be recorded at fair value. Photon Group Limited has hedging instruments in place to mitigate interest rate risk and exposures. AASB 1 provides an election whereby the requirements of AASB 132 and AASB 139 are not required to be applied in the first comparative year under AIFRS. It is expected that the first time adoption of these standards will apply at 1 July 2005.

Business Combinations

In accounting for business combinations, the identifiable assets, liabilities and contingent liabilities of the acquiree are recognised at their fair value. AASB 3 requires items meeting the definition of an intangible asset to be separately identified, provided their fair values can be reliably measured. This will increase intangible assets and associated amortisation charges, and reduce the amount of goodwill.

An election is available under AASB 1 which provides the ability to choose whether the acquisition accounting of business combinations prior to transition date are restated under AIFRS. Entities can choose to restate all prior business combinations, only those after a certain date or none.

It is likely that Photon Group Limited will take advantage of the election available and not restate business combinations prior to transition date.

Photon Group Limited
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Directors' Declaration

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

(a) the financial statements and notes, set out on pages 8 to 15, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2004 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pays its debts as and when they become due and payable.

Dated at Sydney this 23rd day of February 2005.

Signed in accordance with a resolution of the directors:

Tim Hughes
Director

Independent review report to the members of Photon Group Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 10 to the financial statements and the directors' declaration (set out on pages 5 to 16) for the Photon Group Limited Consolidated Entity ("the consolidated entity"), for the half-year ended 31 December 2004. The consolidated entity comprises Photon Group Limited ("the company") and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the results of the company to be included in the consolidated result of Photon Group Limited financial report to be lodged with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Statement

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

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

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Peter Dove
Partner

Sydney
23 February 2005