

Photon Group Limited
ABN 97 091 524 515
Appendix 4D
Preliminary final report
Half year ended 31 December 2007

Results for Announcement to the Market

Rule 4.2A.3

The current reporting period is 1 July 2007 to 31 December 2007

The previous corresponding reporting period is 1 July 2006 to 31 December 2006.

Key information

Revenues from ordinary activities	up	90.20%	to 245,612
Profit after tax attributable to members	up	25.90%	to 8,643
Net profit for the period attributable to members	up	25.90%	to 8,643

Dividends	Amount per security	Franked amount per security
Interim dividend – payable 8 April 2008	11.5 cents	11.5 cents

The record date for determining entitlements to the interim dividend is 28 March 2008.

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 2007 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	(3.37)	(0.96)

Explanation of results

Please refer to the attached 31 December 2007 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 2007 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 2007 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 2004 and was appointed a director of the Company on 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 20-year business career in television production and distribution, television broadcasting, radio, investment management and marketing services. Tim earned a Bachelor of Business from the University of Technology, Sydney. Tim is also a member of the Remuneration Committee.

Matthew Bailey- Chief executive officer /Executive director

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

Susan McIntosh- Independent non-executive director

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

Brian Bickmore- Independent non-executive director

Brian was appointed as a non-executive director of the Company on 25 March 2004. In 1980, Brian was a founding executive of Austereo and served as a director of the company for almost 25 years until 2004. Brian was initially Austereo's Finance Director and from 1997, was the Group General Manager. Brian is also the Chairman of Artist and Entertainment Group Limited, a director of Network Outdoor Australia and was previously a director of RG Capital Radio Holdings. Brian is the Chairman of both the Audit Committee and the Remuneration Committee.

Paul Gregory – Independent non-executive director

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

Tony Rowlinson – Executive director

Tony was appointed a director of the Company on 22 February 2006. Tony resigned as director of the Company on 17 July 2007 and is now Managing Director of the Integrated Communications and Digital Division.

Siimon Reynolds- Executive director

Siimon was appointed a director of the Company on 9 December 2000. Siimon resigned as director of the Company on 7 November 2007, however will continue as a strategic creative advisor of Love Communications and Chairman of the Photon Foundation.

Photon Group Limited and its controlled entities

Directors' report (continued)

Review and results of operations

The consolidated entity during the course of the financial half-year continued to provide specialist integrated marketing services, specialising in retail marketing and merchandising, advertising, public relations, graphic design, digital printing, production and 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. Further diversification into overseas markets was undertaken with acquisition and organic growth in the UK, US and Asia.

Acquisitions

During the half-year ended 31 December 2007, Photon Group Limited acquired interests in the following entities:

Acquisition of subsidiaries

- On 17 July 2007, the Company acquired 100% of the issued capital of Messagenet Pty Limited (Messagenet), an SMS communication specialist company.
- On 30 July 2007, the Company acquired 100% of the issued capital of ISS Consolidated Pty Limited (ISS Marketing), a promotional and marketing agency.
- On 1 August 2007, the Company acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited (Markson Sparks), a publicity company.
- On 2 August 2007, the Company acquired 100% of the issued capital of Resource Experience Limited (REL Field Marketing), a field marketing company.
- On 29 August 2007, the Company acquired the remaining 60% of the issued capital of Bellamy Hayden Pty Limited (Bellamy Hayden), taking the Company's ownership to 100%.
- On 3 September 2007, the Company acquired 100% of the issued capital of Club Sales and Merchandising Pty Limited and Club Food Brokerage Pty Limited (Club Sales), sales and merchandising businesses.
- On 11 September 2007, the Company acquired 100% of the issued capital of Lorica Group Limited (Corporate Edge), a communications and brand marketing business.
- On 17 September 2007, the Company acquired 100% of the issued capital of BMF Advertising Pty Limited and 100% of the units of The BMF Unit Trust (BMF Advertising), an independent advertising agency.

