

Photon Group Limited
and its controlled entities
31 December 2005 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 2005 and the review report thereon.

Directors

The directors of the Company at any time during or since the end of the financial half-year are:

Tim Hughes- Executive chairman

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

Matthew Bailey- Chief executive officer / 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 9 February 2000.

Susan McIntosh- Non-executive director

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

Brian Bickmore- Independent non-executive director

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

Paul Gregory – Non-executive director

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

Tim Tighe resigned as a director on 1 July 2005.

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 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 2005, Photon Group Limited acquired interests in the following entities:

Acquisition of wholly-owned entities

- On 29 July 2005, the Company acquired 100% of the issued share capital of Kaleidoscope Marketing Communications Pty Limited (Kaleidoscope), a point of sale direct marketing company. The purchase price was \$183,000 cash plus additional deferred cash payments to be tied to the earnings of Kaleidoscope in the period through to 30 June 2007.
- On 13 August 2005, the Company acquired 100% of the issued share capital of Republicorp International Pty Limited (Republicorp), a corporate investor and stakeholder communications company. The purchase price was \$200,000 cash plus additional deferred cash payments to be tied to the earnings of Republicorp in the period through to 30 June 2008.
- On 14 October 2005, the Company acquired 100% of the issued capital of Counterpoint Marketing & Sales Pty Limited (Counterpoint), a sales and merchandising services company. The purchase price was an initial cash payment amounting to \$3,250,000 plus 1,333,333 ordinary shares. These shares rank equally with existing ordinary shares on issue. Additional deferred consideration cash payments tied to the earnings of Counterpoint for the period through to 30 June 2008 are payable. The vendors may elect to receive up to 50% of certain of these deferred payments in shares (subject to certain conditions) which will be issued with reference to the Volume Weighted Average Share Price (VWAP) for the thirty days prior to the time proximate to when the shares are elected to be received/ issued.

Acquisition of partly-owned entities

- On 26 August 2005, the Company acquired 50.1% of the issued share capital of Media Zoo Pty Limited, a new kind of interactive media company that assists major brands and leading traditional media groups to exploit the increasingly complex intersection of entertainment and information content, brand communication and technology. The purchase price was \$100,000 cash with further call options by Photon Group Limited and put options by Media Zoo Pty Limited in the period through to 30 September 2009.

On 29 July 2005, the Company issued 733,750 options to employees under the Company's Employee Share Options Scheme (ESOS) in order to provide a competitive remuneration structure. The exercise price of these options will be \$2.99, being the VWAP for the 30 days prior to 29 July 2005, the date on which the Remuneration Committee approved the issue of options (subject to shareholder approval). This issue was approved by shareholders at the Company's Annual General Meeting.

On 25 October 2005 the Company issued 589,830 ordinary shares to the vendors of The Leading Edge Market Research Consultants Pty Limited (The Leading Edge) which was approved by shareholders at the Company's Annual General Meeting. These shares were issued in place of deferred cash consideration resulting from the amendment to the acquisition agreement which allows for up to 50% of the deferred cash payments to be paid by the issue of Photon shares in 2005 and 2006, at the election of the vendors. These shares rank equally with existing ordinary shares with the exception that the vendors have voluntarily elected to have these issued shares placed in escrow for a period of 12 months from the date of issue.

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

Review and results of operations (cont'd)

On 25 October 2005 the Company issued 1,000,000 options for no consideration to Mr Tim Hughes which was approved by shareholders at the Company's Annual General Meeting. The exercise price of the options will be \$2.99, being the Volume Weighted Average Share Price (VWAP) for the 30 days prior to 29 July 2005, the date on which the Company's Remuneration Committee approved the issue of options (subject to shareholder approval). This issue was approved by shareholders at the Company's Annual General Meeting.

Further information on the terms of the share and option issues detailed above are outlined in the Notice of Annual General Meeting dated 14 September 2005. All shares issued pursuant to the exercise of options will rank equally with all other ordinary shares on issue.

The consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) grew 73% to \$11,813,000 (December 2004: \$6,837,000). Net profit from ordinary activities after income tax (NPAT) attributable to the members of the parent entity grew 66% to \$5,358,000 (December 2004: \$3,235,000). Growth was attributable to a combination of acquisitions and organic growth in existing companies.

Refer to note 3 for further information concerning acquisitions.

Dividend

For dividends proposed after 31 December 2005, see note 10.

Subsequent Events

For events subsequent to the interim balance sheet date, see note 10.

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

The lead auditor's independence declaration is set out on page 40 and forms part of the directors' report for the half-year ended 31 December 2005.

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 22nd day of February 2006.



