PhotonGroup

17 August 2010

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

ASX ANNOUNCEMENT

RESULTS OF STRATEGIC REVIEW - RECAPITALISATION PROPOSAL

Photon Group Limited (**Photon, or the Company**) today announced the results of its strategic review. This announcement is a summary only of the recapitalisation and more detailed disclosure is provided in the Prospectus which has been provided to ASIC and ASX today.

The Company has conducted a strategic review which considered a broad range of options to reduce existing drawn debt and manage the Company's liability to make deferred consideration payments to vendors of operating subsidiaries of Photon (**Deferred Consideration Payments**). Following that review, the Photon Board has resolved to propose the following Recapitalisation Proposal:

- a restructure of the Deferred Consideration Payments (**Deferred Consideration Restructure**);
- refinancing of Photon's debt facilities (**Debt Refinancing**); and
- raising of a minimum of $102.5 million at $0.10 per new share (**Offer Price**) through an underwritten equity raising comprising a Shareholder Offer and a Placement (**Equity Raising**),

(together the **Recapitalisation Proposal**).

The proceeds from the Equity Raising will be used to:

- pay down approximately $67.1 million of Photon's existing $280 million bank debt facilities, which today are drawn to approximately $274 million;
- pay approximately $22.5 million of the Deferred Consideration Payments due on or around 30 September 2010; and
- pay various transaction costs associated with the Recapitalisation Proposal including the costs of the Equity Raising, Debt Refinancing and Deferred Consideration Restructure totalling approximately $12.9 million.

To the extent that additional equity (up to a maximum of $15 million) is raised in excess of $102.5 million, it will be applied to further pay down debt. The Board believes the effect of the Recapitalisation Proposal, if implemented, is that it will enable Photon to pay Deferred Consideration Payments due on or about 30 September 2010 and ensure that Photon is compliant with its debt facilities at that date, and will also provide an improved capital structure to assist Photon to service its clients and meet its strategic objectives.

Deferred Consideration Restructure

Photon has entered into agreements with substantially all of the vendors of the operating entities that are expected to receive future Deferred Consideration Payments to restructure the terms of those Deferred Consideration Payments. The new arrangements provide an aggregate cap for substantially all of the estimated future Deferred Consideration Payments of approximately $176 million[1] and include in approximate terms the following payment restructure:

- payments equal to the lesser of the amount determined in accordance with the original acquisition agreement and an agreed cap;
- Tranche 1 payments: 35% of the aggregate capped payment will be paid in cash on the date when payment was due under the original acquisition agreements;
- Tranche 2 payments: 15% of the aggregate capped payment will be satisfied by the issue of Photon Shares at the Offer Price on the allotment date; and
- Tranche 3 payments: the remaining payment will be paid in cash but only if Photon reaches certain hurdles in relation to financial performance and leverage ratio levels.
    - 50% of the Tranche 3 Payment will only be paid if Photon's EBITDA for the last 12 months is greater than $85 million and Photon's leverage ratio is less than 2.25 times; and
    - The remaining 50% of the Tranche 3 Payment will only be paid if Photon's EBITDA for the last 12 months is greater than $95 million and Photon's leverage ratio is less than 2.25 times.

The impact of the Deferred Consideration Restructure will be to reduce the total estimated cash required for future Deferred Consideration Payments to approximately $149 million with only $67 million to be paid on the date when payment was due under the original acquisition agreements, and approximately $82 million subject to certain hurdles in relation to financial performance and leverage ratio levels of Photon.

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[1] Photon has negotiated to cap the amount of Deferred Consideration Payments due to Deferred Consideration beneficiaries presently estimated to receive 99.7% of the estimated $176 million future Deferred Consideration Payments. The total capped payments includes expected payments in Australian dollars (A$112.1 million), pound sterling (£36.2 million) and US dollars (US$0.3 million) converted to Australian dollars at the relevant foreign exchange rates at 30 June 2010 (1GBP=1.76AUD and 1USD=1.17AUD).

Debt Refinancing

Photon has agreed with its lender to refinance its existing $280 million debt facilities (currently drawn to $274 million) with $230 million cash advance facilities and a $45 million bank guarantee facility (**New Facilities**). Following the refinancing, and after the payment of Deferred Consideration Payments due on or around 30 September 2010, Photon will have $206.8 million of drawn debt against facilities of $230 million.

The bank guarantees will be provided to the Deferred Consideration beneficiaries to guarantee the Tranche 1 cash portion of the Deferred Consideration Payments due after 30 September 2010. These bank guarantees will be called upon to the extent that Photon cannot make a Deferred Consideration Payment from the $230 million cash advance facilities or its operating cash flows.

The New Facilities will have a term of three years and covenants and margins are substantially in line with the covenants and margins of Photon's previous facilities.

Equity Raising

Photon intends to raise a minimum of $102.5 million at $0.10 per new share, underwritten by Macquarie Capital Advisers Limited and UBS AG, Australia Branch (**Joint Lead Managers**). The Equity Raising consists of:

- a Shareholder Offer to eligible shareholders underwritten to $62.5 million. Eligible shareholders may apply at an Offer Price of $0.10 per New Share for the greater of:
    - up to $10,000 worth of new shares (subject to scale-back); and
    - 7 new shares for every 2 existing shares held on the Record Date
- a $40 million underwritten Placement to professional and sophisticated investors.

The Shareholder Offer comprises an Institutional Shareholder Offer and Retail Shareholder Offer. The Institutional Shareholder Offer will close on 17 August 2010 and the Retail Shareholder Offer will close at 5.00pm AEST on Thursday 23 September 2010. Eligible retail shareholders may apply for additional new shares subject to available shortfall.

If eligible shareholders do not take up all or part of the Shareholder Offer, any associated entitlement to participate will lapse. The Shareholder Offer is underwritten to $62.5 million. Photon will accept applications for up to an additional $15.0 million on a non-underwritten basis.

The Recapitalisation Proposal involves the issue of up to approximately 1,516.2 million new shares (compared to approximately 187.4 million existing shares). Accordingly, the Recapitalisation Proposal is likely to result in dilution to Shareholders, even if they participate in the Equity Raising, and the level of dilution may be material.

Shareholder approval for the Recapitalisation Proposal

The following elements of the Recapitalisation Proposal require shareholder approval:

- the Equity Raising and the issue of shares to Deferred Consideration Beneficiaries (**Recapitalisation Resolutions**); and
- the issue of up to 72.9 million CEO long term incentive shares to Mr Jeremy Philips and to allow Mr. Philips to participate in the Placement where he intends to subscribe for 3.5 million new shares.

Further detail on the shareholder approval resolutions are set out in the Notice of Meeting provided to the ASX today.

Recapitalisation Conditions

In addition to the requirement for shareholder approval for the Recapitalisation Resolutions, the Recapitalisation Proposal will not proceed if any of the following conditions are not satisfied:

- the conditions precedent to the underwriting agreement are satisfied or waived by the Joint Lead Managers and the underwriting agreement is not terminated by the Joint Lead Managers;
- the New Facilities have been entered into, the conditions precedent to the New Facilities are satisfied or waived and the New Facilities have not been terminated due to the occurrence of an event of default; and
- Photon's lender has provided bank guarantees in respect of the Tranche 1 Payments of the restructured Deferred Consideration Payments due after 30 September 2010.

Dividend policy

Photon is subject to material restrictions on the payment of future dividends under its New Facilities and terms of the Deferred Consideration Restructure. Under these agreements, Photon cannot pay a dividend until after 30 September 2012 and then, only if the following two conditions are met:

- the leverage ratio is below 2.25 times; and
- all Tranche 3 payments have been made, guaranteed or cease to be payable.

The latest potential final sunset date for the Tranche 3 payments is 30 September 2018. These restrictions are consistent with Photon's intention to adopt a dividend policy which is focused on cash flow management having regard to various factors including prevailing economic conditions, expected Deferred Consideration Payments and debt management. During the period when dividend payments are restricted, it is anticipated that operating cash flow of the business will be applied to debt repayment.

Governance

Photon intends to appoint three new additional independent, non-executive Directors to the Board. It is expected that one of the new independent non-executive Directors will become the non-executive Chairman.

Key dates

Record date for the Shareholder Offer	7.00pm on 13 August 2010
Prospectus and offer documents lodged with ASIC and ASX	17 August 2010
Institutional bookbuild	17 August 2010
Recommence trading	18 August 2010
Retail Shareholder Offer opens	19 August 2010
General Meeting	17 September 2010
Retail Shareholder Offer closes	23 September 2010
Settlement of the Equity Raising	28 September 2010
Allotment of new shares under the Equity Raising	29 September 2010
Normal trading of new shares	30 September 2010
Expected dispatch of holding statements	6 October 2010

Details regarding the prospectus

Full details of the Retail Shareholder Offer are set out in the Prospectus which will be made available to eligible retail shareholders when offers of New Shares are made under the Retail Offer. The prospectus was lodged with ASIC today and is available on ASX's website. Any eligible retail shareholder who wishes to acquire New Shares under the Retail Shareholder Offer will need to complete, or otherwise apply in accordance with, the personalised shareholder acceptance form that will be in or will accompany the Prospectus. Eligible retail shareholders should read the Prospectus in its entirety before deciding whether to subscribe for New Shares.

Shareholder enquiries

Shareholders who have any questions in relation to the Equity Raising, should contact their stockbroker, solicitor, accountant or other professional financial adviser.

Shareholders who have questions in relation to the existing shares upon which their entitlement has been calculated, or how to complete the Shareholder Offer acceptance form, or take up all or part of their entitlement, should call the Photon Shareholder Information Line as set out below:

- within Australia 1300 706 274 (local call cost); and
- outside Australia +61 3 9938 4338.

The Photon Shareholder Information Line will be open from 8.30am to 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period.

Future performance and forward-looking statements

Except as required by law, and then only to the extent required by law, neither Photon nor any other person warrants or guarantees the future performance of Photon, or any return on any investment made in Photon. Past performance is not indicative of future performance.

Forward-looking statements are based on Photon's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of Photon and its Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward-looking statements in this announcement or the Prospectus. Investors should specifically refer to Section 9 of the Prospectus, "Key risk factors", which refers to some but not all of the matters that may cause actual results to differ from the position stated in any forward-looking statement in this Prospectus.

All dollar figures in this announcement are Australian dollars unless stated otherwise.

Contact:

Andrew Butcher

Butcher & Co

0400 841 088

This announcement has been prepared for publication in Australia and may not be released or distributed in the United States. This announcement does not constitute an offer of securities for sale in the United States or any other jurisdiction. Any securities described in this announcement may not be offered or sold in the United States absent registration under the US Securities Act of 1933 or an exemption from registration.

PhotonGroup

Photon Group Limited
ABN 97 091 524 515

Prospectus

Underwritten Shareholder Offer

This is an important document and requires your immediate attention.

You should read this Prospectus in its entirety before deciding whether or not to accept the Offer of New Shares. Your rights may have value and you should therefore consider whether to take up your rights.

If you do not understand any part of this Prospectus, or are in any doubt as to how to deal with it or your rights, you should consult your stockbroker, solicitor, accountant or other professional adviser.

This document is not for release or distribution in the United States.

Joint Lead Managers and Underwriters

MACQUARIE

UBS

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Important notice

This Prospectus is dated 17 August 2010 ("**Prospectus**") and was lodged with the Australian Securities and Investments Commission ("**ASIC**") on that date by Photon Group Limited ACN 091 524 515 ("**Photon**"). This Prospectus has been prepared by Photon. Neither ASIC nor the Australian Securities Exchange ("**ASX**") takes any responsibility for the contents of this Prospectus.

This Prospectus expires on 15 September 2011. No New Shares will be issued on the basis of this Prospectus after that expiry date.

Photon has applied or will apply for quotation of the New Shares on ASX. Announcements made by Photon to ASX are available from the ASX website www.asx.com.au. The information provided in this Prospectus is not investment or financial product advice.

This Prospectus is important and requires your immediate attention.

You should read this Prospectus carefully and in its entirety before deciding whether or not to invest in New Shares. In particular, you should consider the risk factors that could affect the performance of Photon or the value of an investment in Photon, some of which are outlined in Section 9 of this Prospectus. The information contained in this Prospectus is not investment or financial product advice and does not take into account the investment objectives, financial situation, tax position or particular needs of individual investors.

Before deciding whether to apply for New Shares, you should consider whether they are a suitable investment for you in light of your own investment objectives, individual financial circumstances, tax position and particular needs and having regard to the merits or risks involved. If, after reading this Prospectus, you have questions about the Equity Raising, you should contact your stockbroker, solicitor, accountant or other professional adviser without delay.

The potential tax effects of the Equity Raising will vary between investors. A summary of potential Australian tax implications for Eligible Retail Shareholders is contained in Section 10 of this Prospectus. However, you should satisfy yourself of any possible tax consequences by consulting your professional tax adviser.

Investors should note that the past Share price performance of Photon provides no guidance to its future Share price performance.

Prospectus availability
Eligible Retail Shareholders will be sent a copy of this Prospectus together with an accompanying personalised Shareholder Offer Acceptance Form.

Eligible investors in Australia can obtain a copy of this Prospectus during the Shareholder Offer Period from Photon's website at www.photongroup.com or by calling the Photon Shareholder Information Line on the numbers listed below under the heading "Enquiries". Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. The electronic version of the Prospectus on the Photon website will not include a Shareholder Offer Acceptance Form. **Shareholders in jurisdictions outside Australia (including Shareholders in the United States) are not entitled to access a copy of the Prospectus on Photon's website.**

Eligible Retail Shareholders will only be entitled to take up their rights in relation to New Shares by completing the Shareholder Offer Acceptance Form which accompanies this Prospectus and paying the relevant Application Monies or by paying all Application Monies by BPAY®[1] (see Section 5 for further information).

Any references to documents included on Photon's website are provided for convenience only, and none of the documents or other information on the website is incorporated by reference in this Prospectus.

Future performance and forward-looking statements
Except as required by law, and then only to the extent required by law, neither Photon nor any other person warrants or guarantees the future performance of Photon, the future performance of New Shares, the correctness of the assumptions underlying the Pro-Forma Forecast Financial Information or any return on any investment made pursuant to this Prospectus. Past performance is not indicative of future performance.

The Pro-Forma Historical Financial Information and Pro-Forma Forecast Financial Information provided in this Prospectus is for illustrative purposes only and is not represented as being indicative of Photon's view of its future financial condition and/or performance.

The forward-looking statements in this Prospectus are based on Photon's current expectations about future events. They are, however, subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of Photon and its Directors, that could cause actual results, performance or achievements to differ materially from future results, performance or achievements expressed or implied by the forward-looking statements in this Prospectus. Investors should specifically refer to Section 9, "Key risk factors", which refers to some but not all of the matters that may cause actual results to differ from the position stated in any forward-looking statement in this Prospectus.

This Prospectus details some important factors and risks that could cause Photon's actual results to differ from the forward-looking statements in the Prospectus.

Offering restrictions
This Prospectus contains an Offer to Eligible Retail Shareholders in Australia, and to certain Institutional Investors, of continuously quoted securities (as that term is defined in the Corporations Act 2001 (Cth) ("**Corporations Act**")) and has been prepared in accordance with section 713 of the Corporations Act. Refer to Section 11 for further information.

The Shareholder Offer is not being extended to any Shareholder whose registered address is outside Australia, other than to Eligible Institutional Shareholders as part of the Institutional Shareholder Offer and to certain Institutional Investors under the Placement.

This Prospectus does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States (or to any person acting for the account or benefit of a person in the United States), or in any other place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. Neither this Prospectus, nor the accompanying Shareholder Offer Acceptance Form, may be distributed to persons in the United States or who are, or are acting for the account or benefit of, a person in the United States.

The distribution of this Prospectus (including an electronic copy) in jurisdictions outside Australia may be restricted by law. Persons who come into possession of this Prospectus should seek their own advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. Photon disclaims all liability to such persons.

See Section 4.16 for further information on foreign offer restrictions.

Note:
1 ® Registered to BPAY Pty Limited ABN 69 079 137 518.

The return of a duly completed Shareholder Offer Acceptance Form, together with payment of any Application Monies or payment of any Application Monies for New Shares by BPAY in accordance with the instructions on the Shareholder Offer Acceptance Form, will be taken by Photon to constitute a representation and warranty made by the Applicant that there has been no breach of such laws.

Disclaimer of representations
No person is authorised to give any information, or to make any representation, in connection with the Shareholder Offer that is not contained in this Prospectus.

Any information or representation that is not contained in this Prospectus may not be relied on as having been authorised by Photon, the Joint Lead Managers or their respective related bodies corporate in connection with the Shareholder Offer. Except as required by law, and only to the extent so required, neither Photon, its Directors nor any other person warrants or guarantees the future performance of Photon or any return on any investment made pursuant to this Prospectus.

The Joint Lead Managers:

- have not authorised, permitted or caused the issue, lodgement, submission, dispatch or provision of this Prospectus;
- do not make, or purport to make, any statement in this Prospectus, and there is no statement in this Prospectus which is based on any statement by the Joint Lead Managers; and
- to the maximum extent permitted by law, expressly disclaim all liability in respect of, make no representations regarding, and take no responsibility for, any part of this Prospectus.

Definitions, currency and time
Some words and expressions used in this Prospectus have defined meanings, which are explained in the Glossary in Section 12.

A reference to time in this Prospectus is to AEST, unless otherwise stated.

All financial amounts in this Prospectus are expressed in Australian dollars, unless otherwise stated.

Enquiries
If you have any questions in relation to the Equity Raising, please contact your stockbroker, solicitor, accountant or other professional financial adviser.

If you have questions in relation to the Existing Shares upon which your rights have been calculated, or how to complete the Shareholder Offer Acceptance Form, or take up all or part of your rights, please call the Photon Shareholder Information Line as set out below:

- within Australia 1300 706 274 (local call cost); and
- outside Australia +61 3 9938 4338.

The Photon Shareholder Information Line is open from 8.30am to 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period.

Privacy
Please read the privacy statement in Section 11.22. It is important you understand that by submitting a Shareholder Offer Acceptance Form accompanying this Prospectus, you consent to the matters outlined in that statement.

17 August 2010

Dear Shareholder,

Photon experienced a disappointing financial result in FY2010F, including a significant NPAT loss of $87.4 million driven by one-off costs, losses associated with discontinued businesses and a non-cash impairment of its intangible assets. In addition, there has been a material increase in its Deferred Consideration Liabilities. Photon has insufficient funds under its existing debt facilities to meet its Deferred Consideration Payments due on or around 30 September 2010 and, without a waiver from its lender which expires at 30 September 2010, would be in breach of its banking covenants.

Photon has conducted a strategic review which considered a broad range of options to reduce existing drawn debt and manage Deferred Consideration Liabilities and has resolved to propose the following Recapitalisation Proposal:

- a restructure of the Deferred Consideration Liability ("**Deferred Consideration Restructure**");
- refinancing of Photon's debt facilities ("**Debt Refinancing**"); and
- raising of a minimum of $102.5 million through an underwritten equity raising comprising a Shareholder Offer and a Placement ("**Equity Raising**"),

(together the "**Recapitalisation Proposal**").

The effect of the Recapitalisation Proposal is that it will enable Photon to pay Deferred Consideration Payments due in September 2010 and help Photon avoid being in breach of debt facilities at that date. If the Recapitalisation Proposal is not implemented, the solvency of Photon will be threatened. However, although the Recapitalisation Proposal is necessary to address Photon's current capital requirements, it has disadvantages for Shareholders, including a material risk of dilution, ongoing restrictions on Photon's ability to pay dividends (which may extend to September 2018) and substantial transaction costs. Further, the completion of the Recapitalisation Proposal will not guarantee the success of Photon's future financial performance.

Update on trading performance

FY2010F EBITDA and FY2010F NPAT are expected to be approximately $46.7 million and $(87.4) million respectively after one-off costs, losses associated with discontinued businesses and non-cash impairment charges relating primarily to impairment of intangible assets in the search marketing segment (which together aggregated to a negative impact of $108.4 million after tax). Photon expects FY2010F Normalised EBITDA to be approximately $75 million (excluding one-off costs of $28.4 million) and normalised NPAT to be approximately $21.0 million (excluding the after-tax effect of one-off costs and impairment charges totalling $108.4 million).

Deferred Consideration Restructure

In addition to seeking to raise $102.5 million of new equity, Photon has entered into agreements with substantially all of the Vendors of the Operating Entities which are expected to receive future Deferred Consideration Payments to restructure the terms of those Deferred Consideration Payments. The effect of the new arrangements is to provide an aggregate cap for substantially all of the estimated future Deferred Consideration Payments of approximately $176 million. The new arrangements also reduce the total estimated future cash required for Deferred Consideration Payments from approximately $170 million to approximately $149 million as approximately 15% of the aggregate final capped payments will be paid in Photon Shares. Further, approximately $83 million of the $149 million expected future cash payments will only be made if Photon reaches certain hurdles in relation to financial performance and leverage ratio levels. The restructure is conditional upon a number of matters, including completion of the Equity Raising.

Debt Refinancing

Photon has entered into a waiver agreement with its lender until the earlier of the date upon which Photon receives the proceeds from the Equity Raising and 30 September 2010. Without the waiver agreement, Photon would have been in breach of its banking covenants at 30 June 2010.

Photon has agreed with its lender to refinance its existing $280 million debt facilities (currently drawn to $274 million) with $230 million cash advance facilities and a $45 million bank guarantee facility ("**New Facilities**"). Following the refinancing, and after the payment of Deferred Consideration Payments due on or about 30 September 2010, Photon will have $206.8 million of drawn debt against facilities of $230 million. Although the New Facilities have covenants and margins that are substantially in line with previous facilities, Photon will continue to have high debt levels after implementation of the Recapitalisation Proposal. Photon will be reliant on continuing operational cash flows, after meeting the working capital requirements of the operating businesses, to pay down debt in order to meet future Deferred Consideration Payments.

The bank guarantees will be provided to the Deferred Consideration Beneficiaries to guarantee the cash portion of the Deferred Consideration Payments due after 30 September 2010. These bank guarantees will be called upon to the extent that Photon cannot make a Deferred Consideration Payment from the $230 million cash advance facilities or its operating cash flows.

The New Facilities will have a term of three years and covenants and margins are substantially in line with the covenants and margins of Photon's previous facilities.

Equity Raising

Photon intends to raise a minimum of $102.5 million at $0.10 per New Share. The Equity Raising consists of:

(a) an offer to eligible Photon Shareholders; and

(b) a placement to sophisticated and professional investors.

The proceeds of the Equity Raising will be used to pay down approximately $67.1 million of Photon's existing bank debt, which is currently approximately $274 million, pay approximately $22.5 million of the cash Deferred Consideration Payments due on or around 30 September 2010 and pay various transaction costs associated with the Recapitalisation Proposal. To the extent that additional equity is raised over and above the $102.5 million, it will be applied to pay down debt.

The Recapitalisation Proposal involves the issue of up to approximately 1,516.2 million New Shares (compared to 187.4 million existing Shares). Accordingly, the Recapitalisation Proposal is likely to result in dilution to Shareholders, even if they participate in the Equity Raising, and the level of dilution may be material. Further details of the Shareholder Offer are set out in this Prospectus, which you should read carefully and in its entirety, including the risk factors set out in Section 2 and Section 9.

Governance

Photon appointed Jeremy Philips as CEO from June 2010.
Photon intends to appoint three new additional independent, non-executive Directors to the Board. Also, as announced previously, Tim Hughes has resigned as a Director. It is expected that one of the new independent non-executive Directors will become the non-executive Chairman.

Conditionality of the Recapitalisation Proposal

Implementation of the Recapitalisation Proposal is subject to the satisfaction of a number of conditions ("**Recapitalisation Conditions**"), including obtaining Photon Shareholder approval on aspects of the Recapitalisation Proposal. A Notice of Meeting for the general meeting of Photon Shareholders to consider the Recapitalisation Resolutions is enclosed with this Prospectus.

If the Recapitalisation Resolutions are not passed, or the Recapitalisation Conditions are not satisfied, the Recapitalisation Proposal, including the Equity Raising, will not proceed and Photon will refund all Application Monies without interest. Please refer to the Notice of Meeting for the implications if the Recapitalisation Resolutions are not approved by Shareholders.

Outlook and strategic objectives

Despite the significant loss in FY2010F, the Board does not believe that there will be further deterioration in the financial performance of Photon in FY2011 given:

- the FY2010F financial results included significant one-off costs and non-cash impairment charges of the intangible assets in the search marketing group (a segment of the Internet & E-Commerce division);
- the underperformance of the Internet & E-Commerce division was primarily attributable to losses in the Geekdom and Geekversity businesses which have subsequently been closed and sold respectively; and
- the recent aggregate trading performance of Photon's four other operating divisions: Strategic Intelligence, Integrated Communications & Digital, Field Marketing and Specialised Communications (as detailed in Table 7.4.2a and Table 7.4.3a) on the basis that the Australian dollar does not appreciate from current exchange rate levels against the pound sterling and US dollar. Please refer to Section 7.7 for illustrative sensitivity to actual movements in exchange rates.

However, if there is further deterioration in Photon's financial performance, there is a risk that Photon will breach its debt facility financial covenants and will not be able to meet future Deferred Consideration Payments.

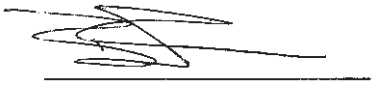
The Board believes that completion of the Recapitalisation Proposal, which will have the immediate effect of enabling Photon to pay Deferred Consideration Payments due on or around 30 September 2010 and avoid Photon being in breach of debt facilities as at that date, will also provide an improved capital structure to allow Photon to better serve its clients and meet its strategic objectives.

Photon's strategic objectives include the completion of an Operational Restructure, continuing to support new business activities and organic expansion of key international brands. The key risks to meeting these objectives include loss of key personnel and clients, including as a consequence of the uncertainty created by Photon's prolonged suspension. Photon's profitability and financial position reported in Australian dollars can also be negatively impacted by its exposure to foreign exchange rates. Growth via acquisition will not be the focus of Photon.

Further details on Photon's outlook and strategic objectives are set out in Section 6.6 and the risks of achieving these objectives are set out in Section 9.

We encourage you to review this Prospectus carefully and seek advice in relation to your potential participation in the Shareholder Offer.

Yours sincerely,



Brian Bickmore
Chairman

Key dates

Record Date for the Shareholder Offer	**7.00pm on 13 August 2010**
Prospectus lodged with ASIC and ASX	17 August 2010
Recommence trading	18 August 2010
Retail Shareholder Offer opens	19 August 2010
General Meeting	17 September 2010
Retail Shareholder Offer closes	**5.00pm on 23 September 2010**
Settlement of the Equity Raising	28 September 2010
Allotment of New Shares under the Equity Raising	29 September 2010
Normal trading of New Shares	30 September 2010
Expected dispatch of holding statements	6 October 2010

The above timetable is indicative only and subject to change. The commencement of quotation of New Shares is subject to confirmation from ASX. Photon, in conjunction with the Joint Lead Managers and subject to the Corporations Act, the ASX Listing Rules and other applicable laws, has the right to vary any of the above dates and times without notice. In particular, Photon reserves the right to extend the Closing Date for the Shareholder Offer, to accept late Applications either generally or in particular cases, or to withdraw all or part of the Shareholder Offer without prior notice.

All times mentioned in the above table are references to AEST.

Key statistics

	Offer price per New Share	New Shares issued	Equity capital raised
Shareholder Offer	$0.10	624.5 million	$62.5 million[1]
Placement	$0.10	400.0 million	$40.0 million
Total Equity Raising		**1,024.5 million**	**$102.5 million**
Deferred Consideration Issue[2]	$0.10	268.9 million	–
Sub-total		**1,293.4 million**	**$102.5 million**
CEO LTI Shares[3]	$0.10	65.3 million	–
Total		**1,358.7 million**	**$102.5 million**

Notes:

1 The Shareholder Offer is underwritten to $62.5 million. Photon will issue up to a further $15.0 million in New Shares at $0.10 per share to accommodate Top-Up Component and Additional New Share Applications.

2 Please refer to Section 1.3 and Section 11.6 for details of the Deferred Consideration Issue.

3 The issue of all of the CEO LTI Shares is subject to Shareholder approval. Photon is required under Mr Philips' Service Agreement to provide him with a limited recourse loan to fund his subscription for all of the CEO LTI Shares. Please refer to Section 1.5.4 and Section 11.14 for further details. If the Equity Raising raises more than $102.5 million, Mr Philips will be issued with up to 7.6 million additional CEO LTI Shares (also subject to Shareholder approval).

Section 1

1.1 Background

Following a material increase in Photon's estimated Deferred Consideration Payments to approximately $176 million and a disappointing financial result in FY2010F, Photon has insufficient funds under its existing debt facilities to meet its Deferred Consideration Payments due on or around 30 September 2010 and, without a waiver from its lender which expires at 30 September 2010, would be in breach of its banking covenants.