Photon Group Limited and its controlled entities

Directors' report (continued)

Review and results of operations (continued)

Acquisitions (continued)

- On 2 October 2007, the Company acquired the remaining 49% of the issued capital of Found Agency (Found Agency), a search engine marketing company.
- On 12 October 2007, the Company acquired 100% of the issued capital of Frank Public Relations Limited (Frank PR), a public relations company.
- On 1 November 2007, the Company acquired 100% of the issued capital of North By Northwest Group Limited (Hotwire Group), a public relations agency.
- On 20 November 2007, the Company acquired 100% of the issued capital of Sledge Limited (Sledge), a brand experience agency.
- On 5 December 2007, the Company acquired 100% of the issued capital of Findology Interactive Media Inc. and Way Internet Inc. (Findology), a leading search engine and online advertising agency.

Further detail in relation to the above is provided in note 6 of the condensed notes to the consolidated interim financial statements.

Issue of shares / share options

On 30 July 2007, the Company issued 158,228 ordinary shares to the vendors of ISS Marketing, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date and rank equally with existing shareholders.

On 2 August 2007, the Company issued 1,420,000 options, and on 15 October 2007 the company issued 130,000 options, to employees under the Company's Executive 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 \$5.94, being the VWAP for the 30 days prior to 30 June 2007.

On 29 August 2007, the Company issued 45,000 ordinary shares to the vendors of Bellamy Hayden, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting. These shares are subject to voluntary escrow restrictions that will cease 6 months from issue date and rank equally with existing shareholders.

On 3 September 2007, the Company issued 100,000 ordinary shares to the vendors of Club Sales, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date and rank equally with existing shareholders.

On 17 September 2007, the Company issued 600,000 ordinary shares to the vendors of BMF Advertising, as part payment of the purchase price, which was approved by shareholders at the Company's Annual General Meeting. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date and rank equally with existing shareholders.

Photon Group Limited and its controlled entities

Directors' report (continued)

Review and results of operations (continued)

Issue of shares / share options (continued)

On 25 September 2007, the Company issued 741,562 ordinary shares to employees exercising options under the Company's Executive Share Option Plan (ESOP) and the Company's Employee Share Option Scheme (ESOS), which was approved by shareholders at the Company's Annual General Meeting in 2004. The exercise prices of the options were as follows:

- 320,000 options at \$1.80 per share
- 333,333 options at \$2.87 per share
- 88,229 options at \$2.99 per share

These shares rank equally with existing shareholders.

On 10 October 2007, the Company issued 250,000 options subject to performance hurdles based on EPS growth and employment conditions for no consideration to Mr Matthew Bailey. The exercise price of the options is \$5.94, being the VWAP for the 30 days prior to 30 June 2007, under a scheme approved by shareholders at the Company's Annual General Meeting on 17 October 2006.

On 20 November 2007, the Company issued 71,495 ordinary shares at an issue price of \$5.94, being the VWAP for the 30 days prior to 30 June 2007, to certain employees of Photon and its subsidiaries pursuant to an incentive based bonus scheme. These shares rank equally with existing shareholders.

On 5 December 2007, the Company issued 516,590 ordinary shares to the vendors of Findology, as part payment of the purchase price. These shares are subject to voluntary escrow restrictions that will cease 12 months from issue date. These shares rank equally with existing shareholders.

On 21 December 2007, the Company issued 1,000,000 options for no consideration to Mr Timothy Hughes pursuant to his service agreement, which was approved by shareholders at the Company's Annual General Meeting on 20 November 2007. The exercise price for the options is \$6.00, being an amount which is referable to the market value at the time when the Remuneration Committee approved the extension of his service agreement.

Result

The consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) grew 51% to \$28,875,000 (December 2006: \$19,126,000). Net profit from ordinary activities after income tax (NPAT) attributable to the members of the parent entity grew 26% to \$8,643,000 (December 2006: \$6,865,000). Growth was attributable to a combination of acquisitions and organic growth in existing companies.