Tim Hughes
Director

Photon Group Limited and its controlled entities

Condensed consolidated interim income statement

For the six months ended 31 December 2005

In thousands of AUD

	Note	31 Dec 2005	31 Dec 2004
Revenue	1,2	57,528	36,586
Other operating income		400	267
Total Revenue		57,928	36,853
Employee expenses		(34,578)	(24,119)
Occupancy costs		(2,510)	(1,837)
Depreciation and amortisation expense		(1,769)	(615)
Insurance expense		(368)	(197)
Consultancy fees		(1,783)	(738)
Equipment hire charges		(375)	(322)
Travel expenses		(899)	(445)
Communication expenses		(1,321)	(671)
Other operating expenses		(4,180)	(1,709)
Operating profit before financing costs		10,145	6,200
Borrowing costs		(2,010)	(1,399)
Net financing costs		(2,010)	(1,399)
Share of profit of associates accounted for using the equity method		119	101
Profit before tax		8,254	4,902
Income tax expense	5	(2,882)	(1,711)
Profit for the period		5,372	3,191
Attributable to:			
Equity holders of the parent		5,358	3,235
Minority interest		14	(44)
Profit for the period		5,372	3,191
Basic earnings per share attributable to ordinary equity holders	7	9.40 cents	6.60 cents
Diluted earnings per share attributable to ordinary equity holders	7	9.17 cents	6.49 cents
Basic earnings per share from continuing operations	7	9.40 cents	6.60 cents
Diluted earnings per share from continuing operations	7	9.17 cents	6.49 cents

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 36.

Photon Group Limited and its controlled entities

Condensed consolidated interim statement of changes in equity

For the six months ended 31 December 2005

In thousands of AUD

	31 Dec 2005	30 June 2005
Opening balance of equity attributable to Members	84,730	57,827
Contributed equity		
Tax effect of transaction costs	64	307
Share issue costs net of tax	(18)	(415)
Equity settled transactions net of tax	5,787	20,680
Shares issued	975	-
Foreign currency translation reserve		
Net exchange difference on translation of associate	7	(1)
Retained profits		
Adjustment in relation to acquired lease	(35)	(84)
Equity options	191	-
Dividends paid	(2,856)	(2,452)
Net adjustments recognised directly in equity	88,845	75,862
Profit for the period	5,358	8,868
Closing balance of equity attributable to Members of the Photon Group	94,203	84,730

The statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 36.

Photon Group Limited and its controlled entities
Condensed consolidated interim balance sheet

As at 31 December 2005

In thousands of AUD

	Note	31 Dec 2005	30 June 2005
Current Assets			
Cash and cash equivalents		10,316	9,788
Trade and other receivables		35,896	24,841
Other assets		5,097	4,586
Total current assets		51,309	39,215
Non-current assets			
Receivables		10	19
Other financial assets		95	95
Investments accounted for using the equity method		483	421
Deferred tax assets	5	2,376	2,360
Property, plant and equipment		9,089	6,145
Other assets		843	880
Intangible assets		142,166	121,275
Total non-current assets		155,062	131,195
Total assets		206,371	170,410
Current Liabilities			
Trade and other payables		44,606	32,977
Interest-bearing loans and borrowings		1,182	824
Income tax payable		1,590	2,994
Provisions		5,442	3,163
Total current liabilities		52,820	39,958
Non-current Liabilities			
Trade and other payables		9,040	9,676
Interest-bearing loans and borrowings		42,392	30,165
Deferred tax liabilities		630	803
Provisions		3,922	1,621
Total non-current liabilities		55,984	42,265
Total liabilities		108,804	82,223
Net assets		97,567	88,187
Equity			
Issued capital	6	89,607	82,798
Reserves	6	16	9
Retained earnings	6	4,580	1,923
Total equity attributable to equity holders of the parent		94,203	84,730
Minority interest		3,364	3,457
Total equity		97,567	88,187

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 36.

Photon Group Limited and its controlled entities

Condensed consolidated interim statement of cash flows

For the six months ended 31 December 2005

In thousands of AUD

	Note	31 Dec 2005	31 Dec 2004
Cash flows from operating activities			
Cash receipts from customers		52,603	40,306
Cash paid to suppliers and employees		(41,405)	(34,027)
Cash generated from operations		11,198	6,279
Interest received		219	79
Income taxes paid		(4,398)	(2,290)
Borrowing costs paid		(1,410)	(1,008)
Dividends received		57	155
Net cash from operating activities		5,666	3,215
Cash flows from investing activities			
Payments for investments		(7,847)	-
Acquisition of controlled entities, net of cash acquired		(3,707)	(13,828)
Acquisition of property, plant and equipment		(1,276)	(2,355)
Net cash from investing activities		(12,830)	(16,183)
Cash flows from financing activities			
Proceeds from the issue of share capital		975	-
Transaction cost for the issue of share capital		(18)	(33)
Proceeds from borrowings		11,042	15,000
Repayment of borrowings		(1,000)	(427)
Dividends paid to outside equity interest in controlled entities		-	(563)
Finance lease payments		(451)	-
Dividends paid to shareholders of Photon Group Limited		(2,856)	(980)
Net cash from financing activities		7,692	12,997
Net increase in cash and cash equivalents		528	29
Cash and cash equivalents at 1 July		9,788	5,994
Cash and cash equivalents at 31 December		10,316	6,023

This statement of cashflows is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 36.