As a result, Photon has conducted a strategic review of its capital structure, considering a broad range of options aimed at reducing existing drawn debt and managing the Deferred Consideration Liabilities. The Board ultimately concluded that the Recapitalisation Proposal outlined below would likely provide the most advantageous outcome for Photon and its Shareholders.

1.2 Summary of Recapitalisation Proposal

The Board has resolved to pursue the following initiatives:

- a restructure of the expected future Deferred Consideration Payments, including capping substantially all of the Deferred Consideration Payments and restructuring the timing and form of Deferred Consideration Payments;
- refinancing of Photon's debt facilities, including to extend the term of the debt facilities by three years, to establish a bank guarantee facility to provide support for a portion of the Deferred Consideration Payments and to provide capacity, along with operating cash flow, to fund the future expected Deferred Consideration Payments which are to be settled in cash; and
- raising a minimum of $102.5 million through an underwritten equity raising comprising a Shareholder Offer and a Placement.

The effect of the Recapitalisation Proposal is that it will enable Photon to pay Deferred Consideration Payments due in September 2010 and avoid Photon being in breach of debt facilities at that date. If the Recapitalisation Proposal does not proceed, and an alternative restructure or waiver agreement is not agreed with Photon's lender and Deferred Consideration Beneficiaries, Photon will not be in a position to meet its cash Deferred Consideration Payments due on or around 30 September 2010 and Photon will be in breach of its financial covenants as at 30 September 2010. If this occurs, the solvency of Photon will be threatened.

If the Recapitalisation Proposal proceeds, it is likely to result in dilution of retail shareholders even if they participate in the Equity Raising and the level of dilution may be material. It should also be noted that the Recapitalisation Proposal prevents Photon from paying a dividend until 30 September 2012 and only then, in the period to 30 September 2018, if its leverage ratio is below 2.25 times and all Deferred Consideration Payments have been made, guaranteed or cease to be payable.

The Equity Raising and issue of New Shares to the Deferred Consideration Beneficiaries as part of the Deferred Consideration Restructure (the "**Deferred Consideration Issue**") requires Shareholder approval and for this purpose a General Meeting has been convened for Friday 17 September 2010 to consider these approvals. Shareholders must approve the issue of New Shares under the Deferred Consideration Issue and the Equity Raising in order for the Recapitalisation Proposal to be implemented.

For further information relating to the proposed resolutions and the advantages and disadvantages of the Recapitalisation Proposal, please see the information contained in the Notice of Meeting and accompanying Explanatory Notes.

1.3 Deferred Consideration Restructure

1.3.1 Overview of the Deferred Consideration Restructure

The Deferred Consideration Beneficiaries of 19 Operating Entities have a contractual right to receive future Deferred Consideration Payments from Photon. Of the 19 Operating Entities:

- 15 Operating Entities are expected to meet the earnings targets necessary to receive a payment and have entered into Deferred Consideration Restructure Agreements;
- two Operating Entities have waived their rights to receive future payments; and
- Photon considers that the remaining two Operating Entities are highly unlikely to meet their earnings targets[1] required to receive future payments.

Note:

1 The period for both Operating Entities' Deferred Consideration Payments expires by September 2011. To achieve a Deferred Consideration Payment, the two Operating Entities would need to achieve combined EBIT in excess of £6.3 million. The two Operating Entities are not expected to make a positive EBIT contribution.

As part of the Deferred Consideration Restructure, Photon has negotiated to cap the amount of Deferred Consideration Payments due to Deferred Consideration Beneficiaries presently estimated to receive 99.7% of the estimated $176[1] million future Deferred Consideration Payments. The Deferred Consideration Beneficiaries who have not entered into the Deferred Consideration Restructure Agreements are not employees of the Group and will continue to be entitled to receive payments due under the terms of the Original Acquisition Agreements to which they are parties.

The new arrangements include in approximate terms the following:

- payments equal to the lesser of the amount determined in accordance with the Original Acquisition Agreement and an agreed cap;
- 35% of the aggregate capped payment will be paid in cash on the date when payment was due under the Original Acquisition Agreement ("**Tranche 1 Payment**");
- 15% of the aggregate capped payment will be satisfied by the issue of Photon Shares at the Issue Price on the Allotment Date ("**Tranche 2 Payment**");
- 50% of the Tranche 3 Payment will only be paid if Group EBITDA for the last 12 months is greater than $85 million and Photon's leverage ratio (calculated consistently with its banking facilities referred to in Section 11.8) is less than 2.25 times ("**Tranche 3A Payment**");
- the remaining 50% of the Tranche 3 Payment will only be paid if Group EBITDA for the last 12 months is greater than $95 million and Photon's leverage ratio (calculated consistently with its banking facilities referred to in Section 11.8) is less than 2.25 times ("**Tranche 3B Payment**"); and
- Tranche 3A and Tranche 3B Payments will not be payable if the applicable triggers have not been satisfied by a sunset date of five years from the payment date provided for in the Original Acquisition Agreement.

Further details on the Deferred Consideration Restructure are set out in Section 11.6 of this Prospectus.

While in aggregate the Deferred Consideration Restructure Agreements are materially on the terms set out in Section 11.6, none of the 15 Deferred Consideration Restructure Agreements are identical.

The effect of the Deferred Consideration Restructure on Photon is to:

- provide an aggregate cap for substantially all of the estimated future Deferred Consideration Payments of approximately $176[1] million;
- reduce the total estimated future Deferred Consideration Payments from approximately $170 million to approximately $149 million as approximately 15% of the aggregate final capped payments will be paid in Photon Shares; and
- approximately $83 million of the estimated future cash payments will only be made if Photon reaches certain hurdles.

Please refer to Section 7 for more details on the impact of the Deferred Consideration Restructure on Photon's financial performance and position, including:

- the maturity profile of the restructured Deferred Consideration Payments – see Table 7.5.1a;
- the pro-forma balance sheet impact – see Section 7.5;
- exchange rate sensitivity analysis – see Section 7.7; and
- sensitivity analysis if the Tranche 3A and Tranche 3B triggers are not satisfied – see Table 7.5.1b

As part of the Deferred Consideration Restructure, approximately 268.9 million New Shares will be issued to the Deferred Consideration Beneficiaries.

1.4 The Debt Refinancing

1.4.1 Waivers received

Photon has entered into waiver agreements with its lender which provide for increased headroom in certain of the financial covenants until the earlier of the date upon which Photon receives the proceeds from the Equity Raising and 30 September 2010. The waivers provide for a capitalisation ratio of less than 65% and the leverage ratio which must be less than 4.00 times. Photon anticipates that it will remain in compliance with these covenants to 30 September 2010.

Note:

1 Excludes approximately $5 million in expected future dividend payments to the shareholders of a non-wholly owned Operating Entity that is currently subject to a put option arrangement.

1.4.2 Overview of New Facilities

Photon has agreed with its lender, subject to the satisfaction of the conditions detailed in Section 11.8, to refinance its existing $280.0 million debt facilities (currently drawn to $274.0 million) with $230.0 million of cash advance facilities and a $45.0 million bank guarantee facility ("**New Facilities**"). Following the refinancing, and after the payment of Deferred Consideration Payments due on or about 30 September 2010, Photon will have $206.8 million of drawn debt against a facility of $230 million. Although the New Facilities have covenants and margins that are substantially in line with previous facilities, Photon will continue to have high debt levels after implementation of the Recapitalisation Proposal. Photon will be reliant on continuing operational cash flows, after meeting the working capital requirements of the operating businesses, to pay down debt in order to meet future Deferred Consideration Payments.

The New Facilities will have a term of three years expiring in September 2013 and financial covenants and interest rates that are substantially in line with those under Photon's previous facilities. However, it should be noted that under the New Facilities, Photon will be restricted from paying a dividend until 30 September 2012 and only then if its leverage ratio is below 2.25 times and all Deferred Consideration Payments have been made, guaranteed or cease to be payable. The key financial covenants and terms are detailed in Section 11.8.

Further information on the pro-forma impact of the Equity Raising and refinancing on Photon's debt profile and covenant ratios is detailed in Section 7.6.

1.5 Equity Raising

The proceeds of the Equity Raising will be used to pay down approximately $67.1 million of Photon's existing $280 million bank debt facilities, which today are drawn to $274 million; to pay approximately $22.5 million of the cash Deferred Consideration Payments due on or around 30 September 2010; and to pay various transaction costs associated with the Recapitalisation Proposal.

1.5.1 Components of Equity Raising

Photon intends to raise a minimum of $102.5 million at $0.10 per New Share via:

- an offer to Eligible Shareholders underwritten to $62.5 million. Eligible Shareholders may apply at an Offer Price of $0.10 per New Share for the greater of:
  - up to $10,000 worth of New Shares (subject to the scale-back referred to in Section 4.2.4); and
  - 7 New Shares for every 2 Existing Shares held on the Record Date,

  (the "**Shareholder Offer**").

  The Shareholder Offer comprises the Institutional Shareholder Offer and Retail Shareholder Offer. The Institutional Shareholder Offer will close on 17 August 2010 and the Retail Shareholder Offer will close at 5.00pm AEST on Thursday 23 September 2010.[1] Eligible Retail Shareholders may apply for Additional New Shares subject to available Shortfall.

  If Eligible Shareholders do not take up all or part of the Shareholder Offer, any associated right to participate will lapse. Photon will accept Top-Up Component and Additional New Share Applications for up to an additional $15.0 million on a non-underwritten basis; and
- a $40 million underwritten Placement to professional and sophisticated investors (the "**Placement**").

The Directors have sought to structure the Shareholder Offer with the objective of minimising dilution of Eligible Retail Shareholders, while ensuring the success of the Equity Raising. This policy is reflected in the following elements of the Shareholder Offer:

- a Pro-Rata Component which guarantees a minimum entitlement to each Shareholder;
- the ability to apply for $10,000 worth of Photon Shares if this would exceed the Pro-Rata Component; and
- the ability to apply for Additional New Shares.

Notwithstanding these elements, there is no guarantee that all Shareholders will be able to maintain their pro-rata position in Photon, as the Placement and Deferred Consideration Issue will have a dilutionary impact on all other shareholdings. Shareholders wishing to maintain their pro-rata holding in Photon will only be able to do so to the extent there is a Shortfall in the Pro-Rata Component or additional capacity in the additional $15 million pool after allocation to Shareholders seeking the minimum $10,000 allocation. Further details of the allocation policy are set out in Section 4.2.4 and the risks associated with dilution are set out in Section 1.5.6.

The Shareholder Offer is underwritten to $62.5 million. The Pro-Rata Component of the Retail Shareholder Offer is also substantially sub-underwritten, including by Photon's lender who has agreed to sub-underwrite up to a maximum of $8.1 million.

Note:
1 Payment by cheque must be made by 17 September 2010.

1.5.2 Participation of RG Capital

Photon Group's largest Shareholder, RG Capital, currently owns 23.8% of Photon (prior to the Equity Raising). RG Capital has committed to subscribe through the Shareholder Offer and the Placement, and to sub-underwrite the Retail Shareholder Offer, for the number of New Shares required to maintain its current ownership after the Equity Raising and Deferred Consideration Issue. This represents participation in the Equity Raising of approximately $32.3 million. In addition, RG Capital has agreed to sub-underwrite a further $2.7 million worth of New Shares to take its total investment under the Shareholder Offer to $35.0 million pursuant to Section 611 Item 9 of the Corporations Act which in general terms permits a shareholder with a greater than 20% interest to increase their shareholding level by 3% in rolling six months periods. The maximum percentage holding of RG Capital post the Recapitalisation Proposal is 25.5%.

1.5.3 Issue of New Shares to Directors

As at the date of this Prospectus, the Directors of Photon have relevant interests in the number of Shares set out in the table in Section 11.12.

It is the intention of the Directors to participate in the Equity Raising as follows:

Director	Intentions
Ms Susan McIntosh	Ms McIntosh and her Associates intend to subscribe for her entitlement under the Shareholder Offer in full.
Mr Brian Bickmore	Mr Bickmore and his Associates intend to subscribe for his entitlement under the Shareholder Offer in full.
Mr Paul Gregory	Mr Gregory does not presently intend to participate in the Equity Raising.

ASX has granted a waiver to Listing Rule 10.11 to permit the participation of any Director in the Shareholder Offer without requiring separate Shareholder approval as the ability of Directors to participate in the Shareholder Offer is on the same terms as other Shareholders.

Further information is set out in the Notice of Meeting.

1.5.4 Issue of New Shares to Mr Jeremy Philips

As disclosed to the market on 20 April 2010, Photon issued 9 million Shares to Mr Jeremy Philips following execution of his Service Agreement. Further information regarding the terms of the Service Agreement is set out in Section 11.14. The funding for Mr Philips' subscription was provided by Photon pursuant to a limited recourse loan as required by the Service Agreement. As a result of his interest in these Shares, Mr Philips has a 4.8% shareholding in Photon before completion of the Recapitalisation Proposal.

The incentive arrangements under Mr Philips' Service Agreement require Photon, in the circumstance where it issues Shares during the first 12 months of his employment for the purpose of raising capital, to offer Mr Philips the right to acquire such additional Shares as will, following the issue of Shares, maintain his proportionate holding relative to the total number of Shares on issue and to provide a further limited recourse loan to fund the additional Shares subscribed for (on the same terms as the original limited recourse loan). Photon's obligation to issue Shares in these circumstances is subject to any required Shareholder approvals.

Consistent with the terms of the Service Agreement, the Board is seeking Shareholder approval for the issue of up to 72.9 million New Shares to Mr Philips to allow him to subscribe for New Shares in such number as will, following completion of the Equity Raising and Deferred Consideration Issue, maintain his proportionate holding at 4.8%, being his current shareholding in Photon ("**CEO LTI Shares**"). Photon will provide Mr Philips with an additional limited recourse loan of up to $7.29 million to fund his subscription for all such Shares on the same terms as that applied to the initial issue of 9 million Existing Shares. If Shareholders do not approve this issue of the CEO LTI Shares, Photon is required to offer Mr Philips an alternative long-term incentive arrangement, the terms of which have not been determined but which will be designed to provide Mr Philips with an incentive plan which places him in no worse a position, on an after tax basis, than he would have been in had Shareholders approved the issue of the CEO LTI Shares.

All CEO LTI Shares will be subject to vesting and escrow conditions as set out in his Service Agreement. Further details of the issue of the CEO LTI Shares to Mr Philips and his Service Agreement are set out in Section 11.14.

It is Mr Philips' intention to subscribe for an additional 3.5 million New Shares under the Placement. This is also subject to receiving necessary Shareholder approvals. Photon will not fund the subscription of these New Shares. This will increase Mr Philips' shareholding in Photon to approximately 5.03%.

1.5.5 Sources and intended uses of funds from Equity Raising

The proceeds from the Equity Raising will be used to:

- pay down approximately $67.1 million of Photon's existing $280 million bank debt facilities, which today are drawn to approximately $274 million;
- pay approximately $22.5 million of the Tranche 1 Payment of Deferred Consideration Payments due on or around 30 September 2010; and
- pay various transaction costs associated with the Recapitalisation Proposal ("**Transaction Costs**") totalling approximately $12.9 million.

To the extent that additional equity is raised over and above the $102.5 million, it will be applied to pay down debt. Refer to Sections 4.4 and 4.5 for further details on the sources and uses of funds and the total Shares to be issued.

The sources of funds and uses of funds are summarised in the table below:

Sources of funds	$ million (approximately)
– Shareholder Offer	62.5[1]
– Placement	40.0
Total sources of funds	**102.5**

Uses of funds	$ million (approximately)
– Debt repayment[2]	67.1
– Deferred Consideration Payments	22.5
– Total Transaction Costs	12.9
Total use of funds	**102.5**

Notes:

1 The Shareholder Offer is underwritten to $62.5 million. Photon will accept Top-Up Component Applications for up to an additional $15.0 million to accommodate Eligible Retail Shareholders applying for up to $10,000 worth of New Shares under the Top-Up Component of the Shareholder Offer.

2 To the extent that additional equity is raised over and above the $102.5 million, it will be applied to reduce debt.

1.5.6 Dilution impact of the recapitalisation on Photon Shareholders

The Recapitalisation Proposal, including the Equity Raising, will result in the issue of up to approximately 1,516.2 million New Shares. This will mean that the percentage holdings in Photon of Shareholders may be diluted, even if they participate in the Shareholder Offer, and this dilution may be significant. Assuming full subscription under the offer including the $15 million available for Top-Up and Additional New Share applications, your dilution is likely to be approximately:

- 89% if you do not participate in the Shareholder Offer; and
- 42% if you take up your pro-rata entitlement under the Shareholder Offer.

Your dilution may be lower if you apply for $10,000 worth of Shares under the Top-Up Component or Additional New Shares.

1.5.7 Shareholder approval for the Recapitalisation Proposal

The following elements of the Recapitalisation Proposal require Shareholder approval:

- the Equity Raising and the Deferred Consideration Issue; and
- the issue of up to 72.9 million CEO LTI Shares to Mr Philips and the issue of up to 3.5 million New Shares under the Placement.

Further detail on the Shareholder approval resolutions are set out in the Notice of Meeting and Explanatory Notes.

1.6 Recapitalisation Conditions

In addition to the requirement for Shareholder approval for the Equity Raising and Deferred Consideration Issue, the Recapitalisation Proposal will not proceed if any of the following conditions ("**Recapitalisation Conditions**") are not satisfied:

- the conditions precedent to the Underwriting Agreement are satisfied or waived by the Joint Lead Managers and the Underwriting Agreement is not terminated by the Joint Lead Managers. The material conditions precedent and termination events under the Underwriting Agreement are set out in Section 11.5;
- the New Facilities have been entered into, the conditions precedent to the New Facilities are satisfied or waived and the New Facilities have not been terminated due to the occurrence of an event of default. The material conditions precedent and events of default are set out in Section 11.8 and Section 11.7 respectively; and
- Photon's lender has provided bank guarantees in respect of the Tranche 1 Payments of the restructured Deferred Consideration Payments due after 30 September 2010.

If the Recapitalisation Proposal does not proceed, and an alternative restructure or waiver agreement is not agreed with Photon's lender and Deferred Consideration Beneficiaries, Photon will not be in a position to meet its cash Deferred Consideration Payments due on or around 30 September 2010 and Photon will be in breach of its financial covenants as at 30 September 2010. If this occurs, the solvency of Photon will be threatened.

Further detail on the implications of the Recapitalisation Proposal not being implemented are set out in the Notice of Meeting and Explanatory Notes.

1.7 Dividend policy

Photon is subject to material restrictions on the payment of future dividends under its New Facilities and terms of the Deferred Consideration Restructure. Under these agreements, Photon cannot pay a dividend until after 30 September 2012 and then, only if the following two conditions are met:

- the leverage ratio is below 2.25 times; and
- all Tranche 3A Payments and Tranche 3B Payments have been made, guaranteed or cease to be payable.

The latest potential final Sunset Date for the Tranche 3A Payments and Tranche 3B Payments is 30 September 2018. These restrictions are consistent with Photon's intention to adopt a dividend policy which is focused on cash flow management having regard to various factors including prevailing economic conditions, expected Deferred Consideration Liabilities and debt management. During the period when dividend payments are restricted, it is presently anticipated that operating cash flow of the business will be applied to debt repayment.

1.8 Share Consolidation

If the Recapitalisation Proposal is successful, Photon intends to pursue a consolidation of shares ("**Share Consolidation**"). The proposed Share Consolidation will be subject to Shareholder approval, and Photon intends to introduce this resolution at Photon's 2010 Annual General Meeting.

Section 2

In addition to general risks affecting any listed equity investment, an investment in New Shares is subject to risks associated with Photon's business and the Recapitalisation Proposal. Further details regarding these risks are set out in Section 9. Each of these risks should be considered before applying for New Shares. Set out below is a summary of the major risks associated with Photon's business and the Recapitalisation Proposal.

Risks associated with the Recapitalisation Proposal

Summary of risk	More information
Impact of Recapitalisation Proposal and suspension from trading on ASX: Photon's requirement for a recapitalisation and suspension from trading on ASX could potentially have a negative impact on the operating performance, existing client relationships, future potential client relationships and employee relationships.	Section 9.2.1
Recapitalisation Proposal no guarantee of future performance: While the Recapitalisation Proposal is necessary to address Photon's current capital requirements, it will not guarantee the success of Photon's future financial performance. Photon will be reliant on continuing operational cash flows, after meeting the working capital requirements of the operating businesses, to pay down debt in order to meet future Deferred Consideration Payments.	Section 9.2.2
Dilution: The Recapitalisation Proposal, will result in the issue of up to approximately 1,516.2 million New Shares. This will mean that the percentage holdings in Photon of Shareholders may be diluted, even if they participate in the Shareholder Offer, and this dilution may be significant. Please refer to Section 1.5.6 for specific disclosure of the percentage of dilution under various scenarios and how this will affect shareholders.	Section 9.2.3
Restrictions on dividends: Under the terms of Photon's New Facilities and the terms of the Deferred Consideration Restructure, Photon is subject to restrictions on the payment of future dividends until after 30 September 2012 and then, in the period until 30 September 2018, only if certain conditions are met.	Section 9.2.4

Retention of key personnel:
– Photon operates in the marketing and communications services industry which is highly dependent on the talent, creative abilities and technical skills and relationships of employees.
– Non-compete and restraint provisions may cease to apply if certain events occur, including:
  – an insolvency event; or
  – where Photon fails to make a Deferred Consideration Payment.
– If a new long-term incentive scheme agreement is not reached between Photon and Naked Group, the Naked Group may be sold. Please refer to Section 11.6.6.
A loss of key staff could have a material adverse effect on Photon.
	Section 9.2.5

2

Summary of risk	More information
Litigation risk: The Offer Price under the Equity Raising is substantially less than the prices at which Photon Shares traded prior to the suspension of trading in Photon Shares on 9 June 2010. There is a risk of regulatory review or claims by Shareholders or other third parties as a result of the circumstances surrounding the increase in the level of Photon's liabilities, including the Deferred Consideration Liability, the decline in Photon's earnings or other aspects of the decline in the price and value of Photon Shares. Such actions or claims could have a material adverse effect on Photon or on the ability of Photon to complete the Recapitalisation Proposal.	Section 9.2.6
Inability to complete the Recapitalisation Proposal: If the Recapitalisation Proposal does not proceed, and an alternative restructure or waiver agreement is not agreed with Photon's lender or the Deferred Consideration Beneficiaries, Photon will not be in a position to meet cash Deferred Consideration Payments due on or around 30 September 2010 and Photon will be in breach of financial covenants under its debt facilities at 30 September 2010. This will threaten the solvency of Photon.	Section 9.2.7

Specific risks relating to Photon operations

Summary of risk	More information
Operational restructure: Photon is undergoing an operational restructure, which may not be successful in execution, and which could have a negative impact on Photon's operating performance, existing and future client relationships and employee relationships.	Section 9.3.1
International business risk and exchange rates: – Photon's international operations are subject to a number of risks inherent in operating in various countries. – Changes in exchange rates could adversely affect Photon's profitability and financial position, financial indebtedness and quantum of Deferred Consideration Liability as reported in Australian dollars. Please refer to Section 7.7 foreign exchange rate sensitivities.	Section 9.3.2
Breaching of debt covenants: Photon is at risk of breaching debt covenants if there are materially adverse movements in any of the following: deterioration in Photon's financial performance, foreign exchange rates, base interest rates, or its ability to generate operating cash flow. After the Recapitalisation Proposal and making Tranche 1 Payments due on or around 30 September 2010, Photon's leverage ratio is expected to be approximately 2.8 times and the leverage ratio covenant is 3.5 times, stepping down to 3.0 times on 1 January 2012.	Section 9.3.3

Summary of risk	More information
Asset value impairment: Photon has a significant amount of acquired goodwill and other intangible assets recorded on its balance sheet which are subject to impairment testing. Any resulting impairment loss could have a material impact on Photon's financial position and ability to comply with financial covenants, profitability and ability to pay dividends.	Section 9.3.5
Potential for losses in the Operating Entities: Photon's future financial success is ultimately dependent upon the profitability of the Operating Entities. The potential for losses in the Operating Entities as a result of either reductions in revenue, increases in costs or entering into unprofitable business models remains a risk for Photon.	Section 9.3.6
Client contracts: Photon's clients have the ability to terminate contracts on short notice.	Section 9.3.7
Competitive industry: Photon and its Operating Entities are subject to vigorous competition from other operators within the marketing and communication services industry.	Section 9.3.8
Adverse interest rate movements: Photon will continue to be exposed to adverse interest rate movements to the extent that underlying borrowings have a floating rate exposure that is not hedged.	Section 9.3.9

Section 3

3

3.1 The Recapitalisation Proposal

Question	Answer	More information
What is the Recapitalisation Proposal?	The key components of the Recapitalisation Proposal are: – the Deferred Consideration Restructure; – the Debt Refinancing; and – the Equity Raising.	Section 1.2
What is the purpose of the Recapitalisation Proposal?	The Recapitalisation Proposal will enable Photon to pay Deferred Consideration Payments due in September 2010 and allow Photon to avoid being in breach of its debt facilities at that date. If this does not occur, Photon's solvency will be threatened.	Section 1.1
Why has Photon been in suspension?	Photon's Shares have been suspended from trading since 9 June 2010 as Photon held discussions with its advisers and other parties to consider options to reduce existing drawn debt and manage Deferred Consideration Liabilities. This has resulted in the preparation of the Recapitalisation Proposal.	Section 9.2.1
What are the conditions to implementation of the Recapitalisation Proposal?	The Recapitalisation Proposal is subject to various conditions including: – the Recapitalisation Resolutions being passed; – the New Facilities being entered into, the conditions precedent to the New Facilities being satisfied or waived and the New Facilities not having been terminated; – the Underwriting Agreement not being terminated; and – provisions of bank guarantees in respect of certain Tranche 1 Payments under the Deferred Consideration Restructures. The Recapitalisation Resolutions are resolutions which will be put to Shareholders at the General Meeting to approve the following: – the Shareholder Offer; – the Placement; and – the Deferred Consideration Issue.	Section 1.6
What will happen if the Recapitalisation Proposal does not proceed?	If the Recapitalisation Proposal does not proceed, Photon will refund all Application Monies (without interest). If the Recapitalisation Proposal does not proceed, and an alternative restructure or waiver agreement is not agreed with Photon's lender or the Deferred Consideration Beneficiaries, Photon will not be in a position to meet cash Deferred Consideration Payments due on or around 30 September 2010 and Photon will be in breach of financial covenants under its debt facilities at 30 September 2010. If this occurs, the solvency of Photon will be threatened.	Section 1.6 Section 9 of the Explanatory Notes to the Notice of Meeting

Question	Answer	More information
What will Photon's dividend policy be following the Recapitalisation Proposal?	Photon is subject to certain significant restrictions, potentially until 30 September 2018, on the payment of future dividends under its New Facilities and the terms of the Deferred Consideration Restructure.	Section 1.7

3.2 The Equity Raising

Question	Answer	More information
What is the Equity Raising?	Photon is seeking to raise gross underwritten proceeds of a minimum of $102.5 million as follows: – $62.5 million from the underwritten component of the Shareholder Offer to Eligible Shareholders; and – $40.0 million from the underwritten Placement to professional and sophisticated investors. Photon may raise a maximum of $117.5 million, including Applications under the Top-Up Component or for Additional New Shares for up to an additional $15.0 million on a non-underwritten basis.	Section 4.1
What is the Shareholder Offer?	Under the Shareholder Offer, Eligible Shareholders may apply at an Offer Price of $0.10 per New Share for the greater of: – up to $10,000 worth of New Shares (subject to the scale-back referred to in Section 4.2.4) ("**Top-Up Component**"); and – 7 New Shares for every 2 Existing Shares held at 7.00pm (AEST) on the Record Date, being 13 August 2010 ("**Pro-Rata Component**"). If Eligible Shareholders do not take up all or part of the Shareholder Offer, any associated entitlement will lapse.	Section 4.2
What is the Placement?	The Placement is to professional and sophisticated investors who may apply at an Offer Price of $0.10 per New Share.	Section 1.5.1
Are the Shareholder Offer and the Placement conditional on Shareholder approval?	Yes, the Shareholder Offer and the Placement are inter-conditional and both are subject to Shareholder approval. They are also conditional on Shareholder approval for the Deferred Consideration Issue.	Section 1.5.7 Section 4.1
What is the Offer Price?	The Offer Price is $0.10 per New Share.	Section 4.2

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Question	Answer	More information
What is the purpose of the Equity Raising?	The proceeds of the Equity Raising will be used to: – pay down approximately $67.1 million of Photon's existing $280 million debt facilities which are currently drawn to $274 million; – pay deferred consideration payments of $22.5 million due on or around 30 September 2010; and – approximately $12.9 million of the proceeds of the Equity Raising will be used to pay Transaction Costs. To the extent that additional equity is raised above $102.5 million, it will be applied to reduce debt.	Section 4.3
Is the Equity Raising underwritten?	Yes, the Equity Raising is underwritten to $102.5 million by the Joint Lead Managers, comprising a $40.0 million underwritten Placement and Shareholder Offer underwritten to $62.5 million. Photon may accept Top-Up Component or Additional New Share Applications for up to an additional $15.0 million on a non-underwritten basis.	Section 4.6
Can additional capital be raised under the Equity Raising?	Photon will accept Top-Up Component and Additional New Share Applications for up to an additional $15.0 million on a non-underwritten basis. Any additional funds raised will be used to further reduce debt.	Section 4.2
Can the Shareholder Offer complete without the Placement completing?	No, they are inter-conditional and subject to Shareholder approval.	Section 4.1.
Can the Placement complete without the Shareholder Offer completing?	No, they are inter-conditional and subject to Shareholder approval.	Section 4.1.