Dividend

For dividends proposed after 31 December 2007, see note 13.

Subsequent events

For events subsequent to the interim balance sheet date, see note 13.

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

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

The lead auditor's independence declaration is set out on page 22 and forms part of the directors' report for the half year ended 31 December 2007.

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 25th day of February 2008.



Tim Hughes
Director

Photon Group Limited and its controlled entities

Consolidated interim income statement

For the six months ended 31 December 2007

In thousands of AUD

	31 Dec 2007	31 Dec 2006
Revenue from rendering of services	245,612	129,132
Directly attributable cost of sales	(86,972)	(44,496)
Net revenue from rendering of services	158,640	84,636
Other income	1,347	598
Total revenue	159,987	85,234
Employee expenses	(103,474)	(52,072)
Occupancy costs	(6,361)	(3,529)
Depreciation and amortisation expense	(6,112)	(4,012)
Insurance expense	(593)	(373)
Consultancy fees	(6,429)	(2,507)
Equipment hire charges	(490)	(499)
Travel expenses	(3,355)	(1,470)
Communication expenses	(3,093)	(1,780)
Other operating expenses	(6,660)	(3,692)
Finance costs	(9,459)	(4,039)
Share of profit/(loss) equity accounted investees	(65)	153
Profit before income tax	13,896	11,414
Income tax expense	(5,124)	(4,418)
Profit for the period	8,772	6,996
Attributable to:		
Members of the parent entity	8,643	6,865
Minority interest	129	131
Profit for the period	8,772	6,996
Basic earnings per share from continuing operations (AUD cents)	11.48 cents	10.36 cents
Diluted earnings per share from continuing operations (AUD cents)	11.20 cents	10.07 cents

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 19.

Photon Group Limited and its controlled entities
 Consolidated interim statement of changes in equity attributable to
 members of the parent entity

For the six months ended 31 December 2007

In thousands of AUD

	31 Dec 2007	31 Dec 2006
Opening balance of equity attributable to members	179,645	97,518
Issued capital		
Tax effect of transaction costs	(123)	271
Share issue costs	(107)	(1,253)
Shares issued as part of business combinations	8,973	23,690
Shares issued	2,294	50,383
Foreign currency translation reserve		
Net exchange difference on translation of foreign controlled entity	(1,366)	40
Retained earnings		
Dividends paid	(9,765)	(7,254)
Option reserve		
Share option expense	1,160	433
Revaluation reserve		
Net revaluation reserve movement	1,439	942
Net adjustments recognised directly in equity	2,505	67,252
Profit for the period	8,643	6,865
Closing balance of equity attributable to members	190,793	171,635

The statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 19.

Photon Group Limited and its controlled entities

Consolidated interim balance sheet

As at 31 December 2007

In thousands of AUD

Current assets

Cash and cash equivalents	35,908	17,994
Trade and other receivables	83,738	51,497
Other assets	17,759	7,755
Total current assets	137,405	77,246

Non-current assets

Receivables	87	27
Other financial assets	503	258
Available for sale financial assets	18,214	14,999
Investments in equity accounted investees	-	540
Deferred tax assets	9,963	5,168
Property, plant and equipment	20,032	13,801
Other assets	2,044	807
Intangible assets	450,415	289,177
Total non-current assets	501,259	321,777

Total assets

638,664 399,023

Current liabilities

Trade and other payables	87,400	53,920
Interest-bearing loans and borrowings	14,512	2,092
Employee benefits	8,037	6,336
Income tax payable	7,713	6,401
Provisions	1,826	1,274
Total current liabilities	119,488	70,023

Non-current liabilities

Trade and other payables	34,988	32,151
Interest-bearing loans and borrowings	276,751	104,035
Deferred tax liabilities	10,905	8,373
Employee benefits	746	759
Provisions	3,318	2,506
Total non-current liabilities	326,708	147,824

Total liabilities

444,196 217,847

Net assets

192,468 181,176

Equity

Issued capital	180,113	169,077
Reserves	4,072	2,836
Retained earnings	6,610	7,732

Total equity attributable to equity holders of the parent

190,793 179,645

Minority interest

1,673 1,531

Total equity

192,468 181,176

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 19.