Notes to the condensed consolidated interim financial statements

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Notes to the condensed consolidated interim financial statements

1. Significant accounting policies

Photon Group Limited (the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entity's interest in associates and jointly controlled entities.

The condensed consolidated interim financial report was authorised for issue by the directors on 22nd February 2006.

(a) Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ("AIFRS"), to distinguish from previous Australian GAAP. The interim financial report of the consolidated entity fully complies with AIFRS.

This is the consolidated entity's first AIFRS condensed consolidated interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The condensed consolidated interim financial report does not include all of the information required for a full annual financial report.

The interim financial report is to be read in conjunction with the most recent annual financial report, however, the basis of their preparation is different to that of the most recent annual financial report due to the first time adoption of AIFRSs. This report must also be read in conjunction with any public announcements made by Photon Group Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

An explanation of how the transition to AIFRSs has affected the reported financial position, financial performance and cash flows of the consolidated entity is provided in note 11. This note includes reconciliations of equity and profit or loss for comparative periods reported under Australian GAAP (previous GAAP) to those reported for those periods under AIFRSs.

(b) Basis of Preparation

The financial report is presented in Australian dollars.

The consolidated balance sheet presents a surplus of current liabilities over current assets. Current liabilities include a provision for earn out payments of \$14,808,000 that is based on a number of factors including the future earnings of the related businesses. An equivalent amount is included in goodwill. Settlement of this liability will only arise when the related future earnings are realised. Consequently, the consolidated balance sheet includes estimated liabilities for future earnings before these earnings are reflected in retained earnings. In certain cases, the liabilities may be settled via share issues.

The financial report is prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

Non-current assets are stated at the lower of carrying amount and fair value less costs to sell

The Company 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 and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(b) **Basis of Preparation (continued)**

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed consolidated interim financial report has been prepared on the basis of AIFRSs in issue that are effective or available for early adoption at the consolidated entity's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRSs, the Board of Directors have made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year-ended 30 June 2006.

The Australian Accounting Standards and UIG Interpretations that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 30 June 2006 are still subject to change therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first AIFRS financial statements are prepared at 30 June 2006.

The preparation of the condensed consolidated interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRSs, as required by AASB 1. The impact of the transition from previous GAAP to AIFRSs is explained in note 11. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy.

The accounting policies have been applied consistently throughout the consolidated entity for purposes of this condensed consolidated interim financial report.

(c) **Basis of consolidation**

(i) **Subsidiaries**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the condensed consolidated interim financial report from the date that control commences until the date that control ceases.

(ii) **Associates**

Associates are those entities for which the consolidated entity has significant influence, but not control, over the financial and operating policies. The condensed consolidated interim financial statements include the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the condensed consolidated interim financial statements.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to the "Investment in associates" and "Share of associates net profit" accounts.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Gains and losses are recognised as the contributed assets are consumed or sold by the associates and jointly controlled entities or, if not consumed or sold by the associate or jointly controlled entity, when the consolidated entity's interest in such entities is disposed of.

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, generally are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date.

(ii) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges are taken to translation reserve. They are released into the income statement upon disposal.

In respect of all foreign operations, any differences that have arisen before 1 July 2004, the date of transition to AIFRS, are presented as a separate component of equity.

(e) Derivative financial instruments

The consolidated entity uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(e) **Derivative financial instruments (continued)**

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

The fair value of interest rate swaps is the estimated amount that the consolidated entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(f) **Property, plant and equipment**

(i) **Owned assets**

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy j). The cost of self-constructed assets includes the cost of materials, direct labour, and an appropriate proportion of production overheads.

No items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2004, the date of transition to Australian Accounting Standards.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) **Leased assets**

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases.

(iii) **Subsequent costs**

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(iv) **Depreciation**

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The residual value if not insignificant, is reassessed annually.

	2006		2005	
	Straight line	Diminishing Value	Straight line	Diminishing Value
Property, plant and equipment				
Computer equipment	25% - 40%	20% - 40%	25% - 40%	20% - 40%
Office furniture and equipment	5% - 25%	5% - 40%	5% - 25%	5% - 40%
Plant and equipment	10% - 25%	-	10% - 25%	-
Leasehold improvements	10% - 33.33%	-	10% - 33.33%	-
Equipment under finance lease	15% - 25%	-	25%	-

(g) **Intangible assets**

(i) **Goodwill**

Business Combinations

Business combinations prior to 1 July 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004 (see note 11).