3.3 Participation in the Shareholder Offer

Question	Answer	More information
Who is an Eligible Retail Shareholder?	An Eligible Retail Shareholder is a person who is registered as the holder of Existing Shares at the Record Date, and who: – has a registered address in Australia; – is not in the United States and is not acting for the account or benefit of a person in the United States; and – is not an Eligible Institutional Shareholder or an Ineligible Institutional Shareholder.	Section 4.2.1
What am I entitled to under the Shareholder Offer?	Each Eligible Retail Shareholder is entitled to subscribe for the greater of up to $10,000 worth of New Shares (subject to the scale-back referred to in Section 4.2.4), and 7 New Shares for every 2 Existing Shares held on the Record Date, subject to the terms of this Prospectus. If you are an Eligible Retail Shareholder, your entitlement under the Shareholder Offer is set out in the personalised Shareholder Offer Acceptance Form which accompanies this Prospectus. If you did not receive your personalised Shareholder Offer Acceptance Form, you should call the Photon Shareholder Information Line on 1300 706 274 (local call cost within Australia) or on +61 3 9938 4338 (outside Australia) at any time from 8.30am to 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period.	Section 4.2.2 Shareholder Offer Acceptance Form
Can I apply for additional New Shares in excess of what I am entitled to under the Shareholder Offer?	Yes. If you apply for your full entitlement under the Pro-Rata Component or the Top-Up Component, you may also apply for Additional New Shares. Additional New Shares will be allocated subject to there being sufficient New Shares from: – Eligible Retail Shareholders who do not take up all or part of the Pro-Rata Component of the Shareholder Offer; – New Shares that would have been offered to Ineligible Retail Shareholders under the Pro-Rata Component of the Shareholder Offer if they had been entitled to participate in the Shareholder Offer; and – New Shares up to an additional $15.0 million on a non-underwritten basis for Top-Up Component Applications and Additional New Share Applications. Please note that Additional New Shares will be allocated in accordance with the allocation policy set out in Section 4.2.4. Additional New Shares issued pursuant to the Shareholder Offer will be fully paid and rank equally with Existing Shares.	Section 5

3

Question	Answer	More information

Will my Application be scaled back?	– Eligible Retail Shareholders who have applied for 7 New Shares for every 2 Existing Shares under the Pro-Rata Component will receive their allocation in full and will not be scaled back.
	– Eligible Retail Shareholders who have applied for up to $10,000 worth of New Shares under the Top-Up Component will receive a guaranteed minimum allocation of 7 New Shares for every 2 Existing Shares. They will also receive New Shares applied for under the Top-Up Component in excess of the Pro-Rata Component, up to a maximum aggregate allocation of $10,000 worth of New Shares subject to the following scale-back:
	  – Photon will use available Shortfall (subject to priorities set out in Section 4.2.4) to satisfy Top-Up Component Applications;
	  – Photon will accept Top-Up Component Applications for up to an additional $15.0 million; and
	  – if there are insufficient New Shares to accommodate all Top-Up Component Applications in excess of the Pro-Rata Component from available Shortfall and the additional $15.0 million allocation, the $10,000 Top-up Component cap will be scaled back. In this case, the $10,000 Top-up Component cap could be scaled back to a minimum of approximately $6,300.
		Section 4.2.4

How will any Shortfall be allocated?	If there is a Shortfall, the following Applications for Additional New Shares or Applications under the Top-Up Component will be prioritised in this order: – Shareholders who will be diluted by the Placement; then – Shareholders who applied for up to $10,000 worth of New Shares under the Top-Up Component and did not receive their full allocation. Any remaining Shortfall once the prioritised Applications above have been satisfied will be allocated taking into account Eligible Retail Shareholders' percentage holding at the Record Date.	Section 4.2.4
How will the $15.0 million non-underwritten New Shares be allocated?	If the Shortfall is fully utilised by Top-Up Component and Additional New Share Applications, Photon may satisfy further Applications under the Top-Up Component or for Additional New Shares with up to $15.0 million worth of New Shares on a non-underwritten basis. Applications will be prioritised in this order: – Shareholders who applied for up to $10,000 worth of New Shares under the Top-Up Component and did not receive their full allocation; then – Applications for Additional New Shares taking into account Eligible Retail Shareholders' percentage holding at the Record Date.	Section 4.2.4

Question	Answer	More information
What are the key dates of the Retail Shareholder Offer?	The Retail Shareholder Offer closes at 5.00pm (AEST) on 23 September 2010. The key dates, including the date by which you must return your personalised Shareholder Offer Acceptance Form (together with the Application Monies) or pay by BPAY if you wish to take up all or part of your rights under the Shareholder Offer, are set out on page 4. These dates are subject to change without notice, as described on page 4.	Key dates Key statistics
How do I accept the Shareholder Offer?	If you are an Eligible Retail Shareholder and wish to apply under the Shareholder Offer, you must either: – complete and return to the Share Registry the personalised Shareholder Offer Acceptance Form included with this Prospectus in accordance with the instructions on that form, along with a cheque, bank draft or money order for the full Application Monies in respect of the New Shares for which you wish to subscribe; or – pay the full Application Monies via BPAY in respect of the New Shares for which you wish to subscribe, following the instructions on your personalised Shareholder Offer Acceptance Form (in which case you do not need to complete and return your Shareholder Offer Acceptance Form). You must either: – complete and return your Shareholder Offer Acceptance Form together with the relevant Application Monies; or – complete the BPAY payment process, so that your Application Monies are received by the Share Registry by no later than 23 September 2010.[1] You should check the processing cut-off time for BPAY transactions with your financial institution.	Section 5
Can I trade what I am entitled to under the Shareholder Offer?	No. What you are entitled to under the Shareholder Offer cannot be traded on ASX or any other exchange, nor can it be privately transferred.	Section 4.10 Section 5.1
What are the rights and liabilities attaching to New Shares under the Shareholder Offer?	New Shares offered under the Shareholder Offer will be fully paid and will rank equally with Existing Shares.	Section 11.9

Note:
1 Cheques must be received by 17 September 2010.

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Question	Answer	More information
What are the key risks associated with an investment in New Shares?	A summary of some of the key risks associated with an investment in New Shares is described in Section 2 and Section 9. Before making any investment decision, you should read the entire Prospectus and carefully consider these risk factors.	Section 2 Section 9
Who is the Share Registry?	The Share Registry is: Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Australia	Corporate directory
What happens if I am a Shareholder on the Record Date but not an Eligible Retail Shareholder?	You will not be entitled to subscribe for New Shares under the Shareholder Offer.	Section 4.16
What happens if I do not take up all or part of the Shareholder Offer?	If you do not take up part or all of your entitlement to subscribe for New Shares, a number of New Shares equal to the number of New Shares not taken up by you will be offered to other Retail Shareholders who have applied for up to $10,000 worth of New Shares or Additional New Shares. Your holding of Photon Shares will be significantly diluted.	Section 1.5.6 Section 5.3

3.4 The Deferred Consideration Restructure

Question	Answer	More information
What are the Deferred Consideration Payments?	Photon's obligations to make Deferred Consideration Payments arise under the terms of the Original Acquisition Agreements. The amount of these Deferred Consideration Payments is typically calculated by reference to the EBIT performance of the relevant Operating Entity both at the time of acquisition and in the future. Because the quantum of these payments is dependent upon the future performance of the Operating Entity after the time of acquisition, the aggregate quantum of Photon's Deferred Consideration Liability is uncertain. The aggregate Deferred Consideration Liability is currently uncapped and only in limited circumstances are Deferred Consideration Beneficiaries required to receive payment in Photon Shares.	Section 1.3

Question	Answer	More information
Why have the Deferred Consideration Payments been restructured?	As a result of a material increase in Deferred Consideration Payments, Photon has insufficient funds to meet its Deferred Consideration Payments due on 30 September 2010. As part of the Recapitalisation Proposal, Photon is undertaking the Deferred Consideration Restructure to enable Photon to pay the Deferred Consideration Payments due on or around 30 September 2010 and allow Photon to avoid being in breach of its debt facilities at that date.	Section 1.1
Why are additional shares being issued to Deferred Consideration Beneficiaries?	To reduce the amount of cash payable for its Deferred Consideration Payments, as part of the Deferred Consideration Restructure, approximately 15% of the aggregate capped final payments will be settled by the issue of Photon Shares. The New Shares will be issued, subject to Shareholder approval, on the Allotment Date at the Offer Price. Certain of the Shares will be subject to escrow arrangements and will vest on the original deferred consideration payment date set out in the applicable Original Acquisition Agreement.	Section 1.3.1 Section 11.6

3.5 Other information

Question	Answer	More information
What are the taxation implications for the Shareholder Offer?	A summary of the general tax implications for Australian resident Eligible Retail Shareholders is set out in Section 10. The discussion is in general terms and is not intended to provide specific advice in relation to circumstances of any particular Shareholder. Eligible Retail Shareholders should seek their own tax advice before deciding how to deal with their rights under the Shareholder Offer.	Section 10
What are the fees and costs of the Equity Raising and Debt Refinancing?	Fees and costs associated with the Recapitalisation Proposal total approximately $12.9 million and will be paid out of the proceeds of the Equity Raising.	Section 7.5.1
How can further information be obtained?	If you would like further information you can: – contact your stockbroker, accountant or other professional adviser; or – call the Photon Shareholder Information Line on 1300 706 274 (local call cost within Australia) or on +61 3 9938 4338 (from outside Australia) at any time from 8.30am to 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period.	Section 5.4

Section 4

4

4.1 Overview of the Equity Raising

Photon is offering New Shares at $0.10 per New Share to raise gross underwritten proceeds of a minimum of $102.5 million as follows:

- a Shareholder Offer to Eligible Shareholders underwritten to $62.5 million; and
- a $40.0 million underwritten Placement to professional and sophisticated investors.

Both the Shareholder Offer and the Placement are subject to inter-conditional Shareholder approvals.

Photon will accept Applications for up to an additional $15.0 million to accommodate Eligible Retail Shareholders applying for up to $10,000 worth of New Shares and Additional New Share Applications.

4.2 The Shareholder Offer

This Prospectus relates to the Shareholder Offer to Eligible Shareholders who may apply at an Offer Price of $0.10 per New Share for the greater of:

- up to $10,000 worth of New Shares (subject to the scale-back referred to in Section 4.2.4) ("**Top-Up Component**"); and
- 7 New Shares for every 2 Existing Shares held at 7.00pm (AEST) on the Record Date, being 7.00pm on 13 August 2010 ("**Pro-Rata Component**").

The Shareholder Offer is underwritten to $62.5 million. Eligible Retail Shareholders may apply for Additional New Shares, being New Shares in excess of their entitlement under the Shareholder Offer. Photon will accept Top-Up Component and Additional New Share Applications for up to an additional $15.0 million on a non-underwritten basis.

If Eligible Shareholders do not take up all or part of the Shareholder Offer, their associated rights will lapse.

The Shareholder Offer comprises two parts:

1. **Institutional Shareholder Offer** – an accelerated offer co-ordinated by the Joint Lead Managers which will close on 17 August 2010; and
2. **Retail Shareholder Offer.**

4.2.1 Who is eligible to participate in the Retail Shareholder Offer?

The Retail Shareholder Offer is only open to Eligible Retail Shareholders.

Eligible Retail Shareholders are those persons who:

- are registered as Shareholders as at the Record Date;
- have a registered address in Australia;
- are not in the United States and are not acting for the account or benefit of a person in the United States; and
- are not an Eligible Institutional Shareholder or an Ineligible Institutional Shareholder.

Photon, in its absolute discretion, reserves the right to determine whether a Shareholder is an Eligible Retail Shareholder and therefore able to participate in the Retail Shareholder Offer, or an Ineligible Retail Shareholder and therefore unable to participate in the Retail Shareholder Offer. Photon disclaims all liability to the maximum extent permitted by law in respect of the determination as to whether a Shareholder is an Eligible Retail Shareholder or an Ineligible Retail Shareholder.

The Retail Shareholder Offer is not being extended to any Shareholder whose registered address is outside Australia. See Section 4.16 for further details on the treatment of foreign Shareholders.

It is the responsibility of each applicant to ensure compliance with the laws of any country relevant to their Application. Return of a completed Shareholder Offer Acceptance Form together with full payment of the Application Monies by cheque, bank draft or money order or payment of the Application Monies by BPAY will be taken by Photon to constitute a representation to Photon that there has been no breach of such laws, and that the applicant is an Eligible Retail Shareholder.

4.2.2 What can Eligible Retail Shareholders apply for under the Shareholder Offer?

Under the Shareholder Offer, Photon is offering Eligible Retail Shareholders the opportunity to apply for the greater of:

- up to $10,000 worth of New Shares (subject to the scale-back referred to in Section 4.2.4); and
- 7 New Shares for every 2 Existing Shares held at 7.00pm (AEST) on the Record Date, being 13 August 2010.

This ratio is equal to the ratio for the issue of New Shares under the Institutional Shareholder Offer. The Record Date for the Shareholder Offer is also the Record Date that applies to Eligible Institutional Shareholders for the Institutional Shareholder Offer.

The number of New Shares for which an Eligible Retail Shareholder is entitled to subscribe is shown on the personalised Shareholder Offer Acceptance Form that accompanies this Prospectus sent to each Eligible Retail Shareholder. Where fractions arise in the calculation of your entitlement under the Shareholder Offer, they will be rounded up to the next whole number of New Shares.

The Shareholder Offer is underwritten to $62.5 million. Photon will accept Applications under the Top-Up Component of the Shareholder Offer for up to an additional $15.0 million on a non-underwritten basis to accommodate Top-Up Component and Additional New Share Applications. The Retail Shareholder Offer closes at 5.00pm (AEST) on 23 September 2010.

Eligible Retail Shareholders may also apply for additional New Shares in excess of their entitlement under the Shareholder Offer, whether they apply for their entitlement under the Pro-Rata Component or the Top-Up Component ("**Additional New Shares**").

Any Additional New Shares will be limited to the extent that there are sufficient New Shares from:

- Eligible Retail Shareholders who do not take up all or part of the Pro-Rata Component of the Shareholder Offer;
- New Shares that would have been offered to Ineligible Retail Shareholders under the Pro-Rata Component if they had been entitled to participate in the Shareholder Offer; and
- New Shares for up to an additional $15.0 million to accommodate Top-Up Component and Additional New Share Applications.

Applications for Additional New Shares will be allocated in accordance with the allocation policy set out in Section 4.2.4.

4.2.3 How do I apply for New Shares under the Shareholder Offer?

Eligible Retail Shareholders may take up all or part of their entitlement under the Shareholder Offer and apply for Additional New Shares by returning their Shareholder Offer Acceptance Form and making payment of the full Application Monies to the Share Registry (by bank draft or money order) or by BPAY payment instruction, so that it is received by no later than 5.00pm (AEST) on 23 September 2010 ("**Closing Date**") (or **17 September 2010 if paying by cheque**). Photon reserves the right to extend the Closing Date without notice, subject to the Corporations Act, the ASX Listing Rules and other applicable laws.

Returning a completed Shareholder Offer Acceptance Form together with full payment of the Application Monies by cheque, bank draft or money order or paying any Application Monies by BPAY will be taken to constitute a representation by the Eligible Retail Shareholder that they:

- have received a copy of this Prospectus accompanying the Shareholder Offer Acceptance Form and read it in full;
- declare that all details and statements in the Shareholder Offer Acceptance Form are complete and accurate;
- agree to being transferred the number of New Shares for which they submitted an Application; and
- authorise Photon and the Joint Lead Managers and their officers and agents to do anything on their behalf necessary for New Shares to be issued to them, including to act on instructions received by the Share Registry using the contact details on the form.

New Shares are expected to be allotted on 29 September 2010 to Eligible Retail Shareholders who return their Shareholder Offer Acceptance Form and make payment of the full Application Monies to the Share Registry (by cheque, bank draft or money order), or who provide the Application Monies by BPAY payment instruction, so that it is received no later than 5.00pm (AEST) on the Closing Date (or **17 September 2010 if paying by cheque**), as detailed in the Shareholder Offer Acceptance Form.

Once the Shareholder Offer Acceptance Form is returned or payment of Application Monies is made, it is irrevocable and may not be withdrawn, except as allowed by law.

All dates and times are subject to variation.

4.2.4 How will Photon apply any scale-back to Shareholder Offer Applications?

Eligible Retail Shareholders who have applied for 7 New Shares for every 2 Existing Shares under the Pro-Rata Component will receive their allocation in full and will not be scaled back.

Eligible Retail Shareholders who have applied for up to $10,000 worth of New Shares under the Top-Up Component will receive a guaranteed minimum allocation of 7 New Shares for every 2 Existing Shares. They will also receive New Shares applied for under the Top-Up Component in excess of the Pro-Rata Component, up to a maximum aggregate allocation of $10,000 worth of New Shares subject to the following scale-back:

- Photon will use available Shortfall, subject to the priorities set out below, to satisfy Top-Up Component Applications;
- Photon will also accept Top-Up Component and Additional New Share Applications for up to an additional $15.0 million; and
- if there are insufficient New Shares to accommodate all Top-Up Component Applications in excess of the Pro-Rata Component from available Shortfall and the additional $15.0 million allocation, the $10,000 Top-up Component cap will be scaled back. In this case, the $10,000 Top-up Component cap could be scaled back to a minimum of approximately $6,300.

If there is any Shortfall, Applications for Additional New Shares or Applications under the Top-Up Component will be prioritised as follows:

- Shareholders diluted by the Placement; then
- Shareholders who applied for up to $10,000 worth of New Shares under the Top-Up Component and did not receive their full allocation.

Any remaining Shortfall once the prioritised Applications above have been satisfied will be allocated taking into account Eligible Retail Shareholders' percentage holding at the Record Date.

If the Shortfall is fully utilised by Top-Up Component and Additional New Share Applications, Photon may satisfy further Applications under the Top-Up Component or for Additional New Shares with up to $15.0 million worth of New Shares on a non-underwritten basis. Applications will be prioritised in this order:

- Shareholders who applied for up to $10,000 worth of New Shares under the Top-Up Component and did not receive their full allocation; then
- Applications for Additional New Shares taking into account Eligible Retail Shareholders' percentage holding at the Record Date.

Photon reserves the right to adjust allocations consistently with the allocation principles set out above.

4.3 Purpose of the Equity Raising

The proceeds of the Equity Raising will be used to:

- pay down approximately $67.1 million of Photon's existing $280 million debt facilities which are currently drawn to $274 million;
- pay the portion of Tranche 1 Payment of the Deferred Consideration Payment of $22.5 million due on or around 30 September 2010;
- pay various Transaction Costs of $12.9 million; and
- the balance of the proceeds of the Equity Raising (if any) will be applied to reduce debt.

See Section 7 and the Pro-Forma Consolidated Balance Sheet for further details.

4.4 Sources and uses of funds

Sources of funds	$ million (approximately)
– Shareholder Offer	62.5[1]
– Placement	40.0
Total sources of funds	**102.5**

Uses of funds	$ million (approximately)
– Debt repayment[2]	67.1
– Deferred Consideration Payments	22.5
– Total Transaction Costs	12.9
Total uses of funds	**102.5**

Notes:
1 The Shareholder Offer is underwritten to $62.5 million. Photon will accept Applications under the Top-Up Component of the Shareholder Offer for up to an additional $15.0 million on a non-underwritten basis to accommodate Eligible Retail Shareholders applying for up to $10,000 worth of New Shares.
2 To the extent that additional equity is raised over and above the $102.5 million, it will be applied to reduce debt.

4.5 Issued capital

The effect of the Recapitalisation Proposal on the issued capital of Photon is set out in the table below:

	Number of Shares (approximately)
Before the Recapitalisation Proposal	187.4
Shareholder Offer	624.5
Placement	400.0
Deferred Consideration Issue	268.9
CEO LTI Shares[1]	65.3
Total (post completion of the Recapitalisation Proposal)	**1,546.1**
Potential additional non-underwritten Shares under the Shareholder Offer[2]	150.0
Potential additional CEO LTI Shares[1]	7.6
Maximum potential number of shares	**1,703.7**

Notes:
1 The issue of the 65.3 million CEO LTI Shares is subject to Shareholder approval. Photon is required under Mr Philips' Service Agreement to provide him with a limited recourse loan to fund his subscription for all of the CEO LTI Shares. Please refer to Section 1.5.4 and Section 11.14 for further details. If the Shareholder Offer raises more than $102.5 million, Mr Philips will be issued with up to 7.6 million additional CEO LTI Shares (also subject to Shareholder approval).
2 The Shareholder Offer is underwritten to $62.5 million. Photon will issue up to a further $15.0 million in New Shares at $0.10 per share to accommodate Top-Up Component and Additional New Share Applications.

4.6 Underwriting of the Shareholder Offer

The Shareholder Offer is underwritten to $62.5 million and the Placement is fully underwritten to $40.0 million.

A summary of the Underwriting Agreement is set out in Section 11.5, including the conditions to the underwriting and the circumstances in which the Joint Lead Managers are entitled to terminate their underwriting obligations.

4.7 The Institutional Shareholder Offer

The Institutional Shareholder Offer will close on 17 August 2010.

Under the Institutional Shareholder Offer, Eligible Institutional Shareholders will be invited to subscribe for 7 New Shares for every 2 Existing Shares held at the Record Date at the Shareholder Offer Price of $0.10 per New Share.

4.8 No offer under the Retail Shareholder Offer to Eligible Institutional Shareholders, Ineligible Institutional Shareholders or Ineligible Retail Shareholders

The Retail Shareholder Offer does not constitute an offer to any person who is not an Eligible Retail Shareholder, including:

- any Eligible Institutional Shareholder (whether or not it accepted the Institutional Shareholder Offer);
- any Ineligible Institutional Shareholder;
- any Ineligible Retail Shareholder; or
- a nominee for such a person, in respect of Shares held for such a Shareholder.

4.9 No offer under the Shareholder Offer to holders of New Shares

Any person allocated New Shares under the Institutional Shareholder Offer or the Placement does not have any right to participate in the Retail Shareholder Offer in respect of those New Shares.

4.10 No trading of entitlements

Rights under the Shareholder Offer cannot be traded on ASX or any other exchange, nor can they be privately transferred.

4.11 Ranking of New Shares

New Shares will be issued as fully paid ordinary shares in Photon and will rank equally with Existing Shares from the date of allotment.

A summary of the rights and liabilities attaching to the New Shares is set out in Section 11.9.

4.12 ASX quotation and trading of New Shares

Photon will apply within seven days of the date of this Prospectus for the official quotation of the New Shares.

Subject to approval being granted by ASX, it is expected that normal trading of New Shares under the Equity Raising will commence on 30 September 2010.

Holding Statements are expected to be dispatched to successful Applicants under the Equity Raising on 6 October 2010.

It is the responsibility of each Applicant to confirm their holding before trading in New Shares. Any Applicant who sells New Shares before receiving their holding statement will do so at their own risk.

Photon and the Joint Lead Managers disclaim all liability whether in negligence or otherwise (and to the maximum extent permitted by law) to persons who trade New Shares before receiving their confirmation, whether on the basis of confirmation of the allocation provided by Photon, the Share Registry or the Joint Lead Managers.

4.13 CHESS

The New Shares will participate from the date of commencement of quotation in CHESS, operated by ASX Settlement Pty Limited. The New Shares must be held in an uncertificated form (i.e. no share certificate will be issued) on the CHESS sub-register under sponsorship of a sponsoring participant (usually a broker) or on the issuer-sponsored sub-register.

Arrangements can be made at any subsequent time to convert your holding from the issuer-sponsored sub-register to the CHESS sub-register or vice versa, by contacting your sponsoring participant.

4.14 Application Monies

All Application Monies received from an Applicant will be held in a bank account on trust for Applicants as required by the Corporations Act until the New Shares are issued to successful Applicants or, if the New Shares are not issued, until the Application Monies are refunded to Applicants as soon as is practicable after the Closing Date.

Interest earned on the Application Monies will be for the benefit of, and will remain the property of, Photon and will be retained by Photon whether or not the issue of New Shares takes place.

If the New Shares are not issued to you, Photon will refund relevant Application Monies by cheque as soon as practicable after the Closing Date (except where the amount is less than $1.00, in which case it will be donated to a charity chosen by Photon).

4.15 Withdrawal of Shareholder Offer

Photon and the Directors reserve the right to withdraw all or part of the Shareholder Offer and this Prospectus at any time prior to the issue of New Shares under the Retail Shareholder Offer, in which case Photon will refund Application Monies by cheque in accordance with the Corporations Act without any payment of interest to the Applicant and as soon as is practicable.

4.16 Ineligible Retail Shareholders and Foreign Offer Restrictions

Subject to Photon's discretion, the Shareholder Offer is not being extended to any Retail Shareholder with a registered address outside Australia. Photon is of the view that it is not reasonable or practicable to extend the Shareholder Offer to Ineligible Retail Shareholders, having regard to:

- the number of Ineligible Retail Shareholders;
- the number and value of the New Shares which would be offered to Ineligible Retail Shareholders if they were Eligible Retail Shareholders; and
- the cost of complying with the legal requirements, and requirements of the regulatory authorities, in the respective overseas jurisdictions.

Photon will notify all Ineligible Retail Shareholders of the Shareholder Offer, provide them with details of the Equity Raising, and advise them that Photon is not extending the Shareholder Offer to Ineligible Retail Shareholders.

Photon has appointed the Joint Lead Managers to offer for subscription, through the Shareholder Offer, New Shares equivalent to the number of New Shares that Ineligible Retail Shareholders would have been able to apply for had they been eligible to participate in the Shareholder Offer.

The following international selling restrictions relate to the issue of New Shares under the Shareholder Offer.

Neither this Prospectus nor the Shareholder Offer Acceptance Form constitutes an offer of securities in any jurisdiction in which, or to any persons to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by laws, and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. For further information, please see Section 11.20. Each Eligible Retail Shareholder who submits a Shareholder Offer Acceptance Form together with full payment of the Application Monies by cheque, bank draft or money order or those Eligible Retail Shareholders who make payment of the Application Monies by BPAY in respect of the New Shares will be deemed to have represented, warranted and agreed that:

- the New Shares will not be registered under the US Securities Act or any US state or other securities laws, and may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in transaction not subject to, the registration requirements of the US Securities Act and any other applicable securities laws;
- they are not in the United States or acting for the account or benefit of a person in the United States; and
- if in the future they decide to sell or otherwise transfer their New Shares, they will only do so in standard transactions on ASX where neither they nor any person acting on their behalf knows or has reason to know that the sale has been prearranged with, or that the purchase is in, the United States.

4.17 Nominees

The foreign selling restrictions under the Retail Shareholder Offer summarised in Section 4.16 and Section 11.20 apply to the underlying beneficial holder.

Nominees, trusts and custodians must not apply on behalf of any beneficial holder that would not itself be an Eligible Retail Shareholder.

Accordingly, any Application made on the respective personalised Shareholder Offer Acceptance Forms by a Nominee on behalf of a beneficiary, must be in accordance with the Offer Documents. This would be the case where:

a) the nominee has a registered address in Australia (irrespective of the registered address of the beneficiary); and

b) the nominee is not holding on behalf of a beneficiary who is an Eligible Institutional Shareholder, Ineligible Institutional Shareholder or Ineligible Retail Shareholder; and

c) the beneficiary is not in the United States and is not acting for the account or benefit of a person in the United States; and

d) the beneficiary is eligible under all applicable securities laws to receive an offer under the Shareholder Offer.

A nominee must not send any materials relating to the Equity Raising outside Australia except to institutional investors as permitted in Section 4.16 and Section 11.20, and must not submit an Application or otherwise accept the Shareholder Offer on behalf of a person in the United States.

Shareholders who are nominees, trustees or customers are therefore advised to seek independent advice as to how they should proceed. Shareholders who hold Shares on behalf of persons whose registered address is not in Australia are responsible for ensuring that accepting the Shareholder Offer does not breach securities laws in the relevant overseas jurisdictions. By submitting a Shareholder Offer Acceptance Form together with full payment of the Application Monies by cheque, bank draft or money order or by making payment by BPAY, you will be deemed to have made the representations and warranties, on behalf of yourself and any of your clients for whom you are acting as nominee, set out in Section 4.16.