Photon Group Limited and its controlled entities

Consolidated interim statement of cash flows

For the six months ended 31 December 2007

In thousands of AUD

	31 Dec 2007	31 Dec 2006
Cash flows from operating activities		
Cash receipts from customers	206,559	131,213
Cash paid to suppliers and employees	(182,456)	(111,188)
Cash generated from operations	24,103	20,025
Interest received	592	339
Income taxes received / (paid)	(3,938)	165
Borrowing costs paid	(7,626)	(2,685)
Dividends received	275	88
Net cash from operating activities	13,406	17,932
Cash flows from investing activities		
Payments of deferred consideration	(13,306)	(25,314)
Payments for available-for-sale financial assets	(1,159)	-
Development expenditure	(789)	-
Proceeds from disposal of non-current assets	170	23
Acquisition of controlled entities, net of cash acquired	(150,595)	(33,011)
Acquisition of property, plant and equipment	(2,744)	(1,627)
Net cash used in investing activities	(168,423)	(59,929)
Cash flows from financing activities		
Proceeds from the issue of share capital	-	50,383
Proceeds from the exercise of share options	1,796	-
Transaction cost for the issue of share capital	(107)	(1,253)
Proceeds from borrowings	180,126	62,359
Repayment of borrowings	-	(48,657)
Dividends paid to outside equity interest in controlled entities	(1,044)	(290)
Finance lease payments	(1,077)	(781)
Dividends paid to shareholders of Photon Group Limited	(9,765)	(7,254)
Net cash from financing activities	169,929	54,507
Net increase in cash and cash equivalents	14,912	12,511
Cash and cash equivalents at 1 July	17,604	11,734
Cash and cash equivalents at 31 December	32,516	24,245

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

This statement of cashflows is to be read in conjunction with the notes to the interim financial statements set out on pages 12 to 19.

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 2007 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 2007 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 2007.

The consolidated interim financial report was approved by the Board of Directors on 25 February 2008.

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 2007.

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 2007.

Condensed notes to the consolidated interim financial statements

5. Segment reporting

Business segments

For the six months ended 31 December 2007

<i>In thousands of AUD</i>	Marketing and Corporate Communications		Digital, Interactive and Internet		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue from rendering services	195,994	108,156	49,618	20,922	-	-	245,612	129,078
Directly attributable cost of sales	(59,300)	(38,462)	(27,672)	(6,033)	-	-	(86,972)	(44,495)
Net Revenue from rendering of services	136,694	69,694	21,946	14,889	-	-	158,640	84,583
Other operating income	599	415	122	99	-	-	721	514
Segment revenue	137,293	70,109	22,068	14,988	-	-	159,361	85,097
Unallocated revenue							626	137
Total revenue							159,987	85,234
Segment result	22,476	15,312	6,586	4,270	-	-	29,062	19,582
Unallocated expenses							(15,166)	(8,168)
Operating profit before income tax							13,896	11,414
Income tax expense							(5,124)	(4,418)
Profit for the period							8,772	6,996

* All segments are continuing operations

Segment reporting is presented in respect of the consolidated entity's primary format being business segments, based on the consolidated entity's management and internal reporting structure.

The consolidated entity comprises the following 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 2006 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 2007 and subsequent ASX releases for descriptions of activities of all individual companies of the consolidated group.