Business combinations since 1 July 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(g) **Intangible assets (continued)**

(ii) **Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy j).

(iii) **Other intangible assets**

Other intangible assets that are acquired by the consolidated entity are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy j).

Expenditure on internally generated goodwill and brands is recognised in profit or loss as an expense as incurred.

(iv) **Subsequent expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(g) **Intangible assets (continued)**

(v) **Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each annual balance sheet date. Other intangible assets are amortised from the date that they are available for use. The estimated useful lives in the current and comparative periods for separately identifiable intangible assets are 3-5 years.

(h) **Trade and other receivables**

(i) **Work in progress**

Work in progress is stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and appropriate proportion of variable and fixed overhead expenditure.

(ii) **Other trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses.

(i) **Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) **Impairment**

The carrying amounts of the consolidated entity's assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated annually.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 July 2004, the date of transition to AIFRSs, even though no indication of impairment existed.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(j) **Impairment (continued)**

(i) **Calculation of recoverable amount**

The recoverable amount of the consolidated entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) **Reversals of impairment**

An impairment loss in respect of receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) **Share capital**

(i) **Dividends**

Dividends are recognised as a liability in the period in which they are declared.

(l) **Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(ii) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(iii) Share-based payment transactions

The share option programme allows consolidated entity employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the black scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(iv) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, payroll tax and statutory superannuation.

Non-accumulating non-monetary benefits are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

(n) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(i) Make good provision

The consolidated entity has made provision for make good on all operating leases for premises which require make good expenditure at completion of the lease. The provision assets are then amortised over the remaining term of the individual leases.

These provisions will be reviewed on an annual basis for fair value.

(o) Trade and other payables

Trade and other payables are stated at cost.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(p) Revenue

(i) Services rendered

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably.

Revenue from rendering of services is recorded as the amount billed to clients net of external production costs.

Revenue from the rendering of services in relation to commission based clients is recognised based on the agreed commission percentage applied to client sales.

(q) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is the ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(r) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(r) **Income tax (continued)**

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Photon Group Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to or distribution from the subsidiary. Distributions firstly reduce the carrying amount of the investment in the subsidiary and are then recognised as revenue.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

Nature of tax funding arrangements and tax sharing agreements

The members of the tax-consolidated group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivables (payables) in the separate financial statements of the members of the tax consolidated groups equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) are at call.

Notes to the condensed consolidated interim financial statements

Significant accounting policies (continued)

(r) **Income tax (continued)**

Tax consolidation (continued)

The head entity recognises the assumed current tax amounts as current tax liabilities (assets), adding to its own current tax amounts, since they are also due to or from the same taxation authority. The current tax liabilities (assets) are equivalent to the tax balances generated by external transactions entered into by the tax-consolidated group. Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The members of the tax-consolidated group have also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(s) **Segment reporting**

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(t) **Goods and Services Tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the condensed consolidated interim financial statements

2. Segment reporting

Segment information is presented in the condensed consolidated interim financial statements in respect of the consolidated entity's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the consolidated entity's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises of the following main business segments:

- Business Intelligence
- Digital and Interactive
- Sales and Presence Marketing
- Mass Communication
- Specialised Communication Services

Geographical segments

The consolidated entity's divisions are divided into two main geographical areas as follows:

Australia: The consolidated entity is predominantly located in Australia, and generates the majority of its operating activities from Australian sources.

Other: The consolidated entity has a direct marketing company, Robbins Brandt Richter Limited, in New Zealand. The Leading Edge Market Research Consultants Pty Limited has a subsidiary based in Singapore which services the Asia Pacific region.

Notes to the condensed consolidated interim financial statements

2. Segment reporting (continued)

Business segments

For the six months ended 31 December 2005

	Business Intelligence		Digital and Interactive		Sales and Presence Marketing		Mass Communications		Specialised Communications Services		Eliminations		Consolidated	
<i>In thousands of AUD</i>	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Segment revenue	11,725	9,290	8,124	804	16,865	9,924	7,515	7,363	13,614	9,376	-	-	57,843	36,757
Unallocated revenue													85	96
Total revenue													57,928	36,853
Segment result	3,916	2,905	1,853	170	4,122	2,295	945	755	3,139	1,136	15	-	13,990	7,261
Unallocated													(3,726)	(960)
Operating profit before net financing costs													10,264	6,301
Net financing costs													(2,010)	(1,399)
Income tax expense													(2,882)	(1,711)
Profit for the period													5,372	3,191

* All segments are continuing operations

Notes to the condensed consolidated interim financial statements

3. Acquisitions of subsidiaries

During the period the consolidated entity acquired 100% of the issued capital of:

- Kaleidoscope Marketing Services Pty Limited on 29 July 2005
- Republicorp Pty Limited on 13 August 2005
- Counterpoint Marketing & Sales Pty Limited on 14 October 2005

During the period the consolidated entity also acquired 50.1% of the issued share capital of Media Zoo Pty Limited.