4.18 Taxation implications of the Shareholder Offer

The taxation implications of the Shareholder Offer will vary depending upon the particular circumstances of each Shareholder.

Accordingly, all investors should obtain their own professional advice before concluding on the particular taxation treatment that will apply to them, whether or not those investors participate in the Shareholder Offer and apply for New Shares.

General tax implications in Australia for Eligible Retail Shareholders are discussed in further detail in Section 10.

Actions required by Eligible Retail Shareholders

Section 5

Before taking any action in relation to the Retail Shareholder Offer, Eligible Retail Shareholders should read this Prospectus in its entirety, including Section 9, which summarises key risk factors associated with an investment in New Shares.

Your entitlements under the Retail Shareholder Offer are set out in the personalised Shareholder Offer Acceptance Form accompanying this Prospectus. If you are an Eligible Retail Shareholder and you have not received a personalised Shareholder Offer Acceptance Form, you should contact the Share Registry between 8.30am and 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period on 1300 706 274 from within Australia or +61 3 9938 4338 from outside Australia.

5.1 Choices available

If you are an Eligible Retail Shareholder you may apply for:

- the greater of up to $10,000 worth of New Shares (subject to scale-back as referred to in Section 4.2.4) and 7 New Shares for every 2 Existing Shares held at 7.00pm (AEST) on the Record Date, being 13 August 2010; and
- Additional New Shares subject to available Shortfall.

If you do not take up part or all of your entitlement under the Retail Shareholder Offer, your entitlement will lapse. You cannot trade your entitlement.

Please note that any Additional New Shares will be limited to the extent that there are sufficient New Shares from Eligible Retail Shareholders who do not take up their rights under the Pro-Rata Component of the Retail Shareholder Offer from New Shares that would have been offered to Ineligible Retail Shareholders under the Pro-Rata Component of the Shareholder if they had been eligible to participate and from the $15.0 million of Applications for Top-Up Component and Additional New Share Applications Photon will accept on a non-underwritten basis. Photon will apply the scale-back policy set out in Section 4.2.4 to Applications for Additional New Shares

New Shares and Additional New Shares issued pursuant to the Retail Shareholder Offer will be fully paid, rank equally with existing Photon Shares on issue and carry voting rights.

Photon reserves the right to amend or reject any Shareholder Offer Acceptance Form that is not correctly completed or that is received after the Closing Date.

5.2 What you need to do

If you are an Eligible Retail Shareholder and you wish to apply for New Shares under the Retail Shareholder Offer;

OPTION 1: Submit your completed Shareholder Offer Acceptance Form together with cheque, bank draft or money order

To follow this Option 1, you should:

- complete the personalised Shareholder Offer Acceptance Form accompanying this Prospectus in accordance with the instructions set out on that form, and indicate the number of New Shares for which you wish to subscribe; and
- return the Shareholder Offer Acceptance Form to the Share Registry (address details below) together with a cheque, bank draft or money order which must be:
  - in respect of the full Application Monies (being $0.10 per New Share multiplied by the number of New Shares for which you wish to subscribe);
  - in Australian currency drawn on an Australian branch of a financial institution; and
  - made payable to "Photon Shareholder Offer Account" and crossed "Not Negotiable".

You should ensure that sufficient funds are held in the relevant account(s) to cover the full Application Monies. If the amount of your cheque for Application Monies (or the amount for which the cheque clears in time for allocation) is insufficient to pay in full for the number of New Shares for which you have applied in your Shareholder Offer Acceptance Form, you will be taken to have applied for such lower number of whole New Shares as your cleared Application Monies will pay for (and to have specified that number of New Shares on your Shareholder Offer Acceptance Form). Alternatively, at the discretion of the Joint Lead Managers, in consultation with Photon, your Application will be rejected.

Cash payments will not be accepted. Receipts for payment will not be issued.

You need to ensure that your completed Shareholder Offer Acceptance Form, bank draft or money order is received at the Share Registry at the following address by no later than 5.00pm (AEST) on 23 September 2010 (**or 17 September 2010 if paying by cheque**) (subject to variation):

Computershare Investor Services Pty Limited
GPO Box 2115
Melbourne VIC 3001

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OPTION 2: Payment via BPAY
To follow this Option 2, you should pay the full Application Monies (being $0.10 per New Share multiplied by the number of New Shares for which you wish to subscribe) via BPAY payment in accordance with the instructions set out on the personalised Shareholder Offer Acceptance Form, which includes the biller code and your unique customer reference number. If you have multiple holdings, you will also have multiple customer reference numbers.

You must use the unique customer reference number shown on each Shareholder Offer Acceptance Form to pay for each holding separately. You can only make a payment via BPAY if you are the holder of an account with an Australian financial institution.

Please note that should you choose to pay by BPAY:

- you do not need to submit the personalised Shareholder Offer Acceptance Form but are taken to make the statements on that form; and
- you are deemed to have applied for such whole number of New Shares which is covered in full by your Application Monies.

You need to ensure that your BPAY payment is received by the Share Registry by no later than 5.00pm (AEST) on 23 September 2010.

Applicants should be aware that their own financial institution may implement earlier cut-off times with regards to electronic payment, and should therefore take this into consideration when making payment. It is the responsibility of the Applicant to ensure that all Application Monies submitted through BPAY are received by 5.00pm (AEST) on 23 September 2010.

You may apply for more than the entitlement shown on your personalised Shareholder Offer Acceptance Form. Amounts received by Photon in excess of your entitlement ("**Excess Amount**") may be treated as an Application to apply for as many Additional New Shares as your Excess Amount.

Photon reserves the right (in its absolute discretion) to reduce the number of New Shares allocated to Eligible Retail Shareholders, or persons claiming to be Eligible Retail Shareholders, if their claims prove to be overstated or they fail to provide information to substantiate their claims.

You may view your allocation of New Shares (if any) online via Computershare's Investor Centre website located at www.investorcentre.com by following the instructions set out there. It is the responsibility of Shareholders to confirm their holdings before trading New Shares. Shareholders who sell New Shares before they receive a holding statement do so at their own risk. Photon and the Share Registry disclaim all liability, whether in negligence or otherwise, to persons who sell Additional New Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by either of them, or on the basis of what appears online, or otherwise. To access Computershare's Investor Centre on the internet, you will require your Holder Identification Number or Shareholder Reference Number.

Photon reserves the right not to issue New Shares or Additional New Shares in respect of an Application if payment of the Application Monies is not received by Photon by 5.00pm (AEST) on the Closing Date, being (23 September 2010) (or 17 September 2010 if applying by cheque).

In the case of OPTION 1 or OPTION 2, by taking up all, part or in excess of your entitlement under the Retail Shareholder Offer, you will be deemed to have made the representations set out in Sections 4.2.1 and 4.16 and otherwise agreed to all the terms and conditions of the Retail Shareholder Offer as set out in the Prospectus.

5.2.1 Note to Shareholders taking up less than their entitlements under the Shareholder Offer

If you wish to take up part of your entitlement under the Retail Shareholder Offer and allow the balance to lapse, complete the Shareholder Offer Acceptance Form for the number of New Shares you wish to take up and follow the steps required in accordance with Section 5.2. Alternatively, arrange for payment through BPAY in accordance with the instructions on the Shareholder Offer Acceptance Form. If you take no further action, the balance of your entitlement under the Retail Shareholder Offer will lapse.

5.3 If you do nothing

If you do not wish to accept any part of the Retail Shareholder Offer, do not take any further action and your entitlement will lapse. You will receive no payment for your lapsed entitlement under the Retail Shareholder Offer. You cannot sell or transfer your entitlement to another person. Your holding of Existing Shares will, however, be diluted because the issue of New Shares will increase the total number of Shares on issue.

5.4 Further information

This Prospectus is important and requires your immediate attention. You should read it carefully in its entirety. If you are in doubt as to the course you should follow, you should consult your stockbroker, accountant, solicitor or other professional adviser.
If you:

- have questions in relation to the Existing Shares upon which your entitlement has been calculated;
- have questions on how to complete the Shareholder Offer Acceptance Form or apply for New Shares under the Retail Shareholder Offer; or
- you have lost your Shareholder Offer Acceptance Form and would like a replacement form,

please call the Photon Shareholder Information Line on 1300 706 274 (local call cost within Australia) or on +61 3 9938 4338 (from outside Australia) at any time from 8.30am to 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period.

In advance of receiving your written confirmation of issue of New Shares, you can check the number of New Shares issued to you under the Retail Shareholder Offer by using Computershare's Investor Centre at www.investorcentre.com and following the security access instructions.

Section 6

6

6.1 Overview

Photon is a group of specialist marketing and communications services companies, with 44 key brands, employing more than 6,000 full time and casual employees across its operations located in 14 countries.

Photon's businesses are exposed to a broad spectrum of marketing spend, including traditional above-the-line advertising, below-the-line marketing and sales force outsourcing. Photon has a diverse client base, with its top 10 clients expected to represent 25% of net revenue in FY2010F. Photon's clients operate in a broad range of industries, with the majority of net revenue coming from industries such as FMCG, beverages, telecommunications and consumer banking and 28% of FY2010F net revenues expected to be generated from outside Australia.

Chart 6.1a: Net revenue by industry (FY2010F)

13%	FMCG – Food	3%	Internet
11%	Telecommunications	3%	Government, Education, Health, Non-Profit Org
8%	FMCG – General	2%	Professional Services
7%	FMCG – Beverages	2%	Manufacturing, Industrial & Automotive
6%	Banking Finance Insurance	2%	Pharmaceuticals
6%	Retail – Consumer Goods	1%	Property & Construction
6%	Electronics & IT	1%	Travel, Tourism & Transport
5%	Alcohol & Tobacco	1%	Energy, Oil & Mining
4%	Media & Entertainment	15%	Unallocated
4%	Retail – Groceries/ Mass Merchants		

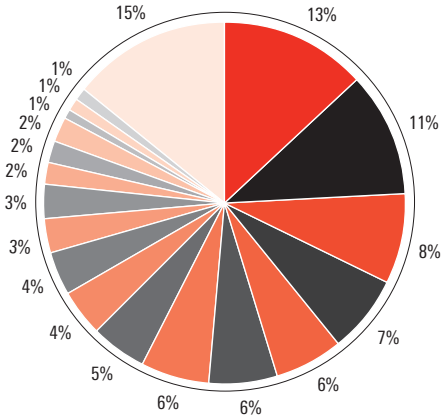
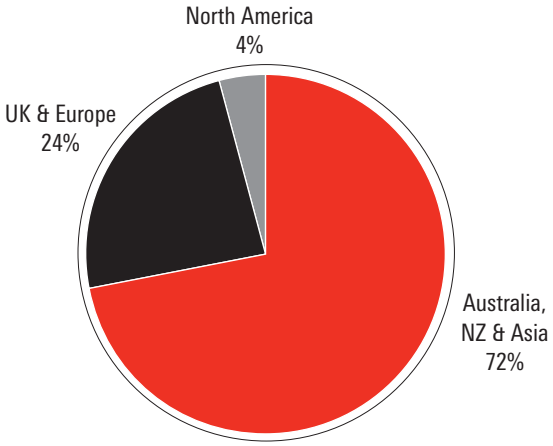


Chart 6.1b: Net revenue by geography (FY2010F)



6.2 Underlying businesses

The decline in Photon's Internet & E-Commerce division, one-off costs and adverse currency impacts have adversely affected FY2010F results, resulting in EBITDA of $46.7 million. Photon expects FY2010F Normalised EBITDA (excluding one-off costs of $28.4 million) to be approximately $75.1 million. Please refer to Section 7 for more detail on Photon's financial performance and position.

Photon's Operating Entities include:

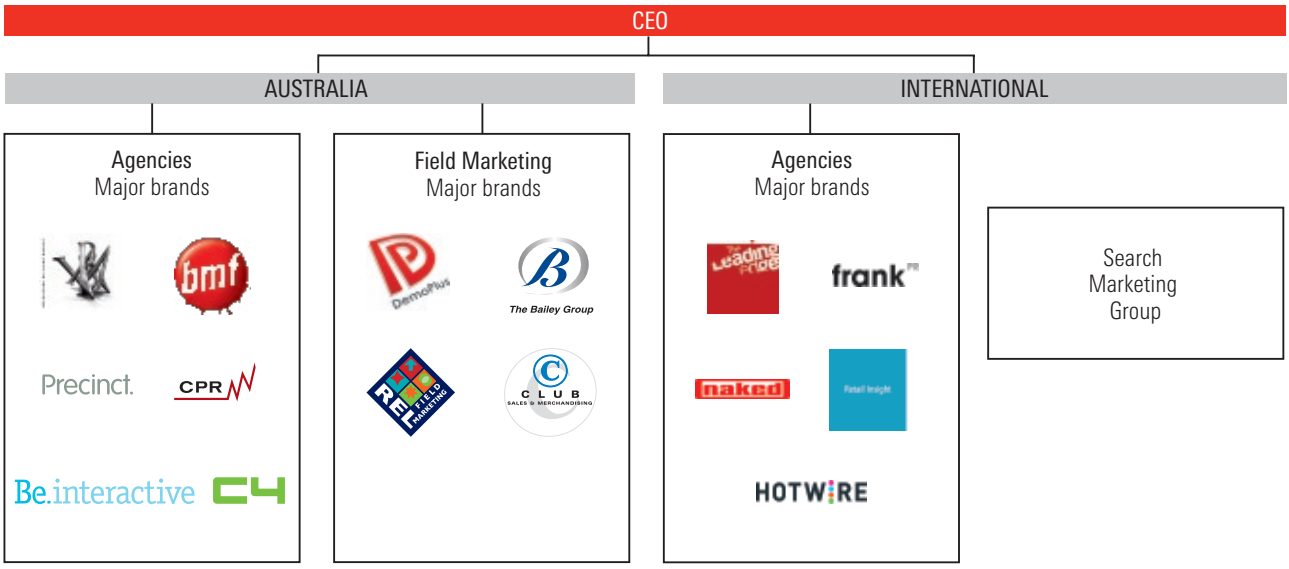
- two of the five largest Agencies in Australia based on billings (Campaign Brief 2010), BWM and BMF, employing approximately 350 people;
- the largest provider of field marketing services in Australia, employing over 4,500 full-time and casual employees; and
- international businesses focused on specialised areas of marketing and communications.

6.3 Organisation structure

Photon's business to date has been organised around five product-focused divisions: Strategic Intelligence, Integrated Communications and Digital, Internet & E-Commerce, Field Marketing and Specialised Communications. Photon has recently completed a review of the operational strategy and structure of the Group and a decision has been made to restructure the business to exploit strengths and reduce complexity.

6.3.1 Organisational restructure

In order to further exploit the strengths of the Group and specifically the leading positions of key brands in certain market segments to the end of encouraging greater and closer collaboration across operating brands, Photon will re-align around three business divisions:



- **Australian Agencies:** focused on providing a broad spectrum of marketing services to Australian clients, including above the line advertising, direct marketing, promotional campaigns, consumer research, public relations, corporate communications and digital agency services
- **Australian Field Marketing:** outsourced sales forces and point-of-sale marketing
- **International Agencies:** international specialised marketing services weighted towards public relations, communications strategy & research and data analytics
  - a smaller US-facing search marketing group will also sit within the International division

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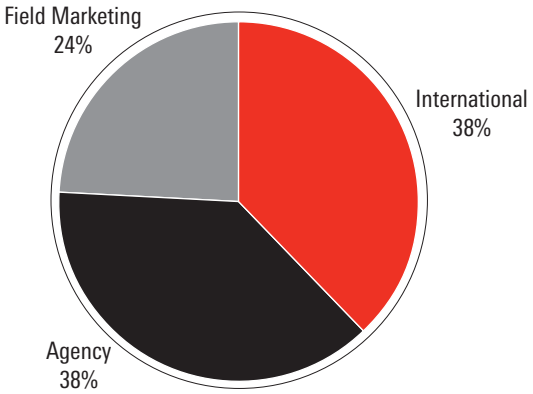
Indicative segment contribution split under the new operating structure (based on FY2010F Normalised EBITDA)



The Internet & E-Commerce division will no longer operate as a stand-alone division, instead becoming a core capability across the Group with:

- the Australian digital agencies forming part of the Australian Agencies segment; and
- the US-focused search marketing business to be managed under the International segment.

The operational restructure will aim to reduce complexity and better exploit the strengths of companies across the Group. Specifically, a simplified organisational structure will aim to drive:

- **greater collaboration around customer needs:** a customer-centric approach rather than a product-centric approach will help Photon be more responsive to customer needs and will aim to deepen relationships. This is expected to help Photon capture the benefits of domestic scale through better penetration of domestic clients;
- **better leverage management expertise:** a simplified structure will allow better strategic co-ordination through centralised knowledge and data sharing over a smaller and more manageable base; and
- **improved operational efficiencies:** the sharing of finance, human resources, training, legal, IT and other overheads avoids duplication and reduces fixed costs across smaller businesses

Management also believes that in conjunction with the Recapitalisation Proposal, the organisational restructure will provide greater incentives toward intra Group collaboration.

6.4 Board and Management

Jeremy Philips was appointed CEO from June 2010. Photon intends to appoint three new independent, non-executive Directors to the Board. It is expected that one of the new independent Directors will become the new independent Chairman.

6.5 Divisional overview

A summary of the key brands, services and clients of each of the new operating divisions is set out in the table below.

Division	Key brands	Services offered	Examples of clients
Australian Agencies	– BMF – BWM – C4 Communications – Be Group – Precinct – CPR	– Integrated advertising – Promotional campaigns – Public relations and public affairs – Corporate communications – Experiential and events management – Qualitative and quantitative market research – Website management and online publishing – Email, SMS and mobile campaigns	– Telstra – CBA – Aldi – Lion Nathan – Federal Government – Simplot – Cadbury Schweppes
Australian Field Marketing	– Bailey Group – Club Sales – DemoPlus – REL – Counterpoint – Ausrep	– Point of sale implementation, and execution – Demonstrations and in-store consumer experience – In-store advertising – Shelf maintenance – Display building – Store refurbishments and refits for suppliers	– Vodafone – Coles – Woolworths – Sainsbury – Mars – Diageo – Red Bull – Proctor and Gamble
International Agencies	– Naked – Frank PR – Hotwire – The Leading Edge – Retail Insight	– Providing specialised marketing services – Weighted towards public relations, strategic communications planning and consumer research and data analytics	– Coca Cola – Blackberry – Nokia – Yum Group – Wal-mart – GlaxoSmithKline – Heinz

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6.6 Outlook and impact of Recapitalisation Proposal

Despite the significant loss in FY2010F, the Board does not believe that there will be further deterioration in the financial performance of Photon in FY2011 given:

- the FY2010F financial results included significant one-off costs and non-cash impairment charges of the intangible assets in the search marketing group (a segment of the Internet & E-Commerce division);
- the underperformance of the Internet & E-Commerce division was primarily attributable to losses in the Geekdom and Geekversity businesses which have subsequently been closed and sold respectively; and
- the recent aggregate trading performance of Photon's four other operating divisions: Strategic Intelligence, Integrated Communications & Digital, Field Marketing and Specialised Communications (as detailed in Table 7.4.2a and Table 7.4.3a) on the basis that the Australian dollar does not appreciate from current exchange rate levels against the pound sterling and US dollar. Please refer to the Section 7.7 for illustrative sensitivity to actual movements in exchange rates.

However, if there is further deterioration in Photon's financial performance, there is a risk that Photon will breach its debt facility financial covenants and will not be able to meet future Deferred Consideration Payments.

The Board believes that completion of the Recapitalisation Proposal, which will have the immediate effect of enabling Photon to pay Deferred Consideration Payments due in September 2010 and avoid Photon being in breach of debt facilities at that date, will also provide an appropriate capital structure to allow Photon to better serve its clients and meet its strategic objectives.

The principal strategic objectives of Photon over the medium term comprise:

- executing on the planned operational restructure;
- continuing to support new business initiatives across each division; and
- supporting organic expansion opportunities for key international brands, where supported by existing clients and appropriate return hurdles.

Photon is targeting organic growth through the combination of expected growth in the marketing communications sector and the successful achievement of its strategic objectives. Growth via acquisition will not be the focus of Photon.

There continues to be risks in relation to the future performance of Photon, in particular but not limited to:

- the impact of the Recapitalisation Proposal and suspension from trading on Photon's operating performance;
- loss of key personnel and key clients; and
- the inability to realise the benefits of Photon's operational restructure.

Further details regarding the risks associated with an investment in Photon are set out in Section 2 and Section 9.

6.6.1 Outlook for operating divisions

- **Australian Agencies:** it is expected that growth will be supported by integrated agencies BMF and BWM. The new operating structure is also expected to better exploit the benefits of domestic scale in the Australian Agency business through better coverage of domestic clients;
- **Australian Field Marketing:** the field marketing business has a leading market position in Australia and management believes it is well positioned to capture market growth as a result; and
- **International Agencies:** the division will seek to grow by capitalising on the market position of the brand platforms, extending the existing platforms and expanding into new geographies or products where it is underwritten by client demand.

Section 7

7.1 Introduction

This Section contains a summary of relevant historical, pro-forma and forecast financial information for Photon ("**Financial Information**").

The Historical Financial Information comprises:

- Historical Consolidated Income Statement for the year ended 30 June 2009 ("**FY2009A**") as extracted from the audited financial statements, and the actual results for the six months ended 31 December 2009 ("**1H2010A**") extracted from the reviewed financial report for that period. This information is also referred to as reported; and
- Historical Consolidated Balance Sheet as at 31 December 2009 extracted from the reviewed financial report as at that date.

The Forecast Financial Information comprises:

- Forecast Consolidated Income Statement for the year ending 30 June 2010 ("**FY2010F**"), comprising the actual results for the six months ended 31 December 2009 extracted from the reviewed financial report for that period, combined with the results from the unaudited management accounts for the six months ended 30 June 2010 ("**2H2010F**"). This information is also referred to as reported.

Normalised Financial Information comprises:

- normalised earnings for the year ended 30 June 2009 and 30 June 2010, which reverse the NPAT impact of one-off costs and impairment expense amounts that were recognised in accordance with Accounting Standards in the reported information of $6.8 million and $108.4 million respectively.

The pro-forma information comprises:

- Pro-Forma Consolidated Balance Sheet as at 31 December 2009 derived from the Historical Consolidated Balance Sheet as at 31 December 2009 after adjusting for certain transactions and events that occurred subsequently including the Recapitalisation Proposal, impairment of intangibles and changes to the estimated future Deferred Consideration Liabilities;
- Pro-Forma Forecast Consolidated Income Statement for the year ending 30 June 2010 ("**FY2010PF**") derived from the Forecast Consolidated Income Statement for the year ending 30 June 2010 after adjusting to reflect the profit and loss impact of certain structural transactions and events including the Recapitalisation Proposal, impairment of intangibles and changes to the estimated future Deferred Consideration Liabilities;
- Pro-Forma Normalised Forecast Consolidated Income Statement for the year-ended 30 June 2010 ("**FY2010NPF**") derived from the Pro-Forma Forecast Consolidated Income Statement adjusted for the normalisation adjustments discussed in Section 7.2.3; and
- pro-forma impact of the Equity Raising and refinance on Photon's debt maturity profile.

7.2 Basis of preparation

7.2.1 Historical Financial Information

Photon prepares its financial statements in accordance with Australian Accounting Standards ("**AASBs**") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("**AASB**") and the Corporations Act 2001. The consolidated financial report complies with International Financial Reporting Standards ("**IFRS**") and interpretations adopted by the International Accounting Standards Board ("**IASB**"). The financial information in this Section should be read in conjunction with the significant accounting policies outlined in Photon's FY2009A audited financial statements which specify the basis of preparation of the Financial Information. A copy of the FY2009A audited financial statements can be downloaded from Photon's website at www.photongroup.com.

The Financial Information contained in this Section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

Shareholders should refer to financial reports for the full year ended 30 June 2009 and the half year ended 31 December 2009 and related announcements on ASX's website www.asx.com.au should they wish to obtain more detailed financial disclosures and commentary on the Historical Financial Information in relation to Photon.

7.2.2 Forecast Financial Information

The Forecast Financial Information for the year ended 30 June 2010 incorporates the reviewed actual results for the six months ended 31 December 2009 and the unaudited management accounts for the six months ended 30 June 2010. The Forecast Financial Information has been disclosed in a reported format that is consistent with the approach required for audited or reviewed financial information.

As the Forecast Financial Information presented in this Section is based on a combination of reviewed actual results and the unaudited management accounts, the Forecast Financial Information is sourced from actual amounts and is not subject to assumptions concerning future events. Instead, the Forecast Financial Information is subject to the finalisation of the 30 June 2010 year end accounting and audit process which is not complete. The Directors consider the Forecast Financial Information to be appropriate and reasonable at the time of preparation; however, no assurances can be given that the Forecast Financial Information will be achieved.

The Forecast Financial Information should be read in conjunction with the risk factors set out in Section 9.

7.2.3 Normalised Financial Information

The Normalised Financial Information has been prepared for illustrative purposes and adjusts the reported earnings for significant items that are included within the reported results in accordance with Accounting Standards. The Directors have excluded or reversed these items due to their nature, size and expected infrequent occurrence in the future. The Directors believe that this presentation of financial information is relevant as it presents an indication of the underlying earnings of the business.

The Normalised Financial Information and normalisation adjustments are set out in detail in Section 7.3.2 and Section 7.4.3 respectively.

7.2.4 Pro-Forma Financial Information

The Pro-Forma Financial Information has been prepared for illustrative purposes to show the impact of the Recapitalisation Proposal and impairment of intangibles and other significant structural changes on Photon's Historical Consolidated Balance Sheet and Forecast Consolidated Income Statement. The Pro-Forma Financial Information is based on the assumption of a successful completion of the Recapitalisation Proposal as set out within this document. In the event that the Recapitalisation Proposal is not completed, the Pro-Forma Financial Information presented within this document would be materially adversely impacted, and consequently the basis of preparation of the Pro-Forma Financial Information and the Pro-Forma Financial Information presented within this document would no longer be appropriate.

- The Pro-Forma Forecast Consolidated Income Statement for FY2010PF has been prepared to show the impact on the Forecast Consolidated Income Statement as though the Recapitalisation Proposal, movements in the value of estimated future Deferred Consideration Liabilities (including the associated impact on goodwill and bank debt), and impairment of intangibles were effective from 1 July 2009. The adjustments made to derive the Pro-Forma Forecast Consolidated Income Statement do not impact EBITDA and are set out in Section 7.4.4.
- The Pro-Forma Normalised Forecast Consolidated Income Statement for FY2010NPF has been prepared to show the impact on the Pro-Forma Consolidated Income Statement after the impact of normalisation adjustments. The normalisation adjustments are set out in detail in Section 7.4.3.
- The Pro-Forma Consolidated Balance Sheet as at 31 December 2009 has been derived from the Historical Consolidated Balance Sheet as at 31 December 2009 as though the Recapitalisation Proposal had been completed on that date, and includes adjustments for movements in the value of estimated future Deferred Consideration Liabilities (including the associated impact on goodwill and bank debt) and impairment of intangibles. The adjustments made to derive the Pro-Forma Consolidated Balance Sheet are set out in Section 7.5.1.

The Pro-Forma Financial Information should be read together with the notes and assumptions set out in Section 7.4.4 and Section 7.5.1, the risk factors set out in Section 9 and other information in this Prospectus. The Pro-Forma Consolidated Balance Sheet should also be read in conjunction with the Investigating Accountant's report in Section 8.

7.2.5 Future financial performance of the Group

The Board has determined not to include specific Forecast Financial Information beyond June 2010 with respect to the Group in this Prospectus as it believes there is no reasonable basis to prepare forecasts at this time given the lack of long-term contracted revenue and the influence of general economic conditions on the future results of the business.

The Group's performance in any period will be subject to uncertainties, many of which are outside the control of the Directors and may also not be forecast and accurately predicted. The future financial performance and position of the Group is subject to the risk factors set out in Section 9.

7.3 Consolidated Income Statement

7.3.1 Income Statement summary

The following table sets out Photon's Historical Consolidated Income Statement for FY2009A, Forecast Consolidated Income Statement for FY2010F and Pro-Forma Forecast Consolidated Income Statement for FY2010PF. The numbers presented below in relation to FY2009A and 1H2010A are either sourced directly from or derived from the 30 June 2009 audited financial statements and the 31 December 2009 reviewed financial report. The 2H2010F, FY2010F, and FY2010PF numbers presented below are sourced from actual amounts and have been prepared on the same basis as the financial disclosures that were included in the 30 June 2009 audited financial statements and the 31 December 2009 reviewed financial report. All numbers presented in the table below do not include any normalisation adjustments and are consistent with the profit and loss information that would be reported using the recognition and measurement principles of the Accounting Standards.