Condensed notes to the consolidated interim financial statements

6. Acquisitions of subsidiaries

- On 17 July 2007, the Company acquired 100% of the issued capital of Messagenet Pty Limited (Messagenet), an SMS communication specialist company. The purchase price was an upfront payment of \$6,000,000 cash. In addition, deferred consideration tied to the earnings of Messagenet is payable through to 30 June 2010.
- On 30 July 2007, the Company acquired 100% of the issued capital of ISS Consolidated Pty Limited (ISS Marketing), a promotional and marketing agency. The purchase price was an upfront payment of \$5,000,000 cash and the issue of 158,228 ordinary Photon shares at \$6.32 per share. In addition, deferred consideration tied to the earnings of ISS Marketing is payable through to 30 June 2011.
- On 1 August 2007, the Company acquired 100% of the issued capital of Markson Sparks Publicity Pty Limited (Markson Sparks), a publicity company. The purchase price was an upfront payment of \$3,000,000 cash. In addition, deferred consideration tied to the earnings of Markson Sparks is payable through to 30 June 2010.
- On 2 August 2007, the Company acquired 100% of the issued capital of Resource Experience Limited (REL Field Marketing), a field marketing company. The purchase price was an upfront payment of \$17,842,125 cash. In addition, deferred consideration tied to the earnings of REL Field Marketing is payable through to 31 December 2012.
- On 29 August 2007, the Company acquired the remaining 60% of the issued capital of Bellamy Hayden Pty Limited (Bellamy Hayden), taking the Company's ownership to 100%. The purchase price was an upfront payment of \$4,751,150 cash and the issue of 45,000 ordinary Photon Shares at \$5.53 per share. In addition, deferred consideration tied to the earnings of Bellamy Hayden is payable through to 30 June 2011.
- On 3 September 2007, the Company acquired 100% of the issued capital of Club Sales and Merchandising Pty Limited and Club Food Brokerage Pty Limited (Club Sales), sales and merchandising businesses. The purchase price was an upfront payment of \$7,377,000 cash and the issue of 100,000 ordinary Photon Shares at \$6.23 per share. In addition, deferred consideration tied to earnings of Club Sales is payable through to 30 June 2011.
- On 11 September 2007, the Company acquired 100% of the issued capital of Lorica Group Limited (Corporate Edge), a communications and brand marketing business. The purchase price was an upfront payment of \$13,881,531 cash. In addition, deferred consideration tied to the earnings of Corporate Edge is payable through to 31 December 2010.
- On 17 September 2007, the Company acquired 100% of the issued capital of BMF Advertising Pty Limited and 100% of the units of The BMF Unit Trust (BMF Advertising), an independent advertising agency. The purchase price was an upfront payment of \$21,810,000 cash and the issue of 600,000 ordinary Photon Shares at \$6.25 per share. In addition, deferred consideration tied to the earnings of BMF Advertising is payable through to 30 June 2010.
- On 2 October 2007, the Company acquired the remaining 49% of the issued capital of Found Agency (Found), a search engine marketing company. The purchase price was an upfront payment of \$1,930,263 cash. In addition, deferred consideration tied to the earnings of Found Agency is payable through to 30 June 2010.

Condensed notes to the consolidated interim financial statements

6. Acquisitions of subsidiaries (continued)

- On 12 October 2007, the Company acquired 100% of the issued capital of Frank Public Relations Limited (Frank PR), a public relations company. The purchase price was an upfront payment of \$17,678,066 cash and \$717,358 through the issue of loan notes. In addition, deferred consideration tied to the earnings of Frank PR is payable through to 31 August 2011.
- On 1 November 2007, the Company acquired 100% of the issued capital of North By Northwest Group Limited (Hotwire Group), a public relations agency. The purchase price was an upfront payment of \$21,853,160 cash and \$592,440 through the issue of loan notes. In addition, deferred consideration tied to earnings of Hotwire and Skywrite through to 31 December 2010.
- On 20 November 2007, the Company acquired 100% of the issued capital of Sledge Limited (Sledge), a brand experience agency. The purchase price was an upfront payment of \$9,212,560 cash. In addition, deferred consideration tied to the earnings of Sledge through to 31 May 2011.
- On 5 December 2007, the Company acquired 100% of the issued capital of Findology Interactive Media Inc. and Way Internet Inc. (Findology), a leading search engine and online advertising agency. The purchase price was an upfront payment of \$19,428,379 cash and the issue of 516,590 ordinary Photon Shares at \$6.49 per share. In addition, deferred consideration tied to the earnings of Findology through to 30 June 2011.