Further detail in relation to the above is provided in the Directors' Report, Review of Operations.

The above acquisitions cumulatively contributed \$501,337 to net profit after tax of the consolidated entity.

It is impracticable to determine the effect the acquisitions would have had on the group had they been acquired on 1 July 2005 due to restructures in the acquired entities prior to acquisition by Photon Group Limited.

Effect of acquisitions

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

Acquiree's net assets at the acquisition date

In thousands of AUD

	Recognised Values	Fair value adjustments	Carrying amounts
Property, plant and equipment	227	-	227
Intangible assets	10,620	-	10,620
Trade and other receivables	1,488	-	1,488
Cash and cash equivalents	412	-	412
Trade and other payables	(2,395)	-	(2,395)
Net identifiable assets and liabilities	10,352	-	10,352
Outside equity interest	10		
Goodwill on acquisition	5,610		
Total consideration	15,972		
Consideration paid, satisfied in scrip	(4,000)		
Deferred consideration	(7,853)		
Cash (acquired)	(412)		
Net cash outflow	3,707		

Goodwill has arisen on purchase of entities acquired during the half year as some intangibles such as customer relationships, and key employee relationships, did not meet the criteria for recognition as an intangible asset at the date of acquisition. Additionally, entities acquired in the latter half of the period are still being reviewed for valuation procedures to assess the intangible assets in existence at date of acquisition and whether such assets meet the criteria for separate recognition.

4. Associates and joint venture entities

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

The consolidated entity has the following investments in associates:

Name	Ownership (%)		Share of net profit (\$'000s)	
	2005	2004	2005	2004
Bellamyhayden Pty Limited	40	40	119	101

Notes to the condensed consolidated interim financial statements

5. Income taxes

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented.

The primary components of the entity's recognised deferred tax assets include temporary differences related to employee benefits, provisions and other items, and the value of tax loss-carry-forwards recognised.

The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment, intangible assets, and work in progress.

Deferred tax expense arises from the origination and reversal of temporary differences, the effects of changes in tax rates and the benefit of tax losses recognised. The primary component of deferred tax expense for the six months ended 31 December 2005 is related to an increase in deferred tax assets, relating primarily to provisions and other items.

Total deferred tax recognised directly in equity was \$64,295 for the six months ended 31 December 2005 (six months ended 31 December 2004: \$59,172).

Tax consolidation

In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability (asset) and deferred tax assets arising from unused tax losses / credits initially recognised by the members in the tax consolidation group. There is no impact on the consolidated entity upon adoption of UIG 1052 *Tax Consolidation Accounting*.

Notes to the condensed consolidated interim financial statements

6. Capital and reserves

Share capital

The consolidated entity recorded the following amounts within shareholder's equity as a result of the issuance of ordinary shares.

For the six months ended 31 December 2005

In thousands of AUD

	Share Capital	
	31 Dec 2005	30 June 2005
Issuance of ordinary shares	6,762	20,050

In thousands of shares

	Ordinary shares	
	31 Dec 2005	30 June 2005
On issue at beginning of period	56,392	49,037
Options exercised	730	-
Issued pursuant to share placement	-	5,656
Issued as consideration for acquisition of subsidiary entities	1,923	1,699
On issue at end of period – fully paid	59,045	56,392

Dividends

The following dividends were paid by the consolidated entity.

For the six months ended 31 December 2005

In thousands of AUD

	2005	2004
5.0c per qualifying ordinary share (2004: 2.0c)	2,856	981

Notes to the condensed consolidated interim financial statements

7. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2005 was based on the profit attributable to ordinary shareholders of \$5,358,000 (six months ended 31 December 2004: \$3,235,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 56,993,301 (six months ended 31 December 2004: 49,036,632), calculated as follows:

Profit attributable to ordinary shareholders For the six months ended 31 December 2005

In thousands of AUD

	2005	2004
Profit for the period	5,372	3,191
Profit attributable to ordinary shareholders	<u>5,358</u>	<u>3,235</u>

Weighted average number of ordinary shares

For the six months ended 31 December 2005

In thousands of AUD

	31 Dec 2005	31 Dec 2004
Weighted average number of ordinary shares at 31 December	<u>56,993</u>	<u>49,037</u>

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 31 December 2005 was based on profit attributable to ordinary shareholders of \$5,358,000 (six months ended 31 December 2004: \$3,235,000) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2005 of 58,419,917 (six months ended 31 December 2004: 49,803,551), calculated as follows:

Profit attributable to ordinary shareholders (diluted)

For the six months ended 31 December 2005

In thousands of AUD

	31 Dec 2005	31 Dec 2004
Profit attributable to ordinary shareholders	5,358	3,235
Profit attributable to ordinary shareholders (diluted)	<u>5,358</u>	<u>3,235</u>

Weighted average number of ordinary shares (diluted)

For the six months ended 31 December 2005

In thousands of shares

	31 Dec 2005	31 Dec 2004
Weighted average number of ordinary shares at 31 December	56,993	49,037
Effect of share options on issue	1,427	767
Weighted average number of ordinary shares (diluted) at 31 December	<u>58,420</u>	<u>49,804</u>

Notes to the condensed consolidated interim financial statements

8. 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 know obligations still outstanding at 31 December 2005.