Table 7.3.1a – Consolidated Income Statement[1]

	Historical		Forecast		Pro-forma
	FY2009A Actual ($m)	1H2010A Actual ($m)	2H2010F Unaudited ($m)	FY2010F Unaudited ($m)	FY2010PF Unaudited ($m)
Revenue	653.5	300.7	286.6	587.3	587.3
Net Revenue	440.6	196.3	182.3	378.6	378.6
EBITDA	89.3	30.5	16.2	46.7	46.7
Depreciation	(9.3)	(4.0)	(4.0)	(8.0)	(8.0)
Amortisation – internally generated intangibles	(2.1)	(1.9)	(2.6)	(4.5)	(2.2)
Amortisation – acquired intangibles	(9.2)	(4.4)	(4.2)	(8.6)	(8.1)
Present value of interest of deferred consideration (non-cash)	(5.5)	(3.2)	(2.3)	(5.5)	(9.2)
Net interest (including finance leases)	(21.0)	(8.9)	(9.7)	(18.6)	(14.9)
Impairment charges	(4.2)	(2.1)	(86.8)	(88.9)	(88.9)
NPBT	38.0	6.0	(93.4)	(87.4)	(84.6)
Tax	(15.6)	(2.9)	2.4	(0.5)	(4.7)
Minorities	(1.0)	(0.1)	0.6	0.5	(0.2)
NPAT	21.4	3.0	(90.4)	(87.4)	(89.5)
NPATA[2]	30.6	7.4	(86.2)	(78.8)	(81.4)

Notes:
1 FY2009A foreign exchange rates: 1GBP=2.16AUD and 1USD=1.34AUD. FY2010F: 1GBP=1.79AUD and 1USD=1.13AUD.
2 NPAT adjusted for non-cash amortisation of acquired intangibles.

7.3.2 Normalised earnings summary

The following table sets out Photon's normalised earnings for FY2009A, FY2010F and FY2010NPF after considering normalisation adjustments and is presented for illustrative purposes. The normalised information set out below includes adjustments made for significant items included in the audited, reviewed and unaudited reported results, which have been adjusted due to their nature, size and expected infrequent occurrence in the future. A reconciliation between reported and normalised earnings is disclosed in Table 7.4.3c.

Table 7.3.2a – Normalised earnings summary[1]

	Historical		Forecast		Pro-forma
	FY2009A Actual ($m)	1H2010A Actual ($m)	2H2010F Unaudited ($m)	FY2010F Unaudited ($m)	FY2010PF Unaudited ($m)
Normalised Net Revenue	440.6	200.0	180.6	380.6	380.6
Normalised EBITDA	93.0	37.3	37.8	75.1	75.1
Depreciation	(9.3)	(4.0)	(4.0)	(8.0)	(8.0)
Amortisation – Internally generated intangibles	(2.1)	(1.9)	(2.6)	(4.5)	(2.2)
Amortisation – Acquired intangibles	(9.2)	(4.4)	(4.2)	(8.6)	(8.1)
Normalised EBIT	72.4	27.0	27.0	54.0	56.8
Present value of interest of deferred consideration (non-cash)	(5.5)	(3.2)	(2.3)	(5.5)	(9.2)
Net interest (incl finance leases)	(21.0)	(8.9)	(9.7)	(18.6)	(14.9)
Normalised NPBT	45.9	14.9	15.0	29.9	32.7
Tax	(16.7)	(5.0)	(3.7)	(8.7)	(13.2)
Minorities	(1.0)	(0.1)	(0.1)	(0.2)	(0.2)
Normalised NPAT	28.2	9.8	11.2	21.0	19.3
Normalised NPATA[2]	37.4	14.2	15.4	29.6	27.4

Notes:
1 FY2009A foreign exchange rates: 1GBP=2.16AUD and 1USD=1.34AUD. FY2010F: 1GBP=1.79AUD and 1USD=1.13AUD.
2 NPAT adjusted for non-cash amortisation of acquired intangibles

7.3.3 Earnings Per Share summary
Table 7.3.3a – Earnings Per Share

Cents unless otherwise stated	FY2009A Actual	FY2010F Unaudited	FY2010PF Unaudited
Number of shares			
Weighted average number of ordinary shares (millions)	214.2	326.4	1,203.0
Diluted weighted average number of ordinary shares (millions)	214.2	326.4	1,546.1
EPS metrics			
EPS (cents)	10.0	(26.8)	nm
Diluted EPS (cents)	10.0	(26.8)	nm
Normalised EPS metrics			
Normalised EPS (cents)	12.0	6.4	1.6
Normalised NPATA EPS (cents)	16.3	9.1	2.3
Diluted Normalised EPS (cents)	12.0	6.4	1.2
Diluted Normalised NPATA EPS (cents)	16.3	9.1	1.8

Table 7.3.3a sets out the effect on Photon's expected earnings per share under the following scenarios:

- EPS, normalised EPS and normalised NPATA EPS are calculated from Photon's NPAT, Photon's normalised NPAT and Photon's normalised NPATA respectively per the weighted average number of ordinary shares outstanding during the year. FY2009A and FY2010F calculations have been adjusted for the Theoretical Ex-Rights Price ("**TERP**") bonus element of the Equity Raising;
- pro-forma normalised EPS and pro-forma normalised NPATA EPS are calculated from Photon's normalised NPAT and normalised NPATA respectively, assuming the total number of ordinary shares on issue at 30 June 2010 plus the shares issued under the Equity Raising were issued on 1 July 2009;
- diluted EPS, diluted normalised EPS and diluted normalised NPATA EPS are calculated from Photon's NPAT, Photon's normalised NPAT and Photon's normalised NPATA respectively per the weighted average number of ordinary shares outstanding during the year, including the impact of shares outstanding under employee share plans. FY2009A and FY2010F calculations have been adjusted for the TERP bonus element of the Equity Raising; and
- pro-forma diluted normalised EPS and pro-forma diluted normalised NPATA EPS are calculated from Photon's normalised NPAT and normalised NPATA respectively, assuming the total shares on issue at 30 June 2010 plus the shares issued under the Equity Raising and the contingently issued shares under the Deferred Consideration Restructure and the CEO long-term incentive plan were issued on 1 July 2009. Note that the pro-forma diluted normalised EPS and pro-forma diluted normalised NPATA EPS may differ from those presented above as Photon may issue up to a further $15.0 million in New Shares at $0.10 per share to accommodate Top-Up Component and Additional New Share Applications.

7.4 Management Discussion and Analysis

7.4.1 FY2009A Historical Consolidated Income Statement

Photon's FY2009A EBITDA of $89.3 million was a 14% improvement on FY2008A. The FY2009A EBITDA included $3.7 million of one-off restructuring and redundancy costs and excluding these items, Photon's FY2009A Normalised EBITDA was $93.0 million. Redundancy and restructuring costs were associated with headcount reductions primarily across three of Photon's historical operating divisions.

Total net revenue for FY2009A increased 17% to $440.6 million and Normalised EBITDA increased 19% to $93.0 million, on the prior corresponding period. These results were driven by organic growth in each of Photon's five historical operating divisions.

FY2009A NPAT was flat at $21.4 million on the prior corresponding period. FY2009A NPAT was impacted by non-cash impairment charges of $4.2 million on Photon's minority shareholding in Dark Blue Sea Limited and the $2.6 million post tax impact of the redundancy costs. Normalising for these items, Photon's FY2009A normalised NPAT increased by 30% to $28.2 million on the prior corresponding period.

7.4.2 FY2010F Forecast Consolidated Income Statement

FY2010F EBITDA is forecast to decrease 48% to $46.7 million, on the prior corresponding period on a reported basis. After considering the impact of adverse foreign currency movements as shown in the constant currency analysis set out below, the decrease in the EBITDA is driven primarily by the decline in the performance of the Internet & E-Commerce division and one-off costs which total $28.4 million. These one-off costs have been normalised in Section 7.4.3.

NPAT in FY2010F is forecast to be negative $87.4 million, down from positive $21.4 million in the prior corresponding period. This $108.8 million decrease in NPAT is primarily driven by the one-off costs and the decline in EBITDA performance of the Internet & E-Commerce division discussed above, which also contributed to the recognition of an $88.9 million impairment of intangibles in this division during FY2010F.

FY2010F EBITDA and EBITDA margin by historical operating divisions
A breakdown of EBITDA by historical operating divisions is shown below.

Table 7.4.2a – EBITDA by historical operating divisions

	Historical FY2009A Actual ($m)	Historical FY2009A Constant currency[1] Unaudited ($m)	Forecast FY2010F Unaudited ($m)
EBITDA			
Strategic Intelligence	12.0	10.7	11.1
Integrated Communications & Digital	14.4	14.5	15.0
Field Marketing	27.5	26.5	23.0
Internet & E-Commerce	28.9	27.2	1.2
Specialised Communications	15.3	13.4	14.9
Service Centre	(8.8)	(8.9)	(18.5)
Total EBITDA	**89.3**	**83.4**	**46.7**
EBITDA margin			
Strategic Intelligence	15.9%	15.9%	17.3%
Integrated Communications & Digital	16.4%	16.9%	18.3%
Field Marketing	19.5%	19.5%	18.0%
Internet & E-Commerce	51.1%	51.1%	3.1%
Specialised Communications	19.3%	19.3%	21.6%
Total EBITDA margin	**20.3%**	**20.3%**	**12.3%**

Note:
1 Constant currency calculations eliminate the impact of foreign exchange movements. The constant currency calculations use FY2009A EBITDA in local currencies translated based on FY2010F average exchange rates as follows: 1GBP=1.79AUD and 1USD=1.13AUD.

Strategic Intelligence EBITDA was down by 8% in FY2010F on the prior period as a result of adverse currency movements, continued declines in the market research sector and a weaker performance in the 2H2010F by Naked Communications, offset by margin improvements across the division. On a constant currency basis, FY2010F EBITDA was up 4% on the prior period.

The Integrated Communications & Digital division showed EBITDA growth of 4% in FY2010F over the prior period as a result of continuing strong growth in the two large Australian integrated agencies, BWM and BMF. On a constant currency basis, FY2010F EBITDA was up 4% on the prior period.

Field Marketing EBITDA was down 16% in FY2010F off a very strong prior period result due to adverse currency movements, budget constraints from some international clients and some margin pressure in the demonstrations market. On a constant currency basis, FY2010F EBITDA was down 13% on the prior period.

Internet & E-Commerce EBITDA was down 96% in FY2010F as a result of the impact of the material losses made by the Geekdom and Geekversity businesses which were closed and sold respectively during the 12 month period to 30 June 2010, and the abnormal impairment of working capital within the division. These items have been adjusted in the Normalised Financial Information. Refer to Table 7.4.3c for further details on the normalisation adjustments. The balance of the underperformance was largely driven by the declines in earnings performance of the search engine marketing businesses.

Specialised Communications EBITDA was down 3% in FY2010F on the prior period, with strong earnings performance from the European public relations agencies, Hotwire and Frank PR, margin improvements due to operational efficiency and some recovery in the corporate communications and experiential agencies offset by adverse currency movements. On a constant currency basis, FY2010F EBITDA was up 12% on the prior period.

Service Centre EBITDA was down 110% in FY2010F on the prior period as a result of $9.5 million of one-off costs primarily related to the operational restructure, redundancies and transaction costs.

7.4.3 FY2010F Normalised Forecast Consolidated Income Statement

Photon expects to incur approximately $28.4 million in significant items impacting EBITDA in FY2010F. This Section of the Prospectus presents the normalised results of the business excluding these significant items, which under Australian Accounting Standards must be recorded in the reported results. Table 7.4.3c of this Prospectus outlines the major categories of the normalisation items, including a reconciliation between reported and normalised earnings.

Photon's Normalised EBITDA is forecast to decrease 19% to $75.1 million, on the prior corresponding period. Consistent with analysis of EBITDA above, after considering the impact of adverse foreign currency movements as shown in the constant currency analysis set out below, the decrease in the Normalised EBITDA is driven primarily by the decline in the performance of the Internet & E-Commerce division.

Normalised NPAT in FY2010F is forecast to be $21.0 million, down 26% from the prior corresponding period. Normalised NPAT excludes the tax effected EBITDA Normalisation adjustments and also reverses the $88.9 million impairment expense recognised in FY2010F.

FY2010F Normalised EBITDA and EBITDA margin by historical operating division

A breakdown of Normalised EBITDA by historical operating division is shown below.

Table 7.4.3a – Normalised EBITDA by historical operating divisions

	Historical FY2009A	Historical FY2009A	Forecast FY2010F
	Actual ($m)	Constant currency Unaudited[1] ($m)	Unaudited ($m)
Normalised EBITDA			
Strategic Intelligence	12.8	11.4	11.8
Integrated Communications & Digital	15.7	15.7	17.9
Field Marketing	27.6	26.6	24.2
Internet & E-Commerce	29.1	27.4	14.6
Specialised Communications	16.4	14.4	15.6
Service Centre	(8.6)	(8.6)	(9.0)
Total Normalised EBITDA	**93.0**	**86.9**	**75.1**
Normalised EBITDA margin			
Strategic Intelligence	16.9%	16.9%	18.5%
Integrated Communications & Digital	17.8%	17.8%	22.7%
Field Marketing	19.6%	19.6%	19.0%
Internet & E-Commerce	51.5%	51.5%	34.1%
Specialised Communications	20.7%	20.7%	22.5%
Total Normalised EBITDA margin	**21.0%**	**21.0%**	**19.6%**

Note:

1 Constant currency calculations eliminate the impact of foreign exchange movements. The constant currency calculations use the FY2009A normalised EBITDA in local currencies translated based on FY2010F average exchange rates as follows: 1GBP=1.79AUD and 1USD=1.13AUD.

The key drivers of Normalised EBITDA performance within each operating division for FY2010F are consistent with the EBITDA earnings drivers presented in Section 7.4.2 above, with the exception of the $28.4 million of normalisation adjustments presented in Table 7.4.3c and excluded from the EBITDA information presented above. The majority of the normalisation adjustments relate to the Internet & E-Commerce division ($13.4 million) primarily associated with the discontinuation of the Geekdom and Geekversity businesses and abnormal impairment of working capital, and the Service Centre ($9.5 million) predominantly associated with one-off costs, transaction costs and redundancies.

FY2010F Normalised EBITDA and EBITDA margin by new operating segments
A breakdown of Normalised EBITDA by the operating segments which will be in place following the completion of the operational restructure as described in Section 6.3.1 is shown below.

Table 7.4.3b – Normalised EBITDA by new operating segments

	Historical FY2009A Actual ($m)	Forecast FY2010F Unaudited ($m)
Normalised EBITDA		
Australian Agencies	31.3	32.1
Field Marketing	25.1	20.5
International Agencies	25.5	25.2
Search Marketing	19.7	6.3
Service Centre	(8.6)	(9.0)
Total Normalised EBITDA	**93.0**	**75.1**
Normalised EBITDA margin		
Australian Agencies	19.3%	22.0%
Field Marketing	18.8%	17.3%
International Agencies	22.3%	24.7%
Search Marketing	64.1%	39.7%
Total Normalised EBITDA margin	**21.0%**	**19.6%**

Significant items
Photon expects to incur approximately $28.4 million in significant items impacting EBITDA in FY2010F. The major categories of these items are shown in the following table reconciling between reported and normalised earnings.

Table 7.4.3c – Reported to normalised earnings reconciliation[1]

	Historical		Forecast	
	FY2009A Actual ($m)	1H2010A Actual ($m)	2H2010F Unaudited ($m)	FY2010F Unaudited ($m)
EBITDA	**89.3**	**30.5**	**16.2**	**46.7**
Discontinued businesses (including Geekversity)	–	5.6	7.4	13.0
Impairment of working capital	–	–	4.3	4.3
Restructuring provision	–	–	6.2	6.2
Other (transaction costs, redundancies, legal and recruitment)	3.7	1.2	3.7	4.9
Total significant items impacting EBITDA	3.7	6.8	21.6	28.4
Normalised EBITDA	**93.0**	**37.3**	**37.8**	**75.1**
NPBT	**38.0**	**6.0**	**(93.4)**	**(87.4)**
Adjustments above	3.7	6.8	21.6	28.4
Impairment of investment in equity accounted investee	4.2	–	–	–
Impairment of intangibles	–	2.1	86.8	88.9
Total significant items impacting NPBT	7.9	8.9	108.4	117.3
Normalised NPBT	**45.9**	**14.9**	**15.0**	**29.9**
NPAT	**21.4**	**3.0**	**(90.4)**	**(87.4)**
After tax effect of adjustments	6.8	6.8	101.6	108.4
Normalised NPAT	**28.2**	**9.8**	**11.2**	**21.0**

Note:
1 Reported numbers are either directly from or derived from the 30 June 2009 audited financial statements and the 31 December 2009 reviewed financial report. In relation to 2H2010F and FY2010F periods, the reported numbers set out above have been prepared on the same basis as the financial disclosures that were included in the 30 June 2009 audited financial statements and the 31 December 2009 reviewed financial report and do not include any normalisation or pro-forma adjustments.

Photon's earnings have been normalised for the significant items discussed below, which are separately presented because of their nature, size and expected infrequent occurrence:

- the FY2010F Forecast Consolidated Income Statement has been normalised for the impact of $13.0 million losses associated with businesses which were discontinued before or during the year ended 30 June 2010. This includes losses incurred prior to the sale of Geekversity and the closure of AdPartners, The Population, DVL, Future House and Crystal Storm;
- impairment of working capital of $4.3 million relates to the abnormal impairment of debtors, accrued revenue and work in progress, of which $2.3 million of these impairments related to the Internet & E-Commerce division. These impairments relate to the non-recoverability of working capital as a result of adverse economic conditions and changes to the operating model of certain businesses;
- the restructuring provision of $6.2 million relates to provisions for redundancies and onerous leases as a result of the organisational restructure. Refer to Section 6.3 for a discussion of the organisational restructure; and
- impairment of intangibles relates to the fall in the recoverable value of Photon's goodwill and other intangible balances in the search marketing segment. The impairment of $88.9 million reflects the difference between the estimated recoverable value and Photon's carrying value of these assets, and is non-cash in nature.

7.4.4 FY2010F Pro-Forma Consolidated Income Statement

The FY2010F Pro-Forma Consolidated Income Statement includes adjustments made to both the reported Historical Consolidated Income Statement and the Normalised Financial Information to reflect the pro-forma assumptions setting out the impact of certain transactions and structural changes had they occurred effective 1 July 2009. The pro-forma adjustments impact amortisation, interest and tax only, and therefore do not impact EBITDA. The Pro-Forma Consolidated Income Statement includes the following adjustments and assumptions:

- the Equity Raising had been completed on 1 July 2009 with the net proceeds used to repay debt;
- the net interest expense included in the Pro-Forma Forecast Consolidated Income Statement has been calculated by applying Photon's weighted average borrowing costs of 7.1% under the terms of its New Facilities set out in Section 11.8 to the unaudited 30 June 2010 debt balance after adjusting for the impact of the Equity Raising for the 12 months ending 30 June 2010. The net effect of this is to reduce the FY2010PF interest expense by $3.7 million;
- the estimated Deferred Consideration Liabilities of $161.7 million following the Deferred Consideration Restructure described in Sections 1.3 and 11.6 were assumed to be in existence as at 1 July 2009, thereby increasing the FY2010PF present value interest expense by $3.7 million. Present value interest expense is non-cash in nature, representing an unwinding of the discount recognised on the Deferred Consideration Liabilities which are recognised on a present value basis under Accounting Standards. Present value interest expense is not tax deductible;
- the impairment of the intangibles in the search marketing segment, specifically including acquired intangibles and internally generated intangibles subject to amortisation, took place on 1 July 2009, therefore reducing the FY2010PF amortisation expense by $2.8 million; and
- pro-forma tax expense for FY2010PF reflects the historical tax expense of Photon, adjusted for the tax effect of the transactions and structural changes set out above.

7.5 Consolidated Balance Sheet

The Historical and Pro-Forma Consolidated Balance Sheet of Photon has been prepared as at 31 December 2009 on the basis described in Section 7.5.1.

Table 7.5a – Pro-Forma Consolidated Balance Sheet

	31-Dec-09 Reported Reviewed ($m)	A Deferred consideration and goodwill ($m)	B Impairment of search marketing intangibles ($m)	C Net proceeds of the Equity Raising ($m)	D Other significant items ($m)	31-Dec-09 Pro-forma Unaudited ($m)
Current assets						
Cash	27.1	(12.4)	–	–	(5.4)	9.3[1]
Receivables	96.4	–	–	–	–	96.4
Other current assets	18.7	–	–	–	–	18.7
Total current assets	**142.2**	**(12.4)**	**–**	**–**	**(5.4)**	**124.4**
Non-current assets						
Fixed assets	19.0	–	–	–	–	19.0
Goodwill & intangibles	617.2	132.2	(86.9)	–	–	662.5
Other non-current assets	14.2	–	–	–	1.9	16.1
Total non-current assets	**650.4**	**132.2**	**(86.9)**	**–**	**1.9**	**697.6**
TOTAL ASSETS	**792.6**	**119.8**	**(86.9)**	**–**	**(3.5)**	**822.0**
Current liabilities						
Provisions	10.0	–	–	–	6.2	16.2
Payables & other creditors	76.7	–	–	–	–	76.7
Deferred consideration	70.0	(22.3)	–	–	–	47.7
Bank debt & other loans[2]	4.1	42.7	–	(38.8)	–	8.0
Total current liabilities	**160.8**	**20.4**	**–**	**(38.8)**	**6.2**	**148.6**
Non-current liabilities						
Provisions	14.8	(1.7)	–	–	–	13.1
Deferred consideration	19.5	94.5	–	–	–	114.0
Bank debt & other loans[2]	236.0	6.1	–	(53.1)	–	189.0
Total non-current liabilities	**270.3**	**98.9**	**–**	**(53.1)**	**–**	**316.1**
TOTAL LIABILITIES	**431.1**	**119.3**	**–**	**(91.9)**	**6.2**	**464.7**
NET ASSETS	**361.5**	**0.5**	**(86.9)**	**91.9**	**(9.7)**	**357.3**
Equity						
Issued capital	369.6	–	–	92.3	–	461.9
Reserves	(13.6)	(0.1)	–	–	–	(13.7)
Minority interests	1.5	–	–	–	–	1.5
Retained earnings	4.0	0.6	(86.9)	(0.4)	(9.7)	(92.4)
TOTAL EQUITY	**361.5**	**0.5**	**(86.9)**	**91.9**	**(9.7)**	**357.3**

Notes:

1 At 30 June 2010, cash was $22.8 million.

2 Pro-forma bank debt and other loans include $184.3 million of bank debt and $15.4 million of other financial liabilities (mainly comprising lease liabilities and loan notes), partially offset by $2.7 million of capitalised borrowing costs.

7.5.1 Basis of pro-forma adjustments

The pro-forma adjustments incorporate the effect of the following:

Adjustment A – deferred consideration and goodwill

Photon's estimated future Deferred Consideration Payments are presently estimated to be approximately $176 million. Photon has entered into arrangements with substantially all of the Deferred Consideration Beneficiaries of the 15 Operating Entities expected to receive future Deferred Consideration Payments to cap and restructure the payments. The key terms of the Deferred Consideration Restructure are described in Section 1.3 and Section 11.6.

The Deferred Consideration Restructure is conditional on completion of the Equity Raising and Debt Refinancing. Once the Deferred Consideration Restructure becomes effective, the maturity profile of the capped and Deferred Consideration Payments is set out below:

Table 7.5.1a – Maturity profile of restructured Deferred Consideration Payments[1]

Quarter ending	Total Capped Payments[2] ($m)	Tranche 1 (Cash) ($m)	Tranche 2 (Photon shares) ($m)	Tranche 3A (Conditional cash)[3] ($m)	Tranche 3B (Conditional cash)[3] ($m)
30 September 2010	53.3	22.5	8.6	11.1	11.1
31 December 2010	–	–	–	–	–
31 March 2011	27.8	10.6	4.0	6.6	6.6
30 June 2011	–	–	–	–	–
30 September 2011	33.3	17.6	3.7	6.0	6.0
31 December 2011	14.6	–	3.4	5.6	5.6
31 March 2012	6.6	2.3	1.1	1.6	1.6
30 June 2012	–	–	–	–	–
30 September 2012	33.5	11.2	5.1	8.6	8.6
31 December 2012	–	–	–	–	–
31 March 2013	6.7	2.3	1.0	1.7	1.7
30 June 2013	–	–	–	–	–
30 September 2013	0.3	0.1	–	0.1	0.1
Total Capped Payments	**176.1**	**66.6**	**26.9**	**41.3**	**41.3**

Notes:

1 Where a Deferred Consideration Beneficiary can elect payment dates, it has been assumed that election is made for the latest possible payment date. Assumes BWM put is exercised for payment in September 2012 and REL elects to receive payment in March 2013.

2 As part of the Deferred Consideration Restructure, Photon has negotiated to cap the amount of Deferred Consideration Payments due to Deferred Consideration Beneficiaries presently estimated to receive 99.7% of the estimated $176 million future Deferred Consideration Payments. The Total Capped Payments includes expected payments in Australian dollars (A$112.1 million), pound sterling (£36.2 million) and US dollars (US$0.3 million) converted to Australian dollars at the relevant foreign exchange rates at 30 June 2010 (1GBP=1.76AUD and 1USD=1.17AUD).

3 Tranche 3A Payments and Tranche 3B Payments will only be made once Photon has reached the relevant 3A Trigger and 3B Trigger, which will be tested at the end of each financial quarter.

After applying Australian Accounting Standards, Photon expects the estimated Deferred Consideration Liability that will be reported on the balance sheet after the Deferred Consideration Restructure becomes effective to be $161.7 million, representing the present value of the capped and restructured Deferred Consideration Payments. The present value is calculated by discounting estimated Tranche 1, Tranche 2 and Tranche 3 Payments by the cost of debt.

The table below sets out the sensitivities to the pro-forma Deferred Consideration Liability, pro-forma FY2010PF PV interest expense, NPAT and NPATA if Photon were not to meet the EBITDA hurdles required to make the Tranche 3A and Tranche 3B payments before the Sunset Date.

Table 7.5.1b – Sensitivities around contingent Tranche 3A and Tranche 3B payments

	Sensitivity A – EBITDA hurdle of $95m not reached before the Sunset Date ($m)	Sensitivity B – EBITDA hurdle of $85m not reached before the Sunset Date ($m)
Estimated Deferred Consideration Liability	126.7	92.0
Pro-forma FY2010PF PV interest	6.6	4.1
Pro-forma FY2010PF Normalised NPAT	21.8	24.4
Pro-forma FY2010PF Normalised NPATA	29.9	32.5
Pro-forma FY2010PF Normalised EPS (cents)	1.8	2.0
Pro-forma FY2010PF Normalised NPATA EPS (cents)	2.5	2.7
Pro-forma FY2010PF Normalised Diluted EPS (cents)	1.4	1.6
Pro-forma FY2010PF Normalised Diluted NPATA EPS (cents)	1.9	2.1

A pro-forma adjustment has been made to reflect the unaudited estimated Deferred Consideration Liability under the Deferred Consideration Restructure, assuming these terms were in existence at 31 December 2009.

This adjustment also includes adjustments made for historical Deferred Consideration Payments and payments for the acquisition of shares in Dark Blue Sea Limited of $53.5 million made during the six months ended 30 June 2010 and the resulting impact upon associated debt and goodwill balances.

Consideration payable under deferred consideration arrangements entered into before 1 July 2009 is accounted for in accordance with AASB 3 *Business Combinations* (as amended November 2008). When deferred consideration payments become probable, a liability is recognised together with a corresponding amount of goodwill based on management's best estimate of the expected payment, discounted using a market interest rate for the liability. Any adjustments to the liability arising from changes to the estimated amounts payable over the deferred consideration period are accounted for as adjustments to goodwill.

Following the Deferred Consideration Restructure, the Deferred Consideration Liabilities will be accounted for as financial liabilities under AASB 139. While the deferred consideration payable will continue to be re-measured to fair value each period until settlement, any subsequent change in value is recognised directly in the profit or loss. This will be the treatment adopted by Photon as a result of the Deferred Consideration Restructure once it is completed.

Adjustment B – impairment of search marketing intangibles
Impairment of intangibles in the search marketing segment relates to the reduction in the recoverable value of Photon's goodwill and other intangible balances. The impairment of $86.9 million reflects the difference between the estimated recoverable value and Photon's carrying value of these assets.

Adjustment C – net proceeds of the Equity Raising
Net proceeds of the Equity Raising are based on the proceeds from the Equity Raising referred to in Section 4, after the payment of Transaction Costs associated with the Recapitalisation Proposal. This adjustment reflects net proceeds of the Equity Raising being applied to debt as if the proceeds had been received and the debt paid down on 31 December 2009.

Notwithstanding that of the $89.6 million of net cash proceeds to be received from the Recapitalisation Proposal, Photon intends to pay down $67.1 million of bank debt and apply the remaining $22.5 million to pay Deferred Consideration Payments on or around 30 September 2010, there necessarily exists a timing difference between when these Deferred Consideration Payments will be paid on or around 30 September 2010 and the date of the Pro-Forma Balance Sheet at 31 December 2009. For simplicity, the Pro-Forma Balance Sheet assumes that the entire $89.6 million of net cash proceeds is used to pay down debt as at 31 December 2009.