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

The half year net revenue effect of Messagenet, ISS Marketing, REL Field Marketing, Markson Sparks, Club Sales, Corporate Edge, BMF Advertising, Frank PR, Hotwire Group, Sledge and Findology had they been acquired on 1 July 2007 would have been \$25,592,644.

The half year net profit after tax effect of Messagenet, ISS Marketing, REL Field Marketing, Markson Sparks, Club Sales, Corporate Edge, BMF Advertising, Frank PR, Hotwire Group, Sledge and Findology had they been acquired on 1 July 2007 would have been \$1,868,983.

The effect that the Bellamy Hayden acquisition would have had on the consolidated entity is included in the consolidated entity's income statement by virtue of the equity accounted 40% of the company from the period 1 July 2007 to 29 July 2009. For details, see note 7.

There is no effect of the Found Agency acquisition of the remaining 49% interest in the company would have had on the consolidated entity due to the option tied to that interest requiring accounting for 100% of Found Agency earnings from 1 July 2007.

Condensed notes to the consolidated interim financial statements

6. Acquisitions of subsidiaries (continued)

Effect of acquisitions for the half year ended 31 December 2007

The 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	4,752	-	4,752
Trade and other receivables	33,288	-	33,288
Cash and cash equivalents	12,493	-	12,493
Deferred tax asset	5,400	-	5,400
Intangible assets	1,493	8,445	9,938
Other Assets	7,210	-	7,210
Trade and other payables	(38,948)	-	(38,948)
Interest bearing liabilities	(123)	-	(123)
Deferred tax liability	(698)	(2,533)	(3,231)
Provisions	(1,776)	-	(1,776)
Tax liabilities	(990)	-	(990)
Other liabilities	(3,088)	-	(3,088)
Net identifiable assets and liabilities	19,013	5,912	24,925
Outside equity interest	(961)		
Goodwill on acquisition	160,079		

Total acquisitions cash outflow for half year ended 31 December 2007

Total consideration	184,643
Consideration paid, satisfied in scrip	(8,973)
Deferred consideration	(11,036)
Loan notes	(1,546)
Cash (acquired)	(12,493)
Net cash outflow	150,595

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

Goodwill has arisen on the acquisition of entities during the half year as intangibles including key management, specialised know-how of the workforce, technical employee relationships, the Company's business reputation, competitive position and service offerings did not meet the criteria recognition as an intangible asset at the date of acquisition. Additionally, due to the significant number of entities acquired during the period, the purchase price allocation for entities acquired in the first half of 2008 financial year has not been finalised at the date of this report. Accordingly, the assets and liabilities of the acquired entities have been included in the financial report on provisional fair values.

Condensed notes to the consolidated interim financial statements

6. Acquisitions of subsidiaries (continued)

Effect of acquisitions for the half year ended 31 December 2006

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

Acquirees' net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	2,196	-	2,196
Trade and other receivables	7,195	-	7,195
Cash and cash equivalents	5,534	-	5,534
Deferred Tax Asset	870	-	870
Other Assets	310	-	310
Intangible assets	-	4,636	4,636
Trade and other payables	(4,994)	-	(4,994)
Interest Bearing Liabilities	(787)	-	(787)
Deferred Tax Liability	(44)	(1,391)	(1,435)
Provisions	(4,564)	-	(4,564)
Tax Liabilities	(1,056)	-	(1,056)
Other Liabilities	(1,821)	-	(1,821)
Net identifiable assets and liabilities	2,839	3,245	6,084
Goodwill on acquisition	67,039		

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)	(5,534)
Net cash outflow	33,011

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 half year as intangibles including key management, specialised know-how of the workforce, technical employee relationships, the Company's business reputation, competitive position and service offerings did not meet the criteria recognition as an intangible asset at the date of acquisition.