The Bailey group have received income tax assessments relating to disallowed deductions with respect to amounts claimed for income tax purposes. The Bailey Group has objected to such income tax assessments. As part of the "Bailey Share Purchase Agreement", the Bailey interests have indemnified The Bailey Group against any claim by the ATO and to this end have placed cash funds amounting to \$4,500,000 in escrow pending settlement of this outstanding income tax matter. It is estimated that should The Bailey Group be unsuccessful in its objection the amount payable to the ATO as at 31 December 2005 is \$1,613,130. This amount is included in the Balance Sheet as "tax indemnity" included within other current assets with a corresponding amount recorded as a current tax liability in the income statement.

Litigation

The litigation claim with respect to the lease agreement entered into by a subsidiary entity prior to 30 June 2005, as outlined in the 2005 Annual Report, Contingent Liabilities and Contingent Assets Note, was settled on 4 November 2005.

9. Related parties

Associates

During the six months ended 31 December 2005, dividends received from associates amounted to \$57,140 (six months to 31 December 2004: \$155,053).

10. Subsequent event

Acquisition of wholly owned entities

Subsequent to the interim balance sheet date, the company has acquired 100% of the issued capital of SEE Life Differently Holdings Pty Limited, a brand strategy communications company. The purchase price is a cash payment of \$7,744,000 to be made at completion, together with an anticipated 200,000 Photon ordinary shares, plus additional deferred cash payments tied to the earning of the business through to 30 June 2008.

Dividends

Subsequent to the interim balance sheet date, the directors have declared an interim 2006 dividend with respect to ordinary shares amounting to \$0.08 per ordinary share to be paid on 3 April 2006. 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 2005 but will be recognised in subsequent financial reports.

Notes to the condensed consolidated interim financial statements

11. Explanation of transition to AIFRSs

As stated in Significant accounting policies note 1(a), these are the consolidated entity's first consolidated interim financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards - AIFRSs.

The accounting policies in note 1 have been applied in preparing the consolidated interim financial statements for the six months ended 31 December 2005 the comparative information for the six months ended 31 December 2004 and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, comparative information for the six months ended 31 December 2004 and financial statements for the year ended 30 June 2005, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

An explanation of how the transition from previous GAAP to AIFRS has effected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the condensed consolidated interim financial statements

11. Explanation of transition to AIFRSs (continued)

Reconciliation of equity

	Note	1 July 2004			31 December 2004			30 June 2005		
		Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs	Previous GAAP	Effect of transition to AIFRSs	AIFRSs
<i>In thousands of AUD</i>										
Assets										
Cash and cash equivalents		5,994	-	5,994	6,023	-	6,023	9,788	-	9,788
Trade and other receivables		13,866	-	13,866	20,728	-	20,728	24,841	-	24,841
Other assets		1,571	-	1,571	3,849	-	3,849	4,586	-	4,586
Total current assets		21,431	-	21,431	30,600	-	30,600	39,215	-	39,215
Receivables		-	-	-	-	-	-	19	-	19
Other financial assets		179	-	179	104	-	104	95	-	95
Investments accounted for using the equity method		485	-	485	431	-	431	421	-	421
Deferred tax assets	(e)	888	21	909	2,037	42	2,079	2,210	150	2,360
Property, plant and equipment		2,772	-	2,772	4,408	-	4,408	6,145	-	6,145
Other assets	(b)	236	341	577	317	385	702	527	353	880
Intangible assets	(a)	67,733	-	67,733	88,728	2,371	91,099	116,202	5,073	121,275
Total non-current assets		72,293	362	72,655	96,025	2,798	98,823	125,619	5,576	131,195
Total assets		93,724	362	94,086	126,625	2,798	129,423	164,834	5,576	170,410

Notes to the condensed consolidated interim financial statements
11. Explanation of transition to AIFRSs (continued)