This pro-forma adjustment reflects the underwritten Equity Raising and does not take into account the situation where additional Applications are accepted to accommodate Top-Up Component and Additional New Share Applications. The level of additional Applications is capped at $15.0 million.

Following completion of the Equity Raising, Photon will refinance its bank facilities, and consequently this adjustment includes the write-off of $0.4 million of existing borrowing costs relating to the previous facilities which no longer provide any future benefit to Photon and the capitalisation of $2.7 million of borrowing costs paid in association with the New Facilities.

The table below sets out the proceeds from the Equity Raising and the deduction of the Transaction Costs.

Table 7.5.1c – Proceeds from the Recapitalisation Proposal

	($m)
Gross proceeds	
Shareholder Offer	62.5
Placement	40.0
Total gross proceeds	**102.5**
Equity Raising costs	6.0
Other Transaction Costs	4.2
Net equity impact	**92.3**
Debt Refinancing costs	2.7
Net proceeds	**89.6**

Adjustment D – other significant items
Other significant items include adjustments to the Pro-Forma Consolidated Balance Sheet as a result of the following structural changes as if they had been in place as at 31 December 2009:

- cash payment of $5.4 million of dividends during March 2010; and
- restructuring provision of $6.2 million relating to provisions for redundancies and onerous leases as a result of the organisational restructure, partially offset by a $1.9 million tax effect of this restructuring. Refer to Section 6.3 for a discussion of the organisational restructure.

7.6 Pro-forma impact of the Equity Raising and refinancing on Photon's debt profile and covenant ratios

The analysis of the pro-forma impact of the Equity Raising on Photon's debt profile and covenants is prepared on the basis that the proceeds of the Equity Raising will be used to repay bank debt and pay the Transaction Costs, resulting in a reduction of debt drawn under its bank facilities to approximately $184.3 million immediately following completion of the Equity Raising. Within one day after the anticipated date for the completion of the Equity Raising, approximately $22.5 million of the proceeds will be used at 30 September 2010 to make the Tranche 1 Payments to certain Deferred Consideration Beneficiaries under the terms of the Deferred Consideration Restructure.

Concurrent with completion of the Equity Raising and Deferred Consideration Restructure, Photon has agreed with its lender to refinance its existing $280 million debt facilities (currently drawn to $274 million) with $230 million cash advance facilities (Facility A and B) and a $45 million bank guarantee facility (Facility C) (together, the "**New Facilities**"). Following the refinancing, and after the payment of Deferred Consideration Payments due on or about 30 September 2010, Photon will have $206.8 million of drawn debt against a facility of $230 million. Although the New Facilities have covenants and margins that are substantially in line with previous facilities, Photon will continue to have high debt levels after implementation of the Recapitalisation Proposal. Photon will be reliant on continuing operational cash flows, after meeting the working capital requirements of the operating businesses, to pay down debt in order to meet future Deferred Consideration Payments.

The bank guarantees will be provided to the Deferred Consideration Beneficiaries to guarantee the cash portion of the Deferred Consideration Payments due after 30 September 2010. These bank guarantees will be called upon to the extent that Photon cannot make a Deferred Consideration Payment from the $230 million cash advance facilities or its operating cash flows.

The New Facilities will have a term of three years and covenants and margins are substantially in line with the covenants and margins of Photon's previous facilities.

Refer to the risk factors in Section 2 and Section 9.

The table below sets out the pro-forma debt profile at 30 June 2010 assuming completion of the Equity Raising and Debt Refinancing, but before the payment of the Tranche 1 Payments due on or around 30 September 2010. Following these payments, the total debt drawn is expected to be $206.8 million and the leverage ratio is expected to be 2.8 times. Photon's leverage ratio on 30 June 2010, without the pro-forma impact of the capital raising, was approximately 3.7 times.[1]

Table 7.6a – Pro-forma debt profile and pro-forma covenant ratios

Facility	Facility limit ($m)	Amount drawn ($m)[2]	Term	Average margin
Facility A1	46.0	38.8	31 March 2011	4.00%
Facility A2	38.0	38.0	30 April 2012	3.50%
Facility B	120.0	120.2	31 October 2012	3.50%
Facility C	76.0	76.9	31 October 2011	2.00%
Total debt prior to Equity Raising	280.0	273.9		3.20%
Proceeds from Equity Raising	n/a	(89.6)	n/a	n/a
Total debt post Equity Raising	**n/a**	**184.3**	**n/a**	**n/a**
Facility A	210.0	184.3	30 September 2013	3.50%
Facility B	20.0	–	30 September 2013	3.50%
Total cash facilities	**230.0**	**184.3**		**3.50%**
Facility C	45.0	45.0	30 September 2013	2.10%
Interest cover[3]	>3.0x	4.7x		
Leverage ratio[4]	<3.5x	2.5x		
Total leverage ratio[5]	<4.0x	3.1x		
Capitalisation[6]	<55%	49.9%		

Notes:

1 Photon's pro-forma leverage ratio including the expected Tranche 1 cash liabilities would be 3.4 times, assuming completion of the Equity Raising and following the Tranche 1 payments due on or around 30 September 2010. As at 30 June 2010, excluding the impact of the Recapitalisation Proposal, the leverage ratio adding in the expected cash liabilities would be 5.8 times. These ratios are not calculated or included for covenant testing purposes for either existing facilities or New Facilities.

2 The Amount Drawn includes drawings in Australian dollars (A$70.1 million), pound sterling (£47.2 million) and US dollars (US$26.6 million) converted into Australian dollars at the relevant foreign exchange rates at 30 June 2010 (1GBP=1.76AUD and 1USD=1.17AUD).

3 Interest cover has been derived as FY10 pro-forma net interest expense of $14.9 million, divided by pro-forma normalised EBITA before non-cash options expense for the 12 month period to 30 June 2010 of $69.3 million.

4 Leverage ratio has been derived as pro-forma financial indebtedness as at 30 June 2010 of $194.1 million divided by Normalised EBITDA before non-cash options expense for the 12 month period to 30 June 2010 of $77.3 million. Financial indebtedness includes pro-forma cash advance facilities of $184.3 million plus lease liabilities and derivative liability balances totalling $9.8 million. Following payment of the 30 September 2010 Tranche 1 Payment portion of the Deferred Consideration Payments, the pro-forma leverage ratio will increase to 2.8 times.

5 Total leverage ratio has been derived as pro-forma financial indebtedness as at 30 June 2010 of $194.1 million (as per note 4) plus bank guarantees provided to Deferred Consideration Beneficiaries of $45 million divided by Normalised EBITDA before non-cash options expense for the 12 month period to 30 June 2010 of $77.3 million. Following payment of the 30 September 2010 Tranche 1 Payment portion of the Deferred Consideration Payments, the pro-forma total leverage ratio will increase to 3.4 times.

6 Capitalisation ratio has been derived as pro-forma financial indebtedness as at 30 June 2010 of $194.1 million (as per note 4) plus pro-forma deferred consideration liabilities of $161.7 million at 30 June 2010 divided by pro-forma financial indebtedness plus pro-forma deferred consideration liabilities plus pro-forma equity as at 30 June 2010 of $357.3 million.

7.7 Foreign Exchange Rate Sensitivities

Photon generates approximately 28% of FY2010F net revenue from outside Australia. Photon's reporting currency is Australian dollars. However, Photon's international operations give rise to an exposure to changes in foreign exchange rates, as the majority of its revenues from countries other than Australia are denominated in currencies other than Australian dollars, most significantly pound sterling and US dollars. In addition, Photon has a significant portion of its bank debt and Deferred Consideration Liabilities denominated in pound sterling and US dollars. Therefore, changes in exchange rates impact Photon's financial indebtedness, quantum of Deferred Consideration Liability and earnings as reported in Australian dollars.

For illustrative purposes, the table below sets out the sensitivity of Photon's estimated future Deferred Consideration Payments, pro-forma debt balance and FY2010F Normalised EBITDA for a 5% movement in the Australian dollar against the actual exchange rates for each of Photon's foreign currency exposures as at 30 June 2010. Movements of greater than 5% will have an additional proportionate effect.

Movement of Australian dollars against each foreign currency	Deferred pro-forma debt balance ($m)	FY2010F Consideration Payments ($m)	Normalised EBITDA ($m)
At actual exchange rates[1]	184.3	176.1	75.1
5% appreciation of Australian dollar against actual exchange rates	(5.7)	(3.5)	(1.3)
5% depreciation of Australian dollar against actual exchange rates	5.7	3.5	1.3

Note:

1 Actual foreign exchange rates at 30 June 2010 used to convert Deferred Consideration Payments and pro-forma debt balance were 1GBP=1.76AUD and 1USD=1.17AUD. FY2010F average foreign exchange rates used to convert FY2010F Normalised EBITDA were 1GBP=1.79AUD and 1USD=1.13AUD.

Section 8

KPMG Transaction Services (Australia) Pty Limited
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The Directors
Photon Group Limited
Level 9
155 George Street
Sydney NSW 2000

17 August 2010

Dear Directors

Investigating Accountant's Report and Financial Services Guide

Investigating Accountant's Report on the Pro-Forma Consolidated Balance Sheet

Introduction

KPMG Transaction Services (Australia) Pty Limited ("KPMG Transaction Services") has been engaged by Photon Group Limited ("Photon") to prepare this report for inclusion in the prospectus to be dated on or around 17 August 2010 ("Prospectus"), and to be issued by Photon.

Expressions defined in the Prospectus have the same meaning in this report.

The Pro-Forma Consolidated Balance Sheet described below and set out in section 7.5 of the Prospectus is provided for illustrative purposes only and is prepared on the assumption that the equity raising has been undertaken. The information on which this report is based is not valid if the proposed equity raising does not occur and as such, the Statements in this report are provided under the assumption that the equity raise does occur within the expected time frames.

Scope

KPMG Transaction Services has been requested to prepare a report covering the Pro-Forma Consolidated Balance Sheet described below and disclosed in the Prospectus in table 7.5.

The Pro-Forma Consolidated Balance Sheet is presented in an abbreviated form in the Prospectus insofar as it does not include all of the disclosures required by the Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

Our review has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions other than Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Review of Pro-Forma Consolidated Balance Sheet

The Pro-Forma Consolidated Balance Sheet, as set out in table 7.5 of the Prospectus, comprises the pro forma balance sheet of Photon as at 31 December 2009 (the "Pro-Forma Consolidated Balance Sheet").

The Pro-Forma Consolidated Balance Sheet has been derived from the historical balance sheet of Photon, extracted from the unaudited financial report of Photon for the six months ended 31 December 2009, after adjusting for the pro forma transactions and/or adjustments described in section 7.5.1 of the Prospectus.

The financial statements of Photon for the six months ended 31 December 2009 were reviewed (but not audited) by KPMG in accordance with Australian Auditing Standards. The review opinion issued to the members of Photon relating to those financial statements was unqualified.

For the purposes of preparing this report we have reviewed the Pro-Forma Consolidated Balance Sheet in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Pro-Forma Consolidated Balance Sheet is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in section 7.5.1 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (including the Australian Accounting Interpretations), and accounting policies adopted by Photon.

We have conducted our review in accordance with Australian Auditing Standards applicable to review engagements. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances, including:

- a review of the extraction of the 31 December 2009 balance sheet of Photon from the reviewed financial report of Photon for the six months ended 31 December 2009;
- analytical procedures on the Pro-Forma Consolidated Balance Sheet of Photon;
- a review of the pro forma transactions and/or adjustments made to the 31 December 2009 balance sheet of Photon;
- a review of Photon's work papers, accounting records and other documents;
- a comparison of consistency in application of the recognition and measurement principles in Australian Accounting Standards (including the Australian Accounting Interpretations), and the accounting policies adopted by Photon; and
- enquiry of directors, management and others.

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

Directors' responsibilities

The directors of Photon are responsible for the preparation and presentation of:

- the 31 December 2009 balance sheet of Photon; and
- the Pro-Forma Consolidated Balance Sheet, including the determination of the pro forma transactions and/or adjustments.

The directors' responsibility includes establishing and maintaining internal controls relevant to the preparation of the financial information in the Prospectus that is free from material misstatement, whether due to fraud or error.

Review statements

Review statement on the Pro-Forma Consolidated Balance Sheet
Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro-Forma Consolidated Balance Sheet, as set out in table 7.5 of the Prospectus, is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in section 7.5.1 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (including the Australian Accounting Interpretations), and accounting policies adopted by Photon.

Independence

KPMG Transaction Services does not have any interest in the outcome of this issue, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Photon and from time to time, KPMG also provides Photon with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

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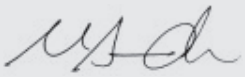
KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Yours faithfully



Matthew Saunders
Director

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Financial Services Guide

Dated 17 August 2010

KPMG Transaction Services (Australia) Pty Limited ABN 65 003 891 718, Australian Financial Services Licence Number 245402 (**KPMG** or **we** or **us** or **our** as appropriate) has been engaged by Photon Group Limited (**Photon**) to provide an Investigating Accountant's Report (**Report**) in relation to the proposed capital raising (**Transaction**) for inclusion in the Prospectus dated 17 August 2010 (**Document**) prepared by Photon.

Purpose of this Guide

This Guide is designed to help retail clients to decide how to use our Report. It includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our licence
- how we and our staff are paid
- any relevant associations or relationships we have
- how complaints are dealt with; and
- the compensation arrangements we have in place.

The Document contains information about significant benefits, risks, fees and other charges and other information about the Transaction.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- Interests in managed investments schemes (excluding investor directed portfolio services)
- Securities (such as shares and debentures).

Our responsibility to you

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. You have not engaged us directly but have received a copy of the Report because of your connection to the Transaction.

We are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in our Report.

General Advice

Our report only contains general advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in our Report having regard to your circumstances before you act on our Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees we may receive

We charge fees for preparing reports. These fees will usually be agreed with, and paid by, the financial product issuer. Fees are agreed on either a fixed fee or a time cost basis. In this instance, Photon has agreed to pay us $1.0 million for preparing the Report.

KPMG and its officers, employees, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

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Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the **KPMG Partnership**). Our directors may be partners in the KPMG Partnership.

From time to time KPMG, the KPMG Partnership and related entities (**KPMG entities**) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have, over the past two years, provided a range of audit, tax and advisory services to Photon for which professional fees have been received. In relation to the Transaction, in addition to the fees received in preparing the Report, KPMG has also received $0.3 million in relation to due diligence services. No KPMG entity has any interest in Photon.

Remuneration or other benefits received by our representatives

KPMG officers, employees and representatives receive a salary or a partnership distribution from the KPMG Partnership. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let us know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 5 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise you in writing of our response to your complaint.

External complaints resolution process

If we cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service **(FOS)** of which we are a member. FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au.

The Australian Securities and Investment Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG has professional indemnity insurance cover as required by the Corporations Act.

Contact details

You may contact us using the contact details set out at the top of the letterhead on the first page of this Guide.

Section 9

9.1 Introduction

This Section identifies the areas that are believed to be the major risks associated with an investment in Photon Shares. These risks can be broadly categorised as general risks of investing in the stock market, risks relating to the Recapitalisation Proposal and risks specific to an investment in Photon. Each of the risks outlined may impact on Photon's future performance and the market price at which its Shares trade. Many of these risks are difficult to predict and are outside the control of Photon and its Directors. Prospective investors should note that this list of risks is not exhaustive.

Before taking up the Offer or investing in Photon, prospective investors should read the entire Prospectus and carefully consider these risk factors. Investors should have regard to their own investment objectives and financial circumstances and should seek professional guidance from their stockbroker, solicitor, accountant or other professional adviser before deciding whether or not to invest.

9.2 Risks associated with the Recapitalisation Proposal

9.2.1 Impact of Recapitalisation Proposal and suspension from trading on ASX

Photon's Shares were suspended from trading from 9 June 2010 to the date of lodgement of this Prospectus to enable Photon to complete its capital review and are expected to resume trading following completion of the Institutional Offer on 17 August 2010. The period during which Photon has been suspended from trading on ASX to undertake the Recapitalisation Proposal has created uncertainty which may have had a material adverse impact on the operating performance, existing client relationships, future potential client relationships and employee relationships. Management is working to minimise any potential impact, however it could impact Photon's future operating performance and financial position.

9.2.2 Recapitalisation Proposal no guarantee of future performance

The successful completion of the Equity Raising will enable Photon to pay down part of its debt, pay the Tranche 1 Payment portion of the restructured Deferred Consideration Payments due in or about September 2010 and cover Transaction Costs (refer to Section 7.5.1). While the Equity Raising is necessary to address Photon's current capital requirements, it does not guarantee success of Photon's future financial performance. As described in Section 6.3, Photon has recently completed a review of its operational strategy and structure and has restructured the business to exploit strengths and reduce complexity. In the event the Recapitalisation Resolutions are passed and the Equity Raising is successful, there can be no guarantee that Photon will meet its strategic objectives.

However, if there is further deterioration in Photon's financial performance, there is a risk that Photon will breach its debt facility financial covenants and will not be able to meet future Deferred Consideration Payments.

9.2.3 Dilution

The Recapitalisation Proposal, including the Equity Raising, will result in the issue of up to approximately 1,516.2 million New Shares. This will mean that the percentage holdings in Photon of Shareholders may be diluted, even if they participate in the Shareholder Offer, and this dilution may be significant. Examples of the dilutionary impact of the Recapitalisation Proposal are set out in Section 1.5.6

9.2.4 Restrictions on dividends

Photon is subject to certain restrictions on the payment of future dividends under its New Facilities and the terms of the Deferred Consideration Restructure. Under these agreements, Photon cannot pay a dividend until after 30 September 2012 and then, only if the following two conditions are met:

- the leverage ratio is below 2.25 times; and
- all Tranche 3A Payments and Tranche 3B Payments have been made, guaranteed or cease to be payable.

The latest potential final Sunset Date for the Tranche 3A Payments and Tranche 3B Payments is 30 September 2018.

9.2.5 Retention of key personnel

Service providers operating in the marketing and communications services industry are highly dependent on the talent, creative abilities and technical skills of their personnel and the relationships their personnel have with clients. Photon believes that its Operating Entities have established reputations in the industry that allow them to attract talented personnel, as well as having structures for retaining and motivating existing employees. However, Photon, like all service providers, is vulnerable to adverse consequences from the loss of key employees. Employees may choose to resign or leave the business, including due to competition among providers of marketing and communications services for talented personnel.

There is a risk that following payment of Deferred Consideration Payments, employees may choose to resign or leave the business, which may have an adverse consequence for Photon. To mitigate the potential adverse impact on Photon, service contracts with key employees typically contain provisions to protect Photon's business, clients and employees for a period of six to 12 months following an employee's departure.

Non-compete and restraint provisions
It is a term of certain Deferred Consideration Restructure Agreements that existing non-compete and restraint provisions applicable to Deferred Consideration Beneficiaries will no longer apply if certain events occur, namely if an insolvency event occurs in respect of Photon or where Photon is in breach of its obligations to make payments under the Deferred Consideration Restructure Agreements.

Potential sale of Naked Communications
As part of the Deferred Consideration Restructure Agreement with Naked Communications Limited ("Naked"), Photon and Naked have agreed to use reasonable endeavours to agree to a new long-term incentive scheme within a specified time period. If agreement is not reached within this time, the Naked Deferred Consideration Beneficiaries may elect to either acquire the Naked group, or require Photon to initiate a competitive sale process for the Naked group. Please refer to Section 11.6.6 for more details.

9.2.6 Litigation risk

The Offer Price under the Equity Raising is substantially less than the prices at which Photon Shares traded prior to the suspension of trading in Photon Shares on 9 June 2010. There is a risk of regulatory review or claims by Shareholders or other third parties as a result of the circumstances surrounding the increase in the level of Photon's liabilities, including the Deferred Consideration Liability, the decline in Photon's earnings or other aspects of the decline in the price and value of Photon Shares. Such actions or claims could have a material adverse effect on Photon or on the ability of Photon to complete the Recapitalisation Proposal.

9.2.7 Inability to complete the Recapitalisation Proposal

Photon may not be able to complete the Recapitalisation Proposal if:

- the Recapitalisation Proposal Resolutions are not passed;
- the New Facilities are not entered into, the conditions precedent to those New Facilities are not satisfied or waived, or the New Facilities are terminated;
- the Underwriting Agreement is terminated; or
- bank guarantees are not provided to the Deferred Consideration Beneficiaries in respect of certain Tranche 1 payments under the Deferred Consideration Restructure.

If the Recapitalisation Proposal does not proceed, and an alternative restructure or waiver agreement is not agreed with Photon's lender and the Deferred Consideration Beneficiaries, Photon will not be in a position to meet cash Deferred Consideration Payments due on or around 30 September 2010 and Photon will be in breach of financial covenants under its debt facilities at 30 September 2010. If the Recapitalisation Proposal does not proceed, Photon will refund any Application Monies (without interest).

9.3 Specific risks relating to Photon's operations

There are also a number of specific risk factors that relate to Photon, including, but not limited to, those set out below.

9.3.1 Operational restructure

Photon is undergoing an operational restructure which aims to drive greater collaboration around customer needs, improve operational efficiencies and better leverage management expertise. Photon may not be successful in the execution of this restructure and may not realise the targeted benefits from some or all of the restructure initiatives. Failure to do so may affect Photon's future financial performance and position. Photon has conducted a detailed review of the corresponding restructuring costs required (outlined in Section 7.5.1) and has provisioned $6.2 million in the FY2010F financial results for redundancies and onerous leases resulting from the restructure. If these costs exceed current provisions, it could affect Photon's future operational performance and financial position. The inability to successfully execute the restructure could arise as a result of a number of reasons, including, but not limited to the following:

- reorganisation of reporting lines: the operational restructure will change the day-to-day responsibilities of staff, and as such there is risk around the performance of their new responsibilities. Additionally there may be dissatisfaction among some staff as a result of the reorganised reporting lines and responsibilities;
- integration of businesses: the operational restructure requires the integration of certain functions between businesses in order to be able to achieve the targeted benefits described. There is a risk around the successful execution of the integration that could arise from a number of potential causes, including, but not limited to, dissatisfaction of affected staff and systems risks; and
- retention and incentivising staff: the Deferred Consideration Restructure may result in dissatisfaction among certain affected staff.

9.3.2 International business risk and exchange rates

Photon and the Operating Entities operate in 14 countries with approximately 28% of FY2010F net revenue generated outside Australia. Photon's reporting currency is Australian dollars. However, Photon's significant international operations give rise to an exposure to changes in foreign exchange rates, as the majority of its revenues from countries other than Australia are denominated in currencies other than Australian dollars. Therefore, changes in exchange rates could adversely affect Photon's profitability as reported in Australian dollars. Further, Photon's international operations are subject to a number of risks inherent in operating in different countries, including, but not limited to, risks regarding:

- restrictions on repatriation of earnings; and
- changes in a specific country's or region's political or economic conditions.

The occurrence of any of these events or conditions could adversely affect Photon's profitability and its ability to increase or maintain its operations in various countries.

In addition, Photon has a significant portion of its bank debt and Deferred Consideration Liabilities denominated in pound sterling and US dollars.

Please refer to Section 9.3.3 below for further details of Photon's debt denominated in foreign currency, and Section 7.7 for exchange rate sensitivities.

9.3.3 Breaching of debt covenants

Photon has agreed to the financial covenants set out in Section 11.8 in relation to the New Facilities. On 30 June 2010 Photon's pro-forma interest cover ratio is expected to be 4.7 times and the interest cover ratio covenant is 3.0 times. The Capitalisation ratio is expected to be 49.9% and the Capitalisation covenant is 55%, stepping down to 50% on 1 January 2012. After the Recapitalisation Proposal and making Tranche 1 Payments due on or around 30 September 2010, Photon's leverage ratio is expected to be approximately 2.8 times and the leverage ratio covenant is 3.5 times, stepping down to 3.0 times on 1 January 2012 (refer to Section 7.6). Movement in base interest rates, exchange rates or deterioration in Photon's financial performance (including impairments) or ability to generate operating cash flow could lead to Photon approaching or breaching its covenants. In such a case, the lender may require that the loans are repaid immediately.

Exchange rates

Photon's debt denominated in foreign currency is as follows:

- Australian dollar: A$70.1 million and increasing by A$22.5 million after making Tranche 1 Payments due on or around 30 September to A$89.8 million
- Pound sterling: £47.2 million, converted 1GBP=1.76AUD translates to A$83.1 million
- US dollar: US$26.6 million, converted at 1USD=1.17AUD translates to A$31.1 million

Please refer to Section 7.7 for exchange rate sensitivities.

Earnings and business performance

After the Recapitalisation Proposal and making Tranche 1 Payments due on or around 30 September 2010 total debt drawn is expected to be $206.8 million. Total cash advance facilities available to Photon under the New Facilities will be $230.0 million. Tranche 1 Payments due after 30 September 2010 could be $44.1 million. While Photon expects the cash advance facilities, along with operating free cash flow generated by the business, to provide capacity to make future Deferred Consideration Payments which are to be settled in cash, a decline in business performance could adversely impact Photon's operating cash flow and earnings and as such adversely impact Photon's ability to remain compliant with debt covenants.

Interest rates
Post the Recapitalisation and making Tranche 1 Payments due on or around 30 September 2010 total debt drawn is expected to be $206.8 million. Photon's weighted average borrowing cost is 7.1%. A change of 100 basis points in the weighted interest rates, and assuming a drawn debt balance of $206.8 million would cause a $2.1 million increase or decrease in Photon's interest expense.

9.3.4 Current and additional capital requirements

Photon has agreed with its lender to refinance its existing $280 million debt facilities (currently drawn to $274 million) with $230 million cash advance facilities and a $45 million bank guarantee facility ("**New Facilities**"). The New Facilities will have a term of three years and covenants and margins are substantially in line with the covenants and margins of Photon's previous facilities.

There is no assurance that additional funding will be available to Photon in the future on acceptable terms. If adequate funds are not available or Photon is unable to generate sufficient operating cash flow, Photon may not be able to meet future funding obligations, develop new business concepts, satisfy existing contractual obligations or otherwise respond to competitive pressures. Photon will be reliant on continuing operational cash flows, after meeting the working capital requirements of the operating businesses, to pay down debt in order to meet future Deferred Consideration Payments.

There is a refinancing risk that a replacement debt facility will not be available or will not be available on terms as attractive to Photon as its previous borrowing facilities. If Photon is not able to refinance these obligations when they fall due or is not able to generate sufficient operating cash flow, it could have a materially adverse impact on Photon's financial position and its ability to meet its capital requirements.

9.3.5 Asset value impairment

Photon has a significant amount of acquired goodwill and other acquired intangible assets recorded on its balance sheet. As at 31 December 2009 the Pro-forma Unaudited goodwill and intangibles balance was $662.5 million. Photon annually tests the carrying value of goodwill and other intangibles for impairment for each of its cash generating units. In FY2010F, Photon has incurred an impairment charge of $88.9 million as a result of a fall in the recoverable value of Photon's goodwill and other intangibles in the search marketing segment. The impairment was a result of the underperformance of the earnings of the search engine marketing companies in FY2010. The earnings and cash flow outlook for the remainder of the cash generating units resulted in a recoverable value for goodwill and other intangible assets in excess of the carrying value at 30 June 2010 and Photon presently has no reason to believe that there will be material impairments in FY2011. However, this cannot be guaranteed. Any further impairment could have a material impact on Photon's financial position and ability to comply with financial covenants, profitability and ability to pay dividends.

Photon's working capital, including debtors and work in progress, is subject to testing for recoverability from time to time. In FY2010F, Photon incurred a $4.3 million charge relating to the impairment of working capital as a result of adverse economic conditions and changes to the operating model of certain businesses. Any further significant impairment of working capital will impact Photon's financial position and performance.

9.3.6 Potential for losses in Operating Entities

Photon's future financial success is ultimately dependent upon the profitability of the Operating Entities. The potential for losses in the Operating Entities as a result of either reductions in revenue, increases in costs or entering into unprofitable business models remains a risk for Photon. Photon seeks to maintain control and supervision of its operating and financial systems and manage its employees to try and maximise the profitability of the Operating Entities. In FY2010F Photon closed or sold a number of business units, including Geekdom and Geekversity, which together generated $13.0 million of losses prior to being discontinued or sold. Future operating results depend to a large extent on management's ability to successfully manage and implement group strategy, organically grow the Operating Entities and manage corporate overhead costs according to budget.

9.3.7 Client contracts

In the marketing and communications services industry, service agreements with clients are generally terminable by the client upon short notice, typically less than three months. Some clients also put their marketing and communications contracts up for competitive bidding at regular intervals. Clients are generally able to reduce advertising and marketing spending or cancel projects at any time for any reason. Photon and its Operating Entities rely upon personal relationships with a large number of clients within the marketing and communication services industry in order to maintain and grow their earnings. A significant reduction in spending by key clients, or the loss of key clients or a suite of clients in a particular industry segment, could adversely affect Photon's prospects, business, financial condition and results of operations.