Condensed notes to the consolidated interim financial statements

7. Associated 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)	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
Bellamyhayden Pty Limited	100	40	(65)	153

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

8. Income tax expense

The consolidated entity's effective tax rate for the six months ended 31 December 2007 was 37% (for the six months ended 31 December 2006: 39%). The effective tax rate was due to present value interest charges on deferred consideration for acquisitions and the amortisation of identifiable intangibles.

9. Available for sale financial assets

Investments – listed equity securities

The Company holds an investment in Dark Blue Sea Limited (DBS).

The Company holds 21.72% of the issued capital of Dark Blue Sea Limited (DBS) as at 31 December 2007 (20% as at 30 June 2007), the increase resulting from the effect of a share buy back undertaken by DBS together with a further acquisition of shares in DBS by the Company.

Consistent with 30 June 2007, the investment in DBS is accounted for as an available for sale asset as management does not have significant influence over DBS in accordance with AASB128 Investments in Associates.

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 interim balance sheet date of 31 December 2007.

10. 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 2007 for details regarding financing arrangements.

During the half year the Company entered into agreements with Australia and New Zealand Banking Group Limited (ANZ) to expand its existing debt facility by \$170 million to \$346 million plus ancillary facilities. The terms of the expanded facility arrangements are in line with those terms existing at 30 June 2007. The terms of \$120 million of the expanded debt facility require the amount to be paid in full by the termination date, being 31 October 2010.

Condensed notes to the consolidated interim financial statements

11. 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 outstanding at 31 December 2007.

As part of the "Bailey Share Purchase Agreement", specific income tax indemnities were included relating to disallowed deductions claimed prior to acquisition. An amount of \$4.5 million was placed in escrow by the Bailey interests pending settlement of this matter with the ATO. An estimated amount of \$1,613,130 is included in the Balance Sheet as "tax indemnity" in other current assets with a corresponding amount recorded as a current tax liability. Correspondence with the ATO since 31 December 2007 has indicated that settlement will be within this amount and it is expected that this matter will be finalised prior to 30 June 2008.

12. 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 2007.

Associates

During the six months ended 31 December 2007, dividends received from associates amounted to \$253,652 (six months to 31 December 2006: \$88,038).

13. Subsequent events

Acquisition of subsidiaries

Subsequent to balance date, the Company acquired 100% of the issued capital of Naked Communications Ltd (Naked Communications), an international media neutral communications planning agency with operations in United Kingdom, United States, Japan, France, The Netherlands, Germany, Norway and Australia. The purchase price was an upfront payment of \$36,700,000 cash. In addition, deferred consideration tied to the earnings of Naked Communications is payable through to 31 December 2011.

Dividends

Subsequent to the interim balance sheet date, the directors have declared an interim 2008 dividend with respect to ordinary shares amounting to 11.5 cents per ordinary share to be paid on 8 April 2008. 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 2007 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 8 to 19, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2007 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 25th day of February 2008.

Signed in accordance with a resolution of the directors:



Tim Hughes
Director



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 2007 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.

A handwritten signature in blue ink, appearing to read 'J. Wigglesworth', written over the KPMG logo.

KPMG

A handwritten signature in blue ink, appearing to read 'John Wigglesworth', written over the KPMG logo.

John Wigglesworth
Partner

Sydney

25 February 2008



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

We have reviewed the accompanying interim financial report of Photon Group Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a description of accounting policies and other explanatory notes 1 to 13 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 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 Standard AASB 134 *Interim Financial Reporting* 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 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 2007 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 2007 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

25 February 2008