<i>In thousands of AUD</i>		Effect of transition to AIFRSs			Effect of transition to AIFRSs			Effect of transition to AIFRSs		
	Note	Previous GAAP	1 July 2004	AIFRSs	Previous GAAP	31 December 2004	AIFRSs	Previous GAAP	30 June 2005	AIFRSs
Liabilities										
Trade and other payables		12,450	-	12,450	21,106	-	21,106	32,976	-	32,977
Interest-bearing loans and borrowings		2,498	-	2,498	5,664	-	5,664	824	-	824
Income tax payable	(b), (e)	3,059	19	3,078	2,588	42	2,630	2,844	150	2,994
Provisions		1,741	-	1,741	2,553	-	2,553	3,163	-	3,163
Total current liabilities		19,748	19	19,767	31,911	42	31,953	39,808	150	39,958
Trade and other payables		-	-	-	6,152	-	6,152	9,676	-	9,676
Interest-bearing loans and borrowings		12,468	-	12,468	25,035	-	25,035	30,165	-	30,165
Deferred tax liabilities		113	-	113	1,591	-	1,591	803	-	803
Provisions	(b)	246	409	655	771	530	1,301	1,012	609	1,621
Total non-current liabilities		12,827	409	13,236	33,549	530	34,079	41,656	609	42,265
Total liabilities		32,575	428	33,003	65,460	572	66,032	81,464	759	82,223
Net assets		61,149	(66)	61,083	61,165	2,226	63,391	83,370	4,817	88,187
Equity										
Issued capital	(d), (f)	62,190	37	62,227	62,157	204	62,361	82,240	558	82,798
Reserves	(c)	10	-	10	12	-	12	9	-	9
Retained earnings		(4,308)	(101)	(4,409)	(4,105)	1,949	(2,156)	(2,188)	4,111	1,923
Total equity attributable to Equity holders of the parent		57,892	(64)	57,828	58,064	2,153	60,217	80,061	4,669	84,730
Minority interest		3,257	(2)	3,255	3,101	73	3,174	3,309	148	3,457
Total equity		61,149	(66)	61,083	61,165	2,226	63,391	83,370	4,817	88,187

Notes to the condensed consolidated interim financial statements

11. Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note (e).

(a) Business combinations, intangible assets and impairment

The consolidated entity has applied AASB 3 to all business combinations that have occurred since 1 July 2004. Additionally, from 1 July 2004, goodwill is no longer amortised under AIFRSs, but is tested annually for impairment.

As a result of the above there is no change to the carrying amount of *Goodwill* at 1 July 2004, 31 December 2004 or 30 June 2005. The Goodwill amortisation charge (presented within *Depreciation and amortisation expense*) was written-back by \$2,370,614 for the six months ended 31 December 2004, and by \$5,073,186 for the year ended 30 June 2005.

(b) Leased assets

Under previous AGAAP the cost of lease make good was not recognised until the expenditure was incurred, however, under AIFRS make good costs must be recognised over the lease period.

The effect in the consolidated entity is to increase *Provisions for Make Good* by \$408,949 at 1 July 2004, by an additional \$120,700 at 31 December 2004, and by an additional \$78,302 at 30 June 2005 along with corresponding increases in non current assets. The amount of this asset amortised to the income statement was \$76,754 for the six months ended 31 December 2004, and \$103,513 for the year ended 30 June 2005 representing the amount that corresponds to the expired portion of the leases at that date. This results in an increase in *Occupancy Costs*, and at the tax effective rate, an increase in income tax payable.

(c) Foreign currency

Translation differences that arose prior to the date of transition to AIFRSs in respect of all foreign entities have been presented as a separate component of equity. On disposal of any foreign operation, the related cumulative translation difference will be transferred to the income statement as part of the gain or loss on disposal. The option available under AIFRS to restate the existing foreign currency reserve balance to nil has not been utilised.

(d) Employee benefits

The consolidated entity applied AASB 2 to its equity based compensation arrangements at 1 July 2004 except for equity-settled share-based payment arrangements granted before 7 November 2002.

Under previous AGAAP, the consolidated entity did not account for equity based compensation arrangements. Such payments are now recognised at fair value in accordance with AASB 2.

The adoption of AASB 2 is equity-neutral for equity-settled transactions. The expense recognised for the consumption of employee services received as consideration for share options granted will be deductible for tax purposes when the share options are exercised.

The effect in the consolidated entity of accounting for share based payments at fair value is to increase *Employee expenses* by \$36,740 at 1 July 2004, by \$107,690 for the six months ended 31 December 2004, and by \$214,282 for the year ended 30 June 2005.

Notes to the condensed consolidated interim financial statements

11. Explanation of transition to AIFRSs (continued)

Notes to the reconciliation of equity (continued)

Notes to the reconciliation of equity (continued)

(e) Deferred tax asset

The above changes increased the deferred tax asset as follows based on tax rate of 30%:

<i>In thousands of AUD</i>	30 June 2004	31 December 2004	30 June 2005
Provisions	21	42	75
Employee benefits	-	-	75
Increase in deferred tax asset	<u>21</u>	<u>42</u>	<u>150</u>

(f) Equity transactions

Under previous AGAAP, tax deductions in respect of transaction costs associated with the raising of share capital were accounted for within income tax expense. Under AIFRS tax deduction associated with transaction costs is accounted for within issued capital. The effect of this was to increase share capital by \$59,172 for the six months ended 31 December 2004, and by \$307,399 for the year ended 30 June 2005.