9.3.8 Competitive industry

Photon and its Operating Entities are subject to vigorous competition from other operators within the marketing and communication services industry. Their competitors in the industry include both the large internationally aligned groups and local specialist firms. The competitive environment may result in Photon experiencing client loss. Many clients do not permit a company working for them to represent competing accounts or product lines in the same market. These client conflict policies can and sometimes do prevent Photon from seeking and winning new client assignments.

9.3.9 Adverse interest rate movements

Photon will continue to be exposed to adverse interest rate movements to the extent that underlying borrowings have a floating interest rate exposure that is not hedged. Photon currently has approximately 85% of its total interest rate exposure over the next 12 months subject to movements in interest rates, including Australian dollar interest rates, pound sterling interest rates and US dollar interest rates. There is a risk that adverse interest rate movements may have a material adverse impact on Photon's profitability.

9.3.10 Litigation risk

The provision of services by Photon's Operating Entities carries with it the risk of liability for losses arising from their work, including indirect or consequential losses suffered by third parties. Where possible, Photon and the Operating Entities will seek to limit their liability contractually to the extent permitted by the law and it will maintain adequate levels of professional indemnity insurance. However, Photon's insurance and contractual arrangements may not adequately protect it against all potential claims, and any losses falling outside the scope of insurance or contractual limits may adversely affect the earnings of Photon.

Photon has received claims from consumer clients in relation to services provided by its Geekversity business in 2009. This business was sold in December 2009. To date, where claims have been made by former consumer clients, these have been resolved by management at a cost which is included in the FY2010F significant items. Any future potential claims in excess of those which have been provided for in FY2010F may have an adverse impact on Photon's financial performance and financial position

9.3.11 FY2010F Financial Information

Photon's actual financial results for FY2010F may differ from guidance provided.

Photon's earnings guidance for the year ended 30 June 2010 is based on the key assumptions outlined in Section 7.2. Photon's audited financial results for the financial year ended 30 June 2010 are due to be released in September 2010 and may differ from the FY2010F Forecast Financial Information provided. In particular, Photon's financial results for the year ended 30 June 2010 are subject to finalisation of Photon's accounts and completion of the 30 June 2010 audit process.

As such, Photon's actual financial results for the year ended 30 June 2010 may differ from the guidance provided.

9.3.12 Intellectual property and proprietary rights

Some Operating Entities have invested significantly in the development of their information technology platforms, intellectual property, proprietary processes and systems. There can be no guarantee that unauthorised use or copying of the Operating Entities' intellectual property or proprietary rights will be prevented. Such unauthorised use or copying of the Operating Entities' intellectual property or proprietary rights may adversely effect Photon's profitability and financial position.

9.3.13 Regulatory risk

Photon and its Operating Entities are required to comply with a variety of legal and regulatory regimes, including in relation to regulation governing privacy, electronic mail, online and mobile communications, direct sales and marketing, and advertising of certain products and services. Photon is not in a position to foresee the impact that future regulation or changes in the interpretation or operation of existing regulation may have on its Operating Entities. Such changes could have an adverse effect on Photon's business and financial performance.

9.3.14 Unfavourable economic conditions

Photon's business is affected by downturns in general economic conditions, changes in clients' underlying businesses and decreases in marketing and communications budgets. Downturns in general economic conditions may adversely affect the businesses of Photon's Operating Entities' clients, which can have the effect of reducing the amount of services they purchase from Photon's Operating Entities and thus can materially adversely effect Photon's consolidated results of operations.

9.4 General risks

9.4.1 Share market fluctuations

As with all stock market investments, there are risks associated with an investment in Photon. Share prices may rise or fall due to a number of macroeconomic factors including:

- general economic conditions in both Australia and internationally;
- investor sentiment and local and international share market conditions;
- changes in interest rates and the rate of inflation;
- the global security situation and the possibility of terrorist disturbances;
- changes to government regulation, policy or legislation;
- changes which may occur to the taxation of companies as a result of changes in Australian and foreign taxation laws;
- changes to the system of dividend imputation in Australia; and
- changes in exchange rates.

The share prices for many companies have in recent times been subject to wide fluctuations, which in many cases may reflect a diverse range of non-company specific influences including the above factors. Such market factors may have a material adverse effect on the market price of Shares.

9.4.2 Liquidity and realisation

There may be relatively few or many potential buyers or sellers on ASX at any given time, including short sellers. This may affect or cause volatility in the market price of Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid.

9.4.3 Changes in economic, legal and regulatory environment

Photon's operating and financial performance is influenced generally by a variety of general economic and business conditions, including the level of inflation, interest rates, exchange rates, commodity prices and government fiscal, monetary and regulatory policies. Prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer business demand, could be expected to have a corresponding adverse impact on Photon's earnings and financial performance.

Changes to laws and regulations or accounting standards, which apply to Photon from time to time, could also have a material impact on the operating and financial performance and the cash flows of Photon and change the relative attractiveness of investing in the Shares.

Section 10

10.1 Australian taxation implications for Eligible Retail Shareholders

The taxation and duty consequences of any investment in the New Shares will depend on the investor's particular circumstances. It is the responsibility of Eligible Shareholders to make their own enquiries concerning the taxation consequences of an investment in Photon. If you are in doubt as to the course you should follow, you should seek professional advice from your accountant, financial adviser, lawyer or other professional adviser. For further information in relation to the tax treatment of your investment, you should seek professional advice.

Set out below is a general summary of the Australian income tax, Goods and Services Tax ("**GST**") and stamp duty implications of the Shareholder Offer for Eligible Retail Shareholders who are residents of Australia for tax purposes and who hold their Photon Shares as capital assets. The summary below does not necessarily apply to Eligible Retail Shareholders who hold their Photon Shares as revenue assets or trading stock or as assets used in carrying on a business or who may carry on the business of share trading, banking or investment.

The summary below does not necessarily apply to Eligible Retail Shareholders whose Photon Shares are held through an employee share plan.

The summary below also does not take account of any individual circumstances of any particular Eligible Retail Shareholder, including those Eligible Retail Shareholders who are not Australian residents for tax purposes. Eligible Retail Shareholders should seek specific advice applicable to their own particular circumstances from their own accountant, financial adviser, lawyer or other professional adviser. The summary below is based on the law in effect as at the date of the Prospectus.

The summary does not take into account any further changes in law regarding income tax, GST or duties (either prospectively or retrospectively) or future judicial interpretations of law, nor does it take into account the application of tax or duty legislation in foreign jurisdictions.

10.2 Rights to acquire New Shares under the Shareholder Offer

The rights to acquire New Shares under the Shareholder Offer should not have a tax consequence and no amount should be included in the assessable income of Eligible Retail Shareholders at the time the rights under the Shareholder Offer are granted.

10.3 Acquiring New Shares under the Shareholder Offer

Where Eligible Retail Shareholders apply for New Shares under the Shareholder Offer:

- the rights under the Shareholder Offer will cease to exist and a Capital Gains Tax ("**CGT**") event will occur. Any capital gain or loss made under the Shareholder Offer should, however, be disregarded for income tax purposes;
- the New Shares acquired under the Shareholder Offer should be treated for CGT purposes as having been acquired when the Eligible Retail Shareholders exercised their rights under the Shareholder Offer; and
- the New Shares should have a cost base for CGT purposes equal to the Offer Price paid for the acquisition of the New Shares, plus any non-deductible incidental costs incurred in acquiring the New Shares.

10.4 Allowing rights under the Shareholder Offer to lapse

Under the Shareholder Offer, the rights of Eligible Retail Shareholders to subscribe for New Shares are not tradable and may not be assigned. An Eligible Retail Shareholder's rights may lapse by the Eligible Retail Shareholder not taking them up through inaction, but Eligible Retail Shareholders may otherwise not dispose of their rights. In circumstances where the rights under the Shareholder Offer lapse, the Eligible Retail Shareholders will not acquire any New Shares under the Offer and will not receive any consideration in respect of the lapsing of the rights. On this basis, the Eligible Retail Shareholders should not have any taxation consequences as a result of the rights under the Shareholder Offer they receive.

10.5 New Shares

Eligible Retail Shareholders who apply for New Shares under the Shareholder Offer will acquire New Shares. Any future dividends or other distributions made in respect of those New Shares should be subject to the same taxation treatment as dividends or other distributions made on Existing Shares held in the same circumstances (note that the actual date of acquisition of the New Shares will be relevant for the application of certain integrity rules that are based on ownership periods such as the "45 day holding period" rule).

On any future disposal of New Shares, Eligible Retail Shareholders may make a capital gain or capital loss, depending on whether the capital proceeds of that disposal are more than the cost base or less than the reduced cost base of the New Shares, respectively. The cost base of those New Shares is described above. New Shares should be treated for the purposes of the CGT discount (where relevant) as having been acquired when the Eligible Retail Shareholder exercised their rights under the Shareholder Offer. Accordingly, in order to benefit from the CGT discount in respect of a disposal of those shares, they must have been held for at least 12 months after the date of exercise before the disposal occurs.

10.6 Other Australian taxes

No Australian GST or stamp duty should be payable in respect of the grant of the rights or the application for New Shares under the Shareholder Offer or the acquisition of New Shares.

Section 11

11.1 Introduction

This Section sets out a number of matters of which you should be aware that have not been addressed in detail elsewhere in this Prospectus. It gives details of the availability of certain other important documents and a summary of some of these documents that are relevant for your investment decision. In addition, certain other prescribed details in respect of the Shareholder Offer and the Placement are set out in this Section.

11.2 Nature of this document

This Prospectus is a prospectus for continuously quoted securities to which the special content rules under section 713 of the Corporations Act apply. That provision allows the issue of a more concise prospectus in relation to offers of securities in a class which has been continuously quoted by ASX for the three months prior to the date of the prospectus. Existing Shares and New Shares in Photon meet these criteria.

The information in this Prospectus principally concerns the terms and conditions of the Offer and information necessary for investors and their professional advisers to make an informed assessment of:

- the effect of the Recapitalisation Proposal on Photon; and
- the rights and liabilities attaching to New Shares.

This Prospectus contains information only to the extent to which it is reasonable for investors and their professional advisers to expect to find the information in it. It does not include all of the information that would be included in a prospectus for an initial public offering of shares.

As an ASX listed company, Photon has provided ASX with a substantial amount of information regarding its activities and that information is publicly available. This Prospectus is intended to be read in conjunction with that publicly available information. Therefore, Eligible Retail Shareholders who are considering subscribing for New Shares should also have regard to that publicly available information before making any investment decision.

This Prospectus incorporates the Notice of Meeting by reference. The Notice of Meeting contains information in relation to the Recapitalisation Resolutions.

11.3 Reporting and disclosure obligations

Photon is a "disclosing entity" (as defined in section 111AC of the Corporations Act) for the purposes of section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, Photon is required to continuously disclose to ASX any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of Photon's securities. Photon is also required to prepare and lodge with ASIC and ASX both yearly and half yearly financial statements accompanied by a Director's declaration and report and an audit or review report.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

11.4 Availability of other documents

Copies of documents lodged with ASIC in relation to Photon may be obtained from, or inspected at, the offices of ASIC.

Photon will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Allotment Date:

- the annual financial report for the 12 months ended 30 June 2009, being the annual financial report most recently lodged by Photon with ASIC;
- the half yearly financial report for the six months ended 31 December 2009 lodged by Photon with ASIC, being the half yearly financial report most recently lodged by Photon with ASIC;
- any continuous disclosure notices given to ASX by Photon after the lodgement of the annual financial report referred to above and before the date of lodgement of this Prospectus with ASIC; and
- the Notice of Meeting.

If you would like to receive a copy of any of these documents or publications, please contact the Offer Information Line on 1300 706 274 (toll free, callers in Australia) or +61 3 9938 4338 (callers outside Australia).

The above information may also be obtained from ASX's website www.asx.com.au.

11.5 Underwriting Agreement

This Section contains a summary of the fee, warranty, indemnity, conditions and termination provisions of the Underwriting Agreement.

11.5.1 Appointment of Joint Lead Managers

Photon has entered into the Underwriting Agreement pursuant to which the Joint Lead Managers have agreed to underwrite the Shareholder Offer and the Placement, up to a maximum amount of $102.5 million. The Joint Lead Managers may, at any time, appoint sub-underwriters in respect of the Equity Raising.

Pursuant to the Underwriting Agreement, Photon has also appointed the Joint Lead Managers to act as lead managers of the Equity Raising and to market and promote the Equity Raising. The Joint Lead Managers may, at any time, appoint co-managers in respect of the Equity Raising.

11.5.2 Conditions

The Underwriters' obligations under the Underwriting Agreement are subject to certain conditions being fulfilled or waived.

Further, the obligations of the Underwriters to underwrite the Placement and Pro-Rata Component of the Equity Raising are subject to certain conditions being fulfilled or waived, including:

- ASX having granted waivers of the Listing Rules which are required to enable Photon to undertake the Equity Raising and not having withdrawn or modified those waivers by 10.00am on the date of settlement of the Offer;
- ASIC having granted modifications or declarations having been made by ASIC which are required to enable Photon to undertake the Equity Raising, and ASIC not having withdrawn or modified those waivers at or before 10.00am on the date of Settlement of the Offer;
- ASX reinstating the quotation of Shares by 10.00am on the Business Day following the close of the Institutional Shareholder Offer;
- the General Meeting being held and the resolutions set out in the Notice of General Meeting being passed no later than by 17 September 2010; and
- Photon confirming by 9.00am on the date of settlement of the Offer that it has complied with its obligations under the Underwriting Agreement in respect of the Equity Raising, that no event giving rise to a termination right has occurred, that each of the conditions have been satisfied and that the representations and warranties given by Photon remain true and correct.

11.5.3 Representations and Warranties

Photon gives various customary representations and warranties to the Underwriters under the Underwriting Agreement, including that:

- this Prospectus (and any related document) complies with the Corporations Act and the Listing Rules and that this Prospectus (and any related document) is not misleading or deceptive or likely to mislead or deceive;
- Photon is not in breach of any provision of Chapter 3 of the Listing Rules; and
- the Offer Shares will be validly issued and allotted, fully paid and free from all liens, charges and other encumbrances (other than those in the Constitution).

11.5.4 Fees, costs and expenses

On the Settlement Date, Photon must pay in immediately available funds to each Underwriter:

- an underwriting fee of $2.25 million; and
- an offer management and advisory fee of $550,000.

A discretionary advisory fee of $200,000 is payable on 31 December 2010 is payable to each Underwriter in Photon's absolute discretion.

If Photon withdraws this Prospectus or all or any part of the Offer:

- as a result of a failure to satisfy a condition to the Recapitalisation Proposal as set out in this Prospectus, Photon must pay to the Underwriters the $550,000 fee referred to above as if the Offer Shares had been allotted; and
- other than as a result of a failure to satisfy a condition to the Recapitalisation Proposal as set out in this Prospectus, Photon must pay to the Underwriters the $2.25 million and $550,000 fees referred to above as if the Offer Shares had been allotted.

Photon is also responsible for the costs and expenses of, and any costs and expenses incidental to, the Offer incurred by the Underwriters.

11.5.5 Termination events

(a) Termination events not linked to materiality

Each Underwriter may terminate all of its further obligations under the Underwriting Agreement if any of the following events occur at any time before completion of the Equity Raising:

- **Prospectus:** this Prospectus contains a statement which is or becomes misleading or deceptive or is likely to mislead or deceive, omits any information required by the Corporations Act or any other applicable law, or otherwise fails to comply with the Corporations Act or any other applicable law or the issue or distribution of this Prospectus is misleading or deceptive or likely to mislead or deceive.
- **Supplementary Offer Document:** if:
  - at any time on or after the open of the Institutional Shareholder Offer, a new circumstance has arisen that would have been required to be included in this Prospectus if it had arisen before the date of this Prospectus and that is materially adverse from the point of view of an investor; and/or
  - any supplementary or replacement prospectus to this Prospectus (other than a replacement prospectus lodged with ASIC solely for the purposes of disseminating the results of the Institutional Shareholder Offer) must in the reasonable opinion of any Underwriter be lodged with ASIC under section 719 of the Corporations Act; or
  - Photon lodges any supplementary or replacement prospectus to this Prospectus (other than a replacement prospectus lodged with ASIC solely for the purposes of disseminating the results of the Institutional Shareholder Offer) without the prior written approval of an Underwriter.
- **Market fall:** the S&P/ASX 200 Index:
  - at any time before 12.00pm on the day following the close of the Institutional Shareholder Offer, falls to a level that is 10% or more below the level of that index at market close on the Business Day immediately preceding the date of the Underwriting Agreement; or
  - closes, on any two consecutive Business Days before the date of settlement of the Offer or on the Business Day immediately prior to that date, at a level that is 15% or more below the level of that index at market close on the Business Day immediately preceding the date of the Underwriting Agreement.
- **Quotation of Offer Shares:** approval is refused or not granted by ASX (or approval is granted subject to conditions, which in the reasonable opinion of the Underwriters, have a material adverse effect on the success or settlement of the Offer) for official quotation of the Offer Shares or is granted and then withdrawn, or ASX makes an official statement to any person or indicates to Photon or the Underwriters that official quotation of the Offer Shares will not be granted.
- **ASIC action:** ASIC does any of the following:
  - gives notice of an intention to hold a hearing under section 739(2) of the Corporations Act or issues an order under section 739(1) of the Corporations Act or an interim order under section 739(3) of the Corporations Act or ASIC applies for an order under sections 1324B or 1325 of the Corporations Act in relation to the Offer or this Prospectus (or any related documents) or gives notice of an intention to prosecute Photon or any Directors (in each case, other than where the relevant hearing, order, notice or application is notified during the Institutional Shareholder Offer or in the two Business Days immediately prior to the Settlement of the Equity Raising) where the relevant hearing, order, notice or application is not withdrawn within two Business Days without the matter having been made public); or
  - applies for an order under Part 9.5 of the Corporations Act in relation to the Offer or this Prospectus (or any related documents) (and, other than where the application is made during the Institutional Shareholder Offer or in the two Business Days immediately prior to the Settlement of the Equity Raising, the application is not withdrawn within two Business Days without the matter having been made public);
  - commences any investigation or inquiry, or, it or any third party commences any action, in respect of or arising from the obligations of Photon under section 674 of the Corporations Act (and, other than where the investigation, inquiry or action is commenced during the Institutional Shareholder Offer or in the two Business Days immediately prior to the Settlement of the Equity Raising, the investigation, inquiry or action is not withdrawn within two Business Days without the matter having been made public); or

  - commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or this Prospectus (or any related documents) (and, other than where the investigation or hearing is commenced during the Institutional Shareholder Offer or in the two Business Days immediately prior to the Settlement of the Equity Raising, the investigation or hearing is not withdrawn within two Business Days without the matter having been made public).
- **Consent:** if any person (other than an Underwriter) whose consent to the issue of this Prospectus is required by the Corporations Act, or who has previously consented to be named in this Prospectus, withdraws such consent.
- **Certificate:** a certificate which is required to be furnished by Photon under the Underwriting Agreement is not furnished when required or a statement in that certificate is untrue, incorrect or misleading or deceptive.
- **Timetable:** any event specified in the Offer timetable agreed with the Underwriters is delayed for more than two Business Days without the prior written approval of the Underwriters.
- **Listing:** Photon ceases to be admitted to, or is removed from, the official list of ASX.
- **Director:** a Director:
  - is charged with an indictable offence relating to any financial or corporate matter, or fraudulent or misleading or deceptive conduct, or any regulatory body or government agency commences any public action against the Director in his or her capacity as a Director or announces that it intends to take any such action; or
  - is disqualified from managing a corporation under sections 206B, 206C, 206D, 206E, 206EA, 206F or 206G(5) of the Corporations Act.
- **Withdrawal:** Photon withdraws this Prospectus or indicates that it does not intend to proceed with all or any part of the Offer.
- **ASX waivers and ASIC modifications:** ASX withdraws, revokes, qualifies or amends any waiver of the Listing Rules granted by ASX to enable Photon to undertake the Equity Raising, or ASIC withdraws, revokes, qualifies or amends any modification of the Corporations Act granted by ASIC to enable Photon to undertake the Equity Raising.
- **Insolvency:** any member of the Group is insolvent or there is an act or omission which is likely to result in any member of the Group becoming insolvent.
- **Section 730 notice:** any person, other than the Underwriter who seeks to terminate, gives a notice under section 730 of the Corporations Act.
- **Illegality:** it becomes illegal for the Underwriter to satisfy an obligation under the Underwriting Agreement, or to market, promote or settle the Offer in accordance with the Underwriting Agreement, except to the extent arising from:
  - an act or omission of the Underwriter; or
  - the application of the takeovers panel provisions of the Corporations Act.
- **CEO or CFO:** there is a change in the identity of Photon's Chief Executive Officer or Chief Financial Officer.

(b) Termination events which are linked to materiality
Each Underwriter may terminate all of its further obligations under the Underwriting Agreement if any of the following events occur at any time before completion of the Offer.

- **Adverse change:** there is an adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of Photon or the Group (insofar as the position in relation to any entity in the Group affects the overall position of Photon).
- **Change in law:** there is introduced into the Parliament of the Commonwealth of Australia or any State or Territory of Australia a law or prospective law or any new regulation is made under any law, or a government agency or the Reserve Bank of Australia adopts a policy, or there is any official announcement on behalf of the Government of the Commonwealth of Australia or any State or Territory of Australia or a government agency that such a law or regulation will be introduced or policy adopted (as the case may be) other than a law or policy which is announced before the date of the Settlement of the Equity Raising.
- **Litigation:** there is an action, dispute, claim, demand, investigation, inquiry, prosecution, litigation, proceeding, arbitration, mediation, dispute resolution, judgment, order or decree brought, pending, threatened or anticipated, against any member of the Group.
- **Breach:** Photon fails to perform or observe any of its obligations under the Underwriting Agreement.
- **Representation and warranties:** a representation or warranty made or given (or deemed to be made or given) by Photon under the Underwriting Agreement is breached or proves to be, or has been, or becomes, untrue or incorrect.

- **Deferred Consideration Restructure:** any party to a Deferred Consideration Restructure Agreement breaches, makes a public statement evincing an intention to breach, seeks to amend or withdraws its acceptance of, the terms of the Deferred Consideration Restructure.
- **Debt facilities:** other than as otherwise disclosed:
  - Photon breaches, or defaults under, any provision, undertaking, covenant or ratio of the Existing Facilities Agreement or any related documentation to which that entity is a party and that breach or default has a material adverse effect on the Group;
  - an event of default, potential event of default, review event or other similar event occurs or in respect of the Existing Facilities Agreement or related documentation, which is notified by the lender or financier in writing to the Group as having occurred, which gives that lender or financier the right to accelerate or require repayment of the debt of financing before its stated maturity; or
  - any material financial accommodation under the Existing Facilities Agreement is withdrawn, the terms of the Existing Facilities Agreement are amended (other than as contemplated in this Prospectus) or Photon gives any consents or waives any of its rights under the Existing Facilities Agreement without the prior written consent of the Underwriters.
- **Hostilities:** hostilities commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, any member state of the European Union, the United Kingdom, North or South Korea, Indonesia, Japan, Russia or the People's Republic of China, or a national emergency is declared by any of those countries, or a major terrorist act is perpetrated anywhere in the world.
- **Change in management:** there is a change in the senior management of any member of the Group or any Directors.
- **Prescribed Occurrence:** an event set out in section 652C of the Corporations Act occurs in respect of any member of the Group.
- **Disruption in financial markets:** any of the following occurs:
  - a general moratorium on commercial banking activities in Australia, Hong Kong, Singapore, the United States of America or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries;
  - trading in all securities quoted or listed on ASX, the London Stock Exchange or the New York Stock Exchange or NASDAQ is suspended or limited in a material respect; or
  - the occurrence of any other adverse change or disruption to financial, political or economic conditions, currency exchange rates or controls or financial markets in Australia, a member of the European Union, the United States of America or the United Kingdom or elsewhere or any change or development involving a prospective adverse change in any of those conditions or markets.

However, if any of the above termination events occurs, an Underwriter may not terminate unless it has reasonable and bona fide grounds to believe and does believe that the event:

- has or is likely to have a materially adverse effect on the success or settlement of the Offer or the likely price at which the Offer Shares will trade on ASX;
- has given or could give rise to a liability for that Underwriter; or
- has given or could give rise to a contravention by that Underwriter or that Underwriter being involved in a contravention of the Corporations Act or any applicable laws.

11.5.6 Indemnity

Subject to certain exceptions, Photon has agreed to indemnify the Joint Lead Managers and persons associated with the Joint Lead Managers against certain liabilities which relate to or arise from the Underwriting Agreement or the Offer.

11.6 Deferred Consideration Restructure Agreements

11.6.1 Background to the Deferred Consideration Liability

Photon's Deferred Consideration Liability arises as a result of payments due under the terms of the agreements under which Photon has acquired individual Operating Entities (the "**Original Acquisition Agreements**"). The amounts of these payments are typically calculated by reference to the relevant Operating Entity's EBIT performance, both at the time of acquisition and in the future. The Deferred Consideration Payment is typically calculated by applying a multiple agreed upon in the Original Acquisition Agreements to the average EBIT of

the Operating Entity during a future time period agreed upon in the Original Acquisition Agreements. The multiple which is applied to the average EBIT is dependent on the growth of the Operating Entities' EBIT during a future time period set out in the Original Acquisition Agreements. Because the quantum of these payments is dependent upon the future EBIT performance of the Operating Entity after the time of acquisition (which typically influences both the average EBIT and the multiple used to determine the Deferred Consideration Payment), the aggregate quantum of Photon's Deferred Consideration Liability is uncertain. The aggregate liability is also uncapped, and only in limited circumstances are Deferred Consideration Beneficiaries required to receive payment in Photon Shares.

Following a recent detailed review of the performance and outlook of the Operating Entities subject to deferred consideration arrangements, Photon currently estimates its future Deferred Consideration Payments to be approximately $176 million.

11.6.2 Deferred Consideration Restructure Agreements

Photon has entered into agreements to give effect to the Deferred Consideration Restructure ("**Deferred Consideration Restructure Agreements**") with the Deferred Consideration Beneficiaries in respect of the following entities that are presently expected to receive future Deferred Consideration Payments:

- Belgiovane Williams Mackay Pty Limited;
- BMF Advertising Pty Limited;
- City Public Relations Pty Limited;
- Club Sales & Merchandising Pty Limited and Club Food Brokerage Pty Limited;
- Found Agency Pty Limited;
- Frank Public Relations Limited;
- Frank Public Relations Pty Limited;
- ISS Marketing Pty Limited;
- Mark Communications Pty Limited;
- MessageNet Pty Ltd;
- Naked Communications Limited;
- North by Northwest Group Limited;
- Resource Experience Limited;
- Retail Insight Limited; and
- Vox Marketing Group Pty Limited.

11.6.3 Conditions to Deferred Consideration Restructure Agreements

The Deferred Consideration Restructure Agreements are conditional on a number of matters including:

- the completion of the Equity Raising, which requires the Recapitalisation Resolutions to be passed;
- Shareholder approval of the Deferred Consideration Issue; and
- Photon's lender providing a bank guarantee facility for the Tranche 1 Payments due to be paid on or around 30 September 2010,

("the **Conditions Precedent**").

If the Conditions Precedent are satisfied, the Deferred Consideration Restructure will take effect. If the Conditions Precedent are not satisfied or waived by the Deferred Consideration Beneficiaries and Photon by 30 September 2010 or such later date as agreed by the relevant parties, then the Deferred Consideration Restructure Agreements will automatically terminate and the terms of the Original Acquisition Agreements will continue to apply.