(g) The effect of the above adjustments on equity is as follows:

<i>In thousands of AUD</i>	1 July 2004	30 June 2005
Goodwill (net of OEI)	-	4,916
Amortisation of provisions (net of OEI)	<u>(64)</u>	<u>(247)</u>
Total adjustment to equity attributable to parent entity	<u>(64)</u>	<u>4,669</u>
Total equity:		
Equity holders of the parent	(64)	4,669
Minority interest	<u>(2)</u>	<u>148</u>
	<u>(66)</u>	<u>4,817</u>

Notes to the condensed consolidated interim financial statements

11. Explanation of transition to AIFRSs (continued)

Reconciliation of profit for 2005

<i>In thousands of AUD</i>	Note	6 months ended 31 December 2004			Year ended 30 June 2005		
		Previous GAAP	Effect of Transition to AIFRSs	AIFRSs	Previous GAAP	Effect of Transition to AIFRSs	AIFRSs
		Revenue from rendering of services	36,586	-	36,586	80,394	-
Other operating income	267	-	267	561	-	561	
Total Revenue		36,853	-	36,853	80,955	-	80,955
Employee expenses	(d)	(24,011)	(108)	(24,119)	(49,512)	(214)	(49,726)
Occupancy costs	(b)	(1,760)	(77)	(1,837)	(3,558)	(104)	(3,662)
Depreciation and amortisation expense	(a)	(2,986)	2,371	(615)	(7,088)	5,073	(2,015)
Insurance expense		(197)	-	(197)	(489)	-	(489)
Consultancy fees		(738)	-	(738)	(1,915)	-	(1,915)
Equipment hire charges		(322)	-	(322)	(582)	-	(582)
Travel expenses		(445)	-	(445)	(1,188)	-	(1,188)
Communication expenses		(671)	-	(671)	(1,529)	-	(1,529)
Other operating expenses		(1,709)	-	(1,709)	(3,801)	-	(3,801)
Operating profit before financing costs		4,014	2,186	6,200	11,293	4,755	16,048
Borrowing costs		(1,399)	-	(1,399)	(3,219)	-	(3,219)
Net financing costs		(1,399)	-	(1,399)	(3,219)	-	(3,219)
Share of profit of associates		101	-	101	171	-	171
Profit before tax		2,716	2,186	4,902	8,245	4,755	13,000
Income tax expense	(e),(f)	(1,652)	(59)	(1,711)	(3,910)	(307)	(4,217)
Profit for the period		1,064	2,127	3,191	4,335	4,448	8,783
Attributable to:							
Equity holders of the parent		1,184	2,051	3,235	4,572	4,296	8,868
Minority interest		(120)	76	(44)	(237)	152	(85)
Profit for the period		1,064	2,127	3,191	4,335	4,448	8,783
Basic earnings per share from continuing operations (cents)		2.41	4.19	6.60	9.16	8.61	17.77
Diluted earnings per share from continuing operations (cents)		2.38	4.11	6.49	9.00	8.45	17.45

Notes to the condensed consolidated interim financial statements

11. Explanation of transition to AIFRSs (continued)

Explanation of material adjustments to the cash flow statement for 2005

Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management were classified as cash and cash equivalents under previous GAAP and therefore there is no impact due to AIFRS. There are no other material differences between the cash flow statement presented under AIFRSs and the cash flow statement presented under previous GAAP.

12. Change in accounting policy

Reconciliation of financial instruments as if AASB 139 was applied at 1 July 2005

In the current financial year the consolidated entity adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*.

This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has not had any impact on the Company's balance sheet.

Directors' declaration

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

1. the financial statements and notes set out on pages 6 to 36, 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 2005 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 22nd day of February 2006.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Tim Hughes', is written over a horizontal line that is part of a larger rectangular box. The signature is cursive and stylized.

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 condensed consolidated interim Statements of Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows, accompanying notes 1 to 12 to the Financial Statements, and the Directors' Declaration for the Photon Group Limited Consolidated Entity ("the Consolidated Entity"), for the half-year ended 31 December 2005. 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. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards*.

Review approach

We conducted an independent review in order for the Company to lodge the financial report 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 134 *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.

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 2005 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

John Wigglesworth
Partner

Place: Sydney

Date: 22 February 2006



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, during the half year ended 31 December 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'John Wigglesworth'.

John Wigglesworth
Partner

22 February 2006