11.6.4 Deferred Consideration Payments

Photon's obligation to make the Deferred Consideration Payments has been restructured pursuant to the Deferred Consideration Restructure Agreements in the following manner:

- total Deferred Consideration Payments payable to individual Deferred Consideration Beneficiaries will equal the lesser of the original amount determined in accordance with the Original Acquisition Agreement and an agreed upon cap ("**Capped Amount**");
- except as set out below, the outstanding Deferred Consideration Payments will be settled in the following tranches:
  - Tranche 1 Payments will be paid in cash by Photon on the date when payment was due under the Original Acquisition Agreement. Tranche 1 Payments will be secured by a bank guarantee, except for those Tranche 1 Payments which are due to be paid under the Original Acquisition Agreement on 30 September 2010.
  - Tranche 2 Payments will be settled by the issue of Photon Shares. The Photon Shares will be issued on the Allotment Date at the Offer Price. The Photon Shares to be issued to Deferred Consideration Beneficiaries in consideration for the Tranche 2 Payment will be held in escrow on the terms set out in Section 11.6.7 below until the date when the Deferred Consideration Payment is due under the Original Acquisition Agreement. However, Photon Shares issued to Deferred Consideration Beneficiaries who are due to be paid under the Original Acquisition Agreement on 30 September 2010 will not be subject to any escrow restrictions.
  - Tranche 3 Payments are conditional on the financial performance and position of Photon as follows:

- Tranche 3A – 50% of the Tranche 3 Payment will be paid in cash when Group EBITDA for the last 12 months is greater than $85 million and Photon's leverage ratio (calculated consistently with its banking facilities referred to in Section 11.8) is less than 2.25 times ("**3A Trigger**"). The earliest date for such payment is the date when the payment was due under the Original Acquisition Agreement provided that the 3A Trigger is satisfied. The 3A Trigger will be tested at each quarter end from the payment date set out in the Original Acquisition Agreements until the date that is five years from the payment date in the Original Acquisition Agreements ("**Sunset Date**"). The 3A Trigger is subject to adjustment in certain circumstances, including a downward adjustment where any Photon Operating Entity is divested in the 12 month period ending on the relevant quarter end. Photon will have no obligation to pay any outstanding Tranche 3A Payment after the Sunset Date;
- Tranche 3B – 50% of the Tranche 3 Payment will be paid in cash when Group EBITDA for the last 12 months is greater than $95 million and Photon's leverage ratio (calculated consistently with its banking facilities referred to in Section 11.8) is less than 2.25 times ("**3B Trigger**"). The earliest date for such payment is the date when the payment was due under the Original Acquisition Agreement, provided that the 3B Trigger is satisfied. The 3B Trigger will be tested at each quarter end from the payment date set out in the Original Acquisition Agreements until the Sunset Date. The 3B Trigger is subject to adjustment in certain circumstances, including a downward adjustment where any Photon Operating Entity is divested in the 12 month period ending on the relevant quarter end. Photon will have no obligation to pay any outstanding Tranche 3B Payment after the Sunset Date; and
- if either the 3A Trigger or the 3B Trigger is satisfied in respect of a quarter end, but Photon's leverage ratio, after taking into account all Deferred Consideration Payments payable on a particular quarter end, would exceed 2.25 times, the total Deferred Consideration Payments payable to Deferred Consideration Beneficiaries at that time will be reduced to such amount that Photon's leverage ratio does not exceed 2.25 times. In this circumstance, Deferred Consideration Payments will be made to Deferred Consideration Beneficiaries according to the following priorities:
  - any Tranche 1 Payment that is payable to a Vendor on or before the relevant quarter end;
  - any Tranche 3A Payment that would have been payable on or before the relevant quarter end in the order in which the Deferred Consideration Beneficiaries' Tranche 1 Payment fell due for payment under the terms of the Original Acquisition Agreement; and
  - any Tranche 3B Payment that would have been payable on or before the relevant quarter end in the order in which the Deferred Consideration Beneficiaries' Tranche 1 Payment fell due for payment under the terms of the Original Acquisition Agreement.

  If Deferred Consideration Beneficiaries have equal ranking priority and the total Deferred Consideration Payments that are payable are insufficient to pay all such amounts when taking into account the above priorities, the Deferred Consideration Beneficiaries will be paid on a pro-rata basis. If a Tranche 3A Payment or Tranche 3B Payment is not paid in full on the relevant payment date, the Vendor's entitlement to a Tranche 3A Payment and/or Tranche 3B Payment will continue to be tested at each quarter end in respect of the unpaid balance until the Sunset Date; and
- in the event that the performance of the relevant Operating Entity is such that a Vendor's final Deferred Consideration Payment is less than 50% of the Capped Amount, that Vendor will receive payment on the date the payment is due under the Original Acquisition Agreement by way of a cash payment equal to 70% of the actual Deferred Consideration Payment and 30% of the actual Deferred Consideration Payment will be taken to have been satisfied by the issue of Photon Shares under the Tranche 2 Payment. If, in this scenario, a Vendor has been over-issued Photon Shares on the Allotment Date having regard to the actual amount due to the Vendor under the terms of the Deferred Consideration Restructure, these Shares will be disposed of and Photon will be entitled to the proceeds of sale.

11.6.5 Other key terms

- It is a term of certain Deferred Consideration Restructure Agreements that existing non-compete and restraint provisions applicable to Deferred Consideration Beneficiaries will no longer apply if certain events occur, including if an insolvency event occurs in respect of Photon or where Photon is in breach of its obligations to make payments under the Deferred Consideration Restructure Agreements.
- Photon has also agreed with the Deferred Consideration Beneficiaries not to pay a dividend until the earlier of five years from the date when the final Tranche 1 Payments are due under the Original Acquisition Agreements (expected to be September 2013) or when all Tranche 3A and Tranche 3B Payments have been made or have otherwise been guaranteed.

11.6.6 Variations to the general terms and conditions

While, in aggregate, the Deferred Consideration Restructure Agreements are materially on the terms set out in Section 11.6.4, none of the 15 Deferred Consideration Restructure Agreements are identical. The Original Acquisition Agreements with the Vendors of the 15 Operating Entities are not uniform. Neither are the employment terms relating to Vendors who are also employees of these Operating Entities. Given differences in these agreements, as well as other different individual circumstances, certain Deferred Consideration Restructure Agreements have commercial differences from the arrangements described in Section 11.6.4 above.

In addition, Deferred Consideration Beneficiaries representing 0.3% of the estimated $176 million of future Deferred Consideration Payments have not entered into Deferred Consideration Restructure Agreements. The Deferred Consideration Beneficiaries who have not entered into the Deferred Consideration Restructure Agreements are not employees of the Group and will continue to be entitled to receive payments due under the terms of the Original Acquisition Agreements to which they are parties.

Variations, where they exist, apply to a number of commercial terms of the Deferred Consideration Restructure Agreements, and in some cases, there have been variations to employment terms between the Deferred Consideration Beneficiary and relevant employer Operating Entity. These variations have not all been included in this Prospectus, however where the variations from those commercial terms set out in Section 11.6.4 have a material impact on the aggregate outcome of the Deferred Consideration Restructure, they are described below. Excluding the variations listed below, the proportion of the restructured Deferred Consideration Payments payable differs from that set out in Section 1.3.1 as Tranche 1 Payments and Tranche 2 Payments are 50% (versus 53% including the variations listed below) and the proportion of Tranche 3 Payments is 50% (versus 47% including the variations listed below).

(a) Deferred Consideration Beneficiaries owed more than one Deferred Consideration Payment

Two of the Original Acquisition Agreements entitle the relevant Deferred Consideration Beneficiaries to receive both interim and final Deferred Consideration Payments (rather than one further final payment).

The final Deferred Consideration Payment owed to those Deferred Consideration Beneficiaries has been restructured on materially the same terms as set out in Section 11.6.4.

However, the penultimate Deferred Consideration Payment ("**Interim Payment**") has been capped and will be paid on the relevant payment date set out in the Original Acquisition Agreements by a cash payment equal to 70% of the amount of the Interim Payment and 30% of the amount of the Interim Payment will be settled by the issue of Photon Shares on the Allotment Date at the Offer Price. These Photon Shares will be held in escrow until the date when payment is due under the Original Acquisition Agreement.

(b) Secured Tranche 1 and Tranche 2 Payments

Under the terms of the Original Acquisition Agreement between Photon and the Deferred Consideration Beneficiaries of one Operating Entity, a portion of the Deferred Consideration Payment is secured by a charge over the relevant Operating Entity's assets. Under the relevant Deferred Consideration Restructure Agreement, Photon has agreed that the security will remain in place in respect of approximately 80% of the Capped Amount for those Deferred Consideration Beneficiaries (the "**Secured Amount**").

Photon has also agreed that the Secured Amount will be paid to the Deferred Consideration Beneficiaries on the original date for payment under the Original Acquisition Agreement and that this amount will be paid 70% in cash and 30% in Shares. The difference between the Capped Amount and the Secured Amount in respect of those Deferred Consideration Beneficiaries will be paid as a Tranche 3A Payment and Tranche 3B Payment on the same basis as the other Deferred Consideration Beneficiaries.

(c) Other material commercial variances

The estimated future Deferred Consideration Payments set out in Table 7.5.1a include the following future payments which are related to obligations under Original Acquisition Agreements but are not of the same nature as the other Deferred Consideration Restructure Agreements:

- Photon has entered into a deed of settlement relating to a claim filed against it by a Deferred Consideration Beneficiary in the NSW Supreme Court in relation to the quantum of a Deferred Consideration Payment. A Notice of Discontinuance has been filed. The settlement involves Photon making a payment to the Plaintiff in cash and Shares as part of the Deferred Consideration Issue in return for discontinuance of the proceedings and full releases. If Photon does not comply with the settlement deed, in particular is not able to issue New Shares to the Deferred Consideration Beneficiary as part of the Deferred Consideration Issue, then the Deferred Consideration Beneficiary is entitled to a cash payment for the equivalent value. The settlement amount has been included in the estimated future Deferred Consideration Payments;
- a portion of a Deferred Consideration Payment due to be made in March 2010 was withheld pending collection of certain debtors. If the relevant debtors are collected, this payment (or part thereof) will be made in cash; and
- prior to being acquired by Photon, Dark Blue Sea Limited ("**DBS**") entered into an agreement to acquire Domain Enterprise Pty Limited. This agreement provided for capped deferred payments based on the profits of Domain Enterprise over a future time period. These deferred payments are calculated on a different basis to Photon's typical payment calculation contained in the Original Acquisition Agreements described in Section 1.3.1 and Section 11.6.1. Photon is not a party to the acquisition agreement with Domain Enterprise, however, following the completion of the acquisition of DBS, these expected future payments are included in Photon's Pro-Forma Historical Balance Sheet.

(d) Arrangements with Naked Communications Limited

The Deferred Consideration Restructure Agreement relating to Naked Communications Limited ("**Naked**") is on materially the same terms as set out in Section 11.6.4 regarding payment of the outstanding Deferred Consideration Payment due to the Naked Deferred Consideration Beneficiaries after adjusting for put options to shareholders in two non-wholly owned subsidiaries of Naked, save that if Naked fails to achieve its agreed Capped Amount, no further Deferred Consideration Payments will be due. In addition, the parties have agreed to use reasonable endeavours to agree on a new long-term incentive scheme within a specified time period. If agreement is not reached within this time, the Naked Deferred Consideration Beneficiaries may elect to either:

- acquire the Naked group for not less than an agreed price (the "**Floor Price**") payable in cash, which represents a multiple of 11.5 times Naked's FY2010F EBIT, which is subject to adjustment in certain circumstances and on such other terms as agreed by the parties; or
- require Photon to initiate a competitive sale process for the Naked group at a price above the Floor Price. The Naked Deferred Consideration Beneficiaries will have a right to match the price offered by the preferred bidder in certain circumstances where they object to the preferred bidder or the parties are unable to reach an agreement for the sale of Naked to the preferred bidder within a specified period.

The sale and offer rights will lapse if no agreement is reached with any party within a specified period.

11.6.7 Escrow arrangements

Each Deferred Consideration Beneficiary (other than those Deferred Consideration Beneficiaries who are due to be paid under the relevant Original Acquisition Agreement on 30 September 2010) who is issued New Shares as part of the Deferred Consideration Restructure is required to enter into an escrow deed with Photon ("**Vendor Escrow Deed**").

Under the terms of the Vendor Escrow Deeds to be entered into with Photon:

- each Deferred Consideration Beneficiary agrees not to dispose of, or agree to dispose of, any of the New Shares issued to it as part of the Tranche 2 Payment Share issue for the period which commences on the date those New Shares are issued and ends on the date that the Deferred Consideration Beneficiary was originally entitled under its Original Acquisition Agreement to payment of the Deferred Consideration Payment; and
- in the event that a Deferred Consideration Beneficiary has been issued any excess New Shares pursuant to the Tranche 2 Payment Share issue, these New Shares will be disposed of and Photon will be entitled to the proceeds of sale.

11.7 Summary of Photon's existing debt facilities

Photon and its material wholly owned subsidiaries are parties to a facilities agreement dated 31 October 2007 with ANZ as amended and restated from time to time ("**Existing Facilities Agreement**"), under which ANZ has agreed to make facilities of up to $280 million available to the Photon Group as summarised in the table below:

Facilities	**Facility A1: $46 million commitment** – revolving cash advance facility to assist with the general corporate and working capital requirements of the Photon Group; **Facility A2: $38 million commitment** – revolving cash advance facility to assist with the general corporate and working capital requirements of the Photon Group; **Facility B: $120 million commitment** – revolving cash advance facility to assist with the general corporate and working capital requirements of the Photon Group; and **Facility C: $76 million commitment** – revolving cash advance facility to assist with the general corporate and working capital requirements of the Photon Group including a bank guarantee and letter of credit facility. The facilities may be drawn in Australian dollars, pound sterling, US dollars, New Zealand dollars and other freely available currencies (if required). As at the date of this Prospectus, the total principal outstanding under the Existing Facilities Agreement is approximately $274 million.
Term	The terms for the above facilities are as follows: (a) Facility A1, to 31 March 2011; (b) Facility A2, to 30 April 2012; (c) Facility B, to 31 October 2012; and (d) Facility C, to 31 October 2011.
Interest Rate	Interest is payable by Photon on amounts outstanding under the Existing Facilities Agreement at a rate equal to the sum of the relevant floating reference rate plus an applicable margin.
Security and Guarantor Group	Photon, together with its material wholly owned subsidiaries ("**Obligors**"), have each provided the following securities in favour of ANZ: (a) a first ranking fixed and floating charge over all of its assets and undertakings; (b) a standard shares and securities mortgage over all shares held by it; and (c) a cross guarantee and indemnity, securing all amounts owing in respect of the existing debt facilities. Under the terms of the Existing Facilities Agreement, Photon must ensure that EBITDA of the Obligors on a consolidated basis is at least equal to 85% of the EBITDA of the Photon Group calculated on a consolidated basis.
Representations and warranties and undertakings	Customary representations and warranties and undertakings for facilities of the nature of the existing debt facilities including: (a) a prohibition on disposals by any Obligor without the prior written consent of ANZ unless the disposal is in the ordinary course of ordinary business or operation; and (b) a prohibition on acquisitions by an Obligor without the prior written consent of ANZ.

Events of Default

Customary events of default for facilities of the nature of the existing debt facilities including:

(a) payment default;
(b) breach of undertaking which is not remedied within 21 business days;
(c) breach of financial covenants;
(d) insolvency; and
(e) material adverse change.

Financial covenants

Photon must comply with the following financial covenants:

Financial Covenant	Period	Hurdle
Interest Cover Ratio	at all times in respect of any rolling 12 month period	greater than 3.00:1
Capitalisation Ratio (total financial indebtedness plus deferred consideration liabilities to total financial indebtedness plus deferred consideration liabilities plus consolidated shareholders' funds)	until earlier of 30 September 2010 and completion of the Equity Raising	less than or equal to 65%
	thereafter until 31 October 2010	less than or equal to 55%
	1 November 2010 and each 12 month period thereafter	less than or equal to 50%
Leverage Ratio	at all times in respect of any rolling 12 month period	until earlier of 30 September 2010 and completion of the Equity Raising less than 4.00:1 and thereafter less than 3.00:1
Distribution Payout Ratio (distributions as a proportion of NPAT)	each financial year	Photon will ensure that the Distribution Payout Ratio will not exceed 50% and that it has a positive retained earnings balance.

11.8 Pro-forma impact of the Recapitalisation Proposal on Photon's debt profile and covenant ratios

Pursuant to the terms of a letter from ANZ to Photon agreed on or about 16 August 2010 ("**ANZ Term Sheet**"), ANZ has agreed, subject to satisfaction of certain conditions listed below, to amend the terms of the Existing Facilities Agreement. Following the amendments, the terms of the Existing Facilities Agreement will not be materially more restrictive than the current terms of the Existing Facilities Agreement except that Photon will not be entitled to pay any dividend or other distribution at any time prior to 30 September 2012 or at any time that the Leverage Ratio is greater than 2.25 times. An additional bank guarantee facility will be made available to Photon by ANZ to enable bank guarantees to be issued to secure restructured Deferred Consideration Payments. In particular, the amendments to the financial covenants will not cause the financial covenants to be any more restrictive than under the current terms of the Existing Facilities Agreement.

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Conditions precedent

The amendment of the Existing Facilities Agreement is conditional upon and subject to finalisation of amendment documentation, satisfaction of customary conditions precedent and satisfaction of the following additional conditions precedent, in each case on or before 30 September 2010 or such later date agreed by ANZ:

(a) ANZ receiving certified copies of the Underwriting Agreement in a form and substance satisfactory to ANZ providing for an underwriting of an equity raising of at least $100 million through the issue of fully paid ordinary shares;

(b) ANZ receiving evidence that the obligation of the Joint Lead Managers to underwrite the Equity Raising under the terms of the Underwriting Agreement has become unconditional and that Photon will issue the New Shares pursuant to the Equity Raising;

(c) ANZ receiving certified copies of irrevocable directions from Photon to Macquarie Capital Advisers Limited, UBS AG, Australia Branch and Computershare Investor Services Pty Limited directing they apply part of the net proceeds of the Equity Raising (or other evidence that such proceeds will be applied) to:

   i. prepay the principal outstanding under the existing debt facilities by at least $50 million plus any amount by which the net proceeds of the Equity Raising exceed $100 million; and

   ii. make restructured Deferred Consideration Payments of up to $22.5 million due in September 2010 provided that, to the extent that any such Deferred Consideration Payments are not due until after completion of the Equity Raising, Photon may elect for an amount of such proceeds equal to those payments to be (1) applied in prepayment of the Facilities (excluding Facility D) on the basis that the amount so prepaid may only be redrawn to make those Deferred Consideration Payments as and when they are due or (2) deposited into a blocked account maintained with ANZ on terms that the deposited funds may only be withdrawn to make those Deferred Consideration Payments as and when they are due; and

(d) entry into a binding Deferred Consideration Restructure, subject to the issue of bank guarantees to the relevant Deferred Consideration Beneficiaries, on terms satisfactory to ANZ.

Amendments to the facilities

(a) Facility A1, Facility A2, Facility B and Facility C will be consolidated into:

   i. a new revolving Facility A having a commitment of not more than $210 million; and

   ii. a new Facility B having a commitment of not more than $20 million.

(b) Facility A may be utilised by way of cash advance, bank guarantee or letter of credit for general working capital purposes.

(c) Facility B may be utilised by way of cash advance, bank guarantee or letter of credit, if:

   i. Facility A is fully utilised; and

   ii. ANZ is satisfied (in its absolute discretion) that the Facility B drawing will be applied solely for the purposes of payment of Deferred Consideration Payment under the Deferred Consideration Restructure.

(d) A new Facility C will be made available with a commitment of $45 million which may only be utilised by way of standby bank guarantees ("**Earn Out Bank Guarantees**") to be issued in favour of Deferred Consideration Beneficiaries to secure the Tranche 1 Payment portion of the restructured Deferred Consideration Payments.

Term

The Existing Facilities Agreement will be amended such that each facility will have a maturity date falling on the third anniversary of the amendments becoming effective ("**Effective Date**").

Margins and fees

On a blended rate basis the margins payable on completion of the Debt Refinancing will be approximately equivalent to the current margins under the Existing Facilities Agreement. A fee equal to 0.9% of the total principal outstanding under the Existing Facilities Agreement prior to completion of the Equity Raising will be payable to ANZ from the proceeds of the Equity Raising.

A commitment fee equal to 60% of the margin is payable on committed, but undrawn, facilities.

Financial covenants

The Capitalisation Ratio under the Existing Facilities Agreement will be amended to provide that Photon must ensure that during the periods set out in the table below, the Capitalisation Ratio complies with the ratio set out opposite that period in the table below:

Period	Capitalisation Ratio
From the Effective Date until 31 December 2011	< 55%
1 January 2012 and thereafter	< 50%

The Leverage Ratio under the Existing Facilities Agreement will be amended to provide that Photon must ensure that at all times during the periods set out in the table below, in respect of any rolling 12 month period the Leverage Ratio will be less than the corresponding ratio set out in the table below:

Period	Leverage Ratio
From the Effective Date until 31 December 2011	less than 3.50:1
1 January 2012 and thereafter	less than 3.00:1

For the avoidance of doubt, for the purpose of calculating the Leverage Ratio only, financial indebtedness shall not include any contingent liability in respect of Facility C or any Deferred Consideration Liability.

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Financial covenants continued

A new financial undertaking will be included in the Existing Facilities Agreement that Photon must ensure that at all times during the periods set out in the table below, in respect of any rolling 12 month period the Total Leverage Ratio (defined below) will be less than the corresponding ratio set out in the table below:

Period	Leverage Ratio
From the Effective Date until 31 March 2011	less than 4.00:1
1 April 2011 until 31 December 2011	less than 3.75:1
1 January 2012 until 30 September 2012	less than 3.25:1
1 October 2012 and thereafter	less than 3.00:1

Total Leverage Ratio means in respect of any period, the ratio of A:B where

A = the aggregate of:

- total financial indebtedness excluding any Deferred Consideration Liability; and
- (without double counting) the aggregate face value of all bank guarantees issued under Facility C that remain on issue; and

B = EBITDA of the Group for that period determined by reference to the most recent consolidated accounts of the Group.

Financial covenants continued

Outlined below is a comparison of the financial covenants under the Existing Facilities Agreement against the financial covenants that will apply from the Effective Date:

Financial Covenant	Existing Facilities Agreement	New Facilities Agreement
Interest Cover Ratio	greater than 3.00:1	Same
Capitalisation Ratio (as calculated above)	less than or equal to 65% – until the earlier of 30 September 2010, and completion of the Equity Raising less than or equal to 55% – on and from 1 October 2010 until 1 November 2010 less than or equal to 50% – on and from 1 November 2010.	Until 31 December 2011, less than or equal to 55% On and from 1 January 2012, less than or equal to 50%
Leverage Ratio	until earlier of 30 September 2010 and completion of the Equity Raising, less than 4.00:1 and thereafter less than 3.00:1	until 31 December 2011, less than 3.50:1 on and from 1 January 2012, less than 3.00:1
Total Leverage Ratio	N/A	until 31 March 2011, less than 4.00:1 on and from 1 April 2011 until 31 December 2011, less than 3.75:1 on and from 1 January 2012 until 30 September 2012, less than 3.25:1 on and from 1 October 2012 and thereafter, less than 3.00:1
Distribution Payout Ratio	Photon will ensure that the Distribution Payout Ratio will not exceed 50% and that it has a positive retained earnings balance.	Same except that the payment of distributions will be restricted as outlined below.

Dividend restriction	Photon may not pay any dividend or other distribution at any time prior to 30 September 2012 or at any time that the Leverage Ratio is greater than 2.25 times.
Independent Expert	ANZ shall be entitled at any time to appoint an Independent Expert (at Photon's cost) to review the financial performance, the value of the business of the Group and such other matters it deems necessary, and report to ANZ.

11.9 Rights and liabilities attaching to New Shares

The New Shares will be issued fully paid and will rank equally with Existing Shares, subject to those New Shares which are subject to escrow restrictions as set out in Sections 11.6.7 and 11.14.

The rights and liabilities attaching to Shares are set out in the Constitution and the Corporations Act and are subject to the ASX Listing Rules, the ASTC Settlement Rules and the general law.

The principal rights and liabilities of the Shareholders as set out in the Constitution are summarised below. The summary is not a definitive statement of those matters, which can involve complex questions arising from the interaction of the Constitution, statutes, common law and the ASX Listing Rule requirements. To obtain a definitive assessment of the rights and liabilities which attach to Shares in any specific circumstances, investors should seek their own professional advice.

11.9.1 Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, has one vote for each fully-paid Share held by the Shareholder or a fraction of a vote pro-rata to the amount paid on any partly-paid Shares held by the Shareholder.

A resolution put to the vote at a general meeting is decided by a show of hands unless a poll is demanded by the chair of the meeting, at least five Shareholders present and entitled to vote on the resolution, or by a Shareholder or Shareholders present and representing at least 5% of the votes that may be cast on the resolution on a poll.

The quorum for any meeting of Shareholders is two Shareholders, or if only one Shareholder is entitled to vote, that Shareholder.

The chair may vote in his or her capacity as a Shareholder but has no casting vote in the case of an equality of votes on a proposed resolution.

11.9.2 General meetings

Each Shareholder is entitled to receive notice of, and to attend and vote at general meetings of Photon and to receive all financial statements, notices and other documentation required to be sent to Shareholders.

11.9.3 Dividends

The Directors may from time to time declare and pay dividends to Shareholders out of the profits of Photon. The payment of a dividend does not require confirmation by a general meeting.

Subject to any rights or restrictions attached to Shares, or classes of shares in Photon, dividends will be paid in proportion to the amounts paid up on the Shares.

In addition, the Constitution allows the Directors to implement a dividend reinvestment plan and a dividend selection plan on the terms they think fit.

11.9.4 Issue of shares

Subject to the Constitution, and any restrictions that may apply under the Corporations Act and ASX Listing Rules, the Directors may issue or allot further Shares or any other form of security in Photon, or grant Options over unissued shares in Photon to any person, on the terms and at the times the Directors think fit.

Any further shares issued by the Directors may have preferred, deferred or other special rights or special restrictions in relation to dividends, voting, return of capital, participation in the property of Photon on a winding up or otherwise, as the Directors think fit.

11.9.5 Transfer of shares

Subject to the Constitution and the rights and restrictions attaching to Shares, a Shareholder may transfer Shares by a proper transfer effected in accordance with the ASX Listing Rules, ASTC Settlement Rules and as otherwise permitted by the Corporations Act, or as the Directors may otherwise approve. In the limited circumstances permitted under the ASX Listing Rules, the Board may ask ASX to apply a holding lock to prevent a proper ASTC Transfer (as defined in the Corporations Act) of Shares or decline to register a transfer of Shares in certain prescribed circumstances. If the Board declines to register a transfer of Shares, Photon must give the holder of the Shares, or the party lodging the transfer, written notice of the refusal and the reason for refusal.

Subject to the ASX Listing Rules and ASTC Settlement Rules while Photon is listed on ASX, the Directors may suspend the registration of transfers of Shares at such time and for such periods, not exceeding 30 days in any year, as they think fit.

11.9.6 Unmarketable parcels of Shares

If a Shareholder holds less than a marketable parcel of Shares (as defined in the ASTC Settlement Rules) the Directors may invoke the procedure for the sale of those Shares. Photon may only invoke the power once in any 12 month period by notifying the Shareholder of its intention to do so. If the Shareholder tells Photon that it wishes to retain its Shares, Photon is not permitted to sell those Shares.

11.9.7 Proportional takeover provisions

The Constitution prohibits the registration of any transfer of Shares in acceptance of an offer made under a proportional takeover bid (a bid for some but not all of the shares in Photon) unless and until Shareholders holding shares in the class for which the offer is made under the takeover bid have passed a resolution approving that bid. This provision will lapse unless it is renewed by special resolution of Photon Shareholders in general meeting within three years from the date the Constitution was adopted.

11.9.8 Winding up rights

Subject to any special or preferential rights and to any restrictions attaching to any Share or class of Shares in Photon, Shareholders will be entitled in a winding up to share in any surplus assets of Photon in proportion to the Shares held by them, less any amounts which remain unpaid on the Shares at the time of distribution.

11.9.9 Directors

The minimum number of Directors of Photon is three and the maximum is to be fixed by the Directors, but must not be more than 12 unless a general meeting of Photon determines otherwise. Except where there are only two Directors present or qualified to vote at a meeting of Directors, in the case of an equality of votes on any proposed resolution, the chair of the meeting has a casting vote in addition to any vote in his or her capacity as a Director.

An election of Directors must take place each year. At that meeting, excluding the Managing Director (if a Director) and any Directors appointed by the Board to fill a casual vacancy, one-third of the remaining Directors and any other Director who has been in office for three or more years, or for three or more AGMs, since that Director was last elected, must retire. Directors who retire and are eligible for re-election may stand for re-election.

Questions arising at a meeting of Directors are decided by a majority of votes cast by the Directors present and entitled to vote.

Each Director is entitled to remuneration for his or her services as Director as the Directors determine, but the remuneration of all Directors for their service as Directors' cannot exceed the amount in aggregate in any financial year the amount fixed by Photon in a general meeting. This amount has been fixed by Photon at $750,000 for the financial year ended 30 June 2010.

11.9.10 Directors' indemnity

Photon, to the extent permitted by law, indemnifies each Director, alternate director or executive officer of Photon (and any person who has previously served in any such capacity) against all losses, liabilities, costs, charges and expenses incurred by the person as an officer of Photon, a subsidiary of Photon, a related body corporate of Photon, or a joint venture company in which Photon has an interest.

The indemnity may be extended to other current or former officers, or the auditor or former auditor of Photon or related body corporate of Photon at the discretion of the Directors.

The indemnity does not operate when, among other things, the liability arises out of conduct which was not in good faith, or which involves wilful misconduct, gross negligence or fraud (except for a liability for legal costs).

The indemnity includes, to the extent permitted by law, liability for negligence or for legal costs incurred in defending proceedings in which judgement is given in favour of the person or in which the person is acquitted on a full indemnity basis.

11.9.11 Alterations of Constitution

In accordance with the provisions of the Corporations Act, the Constitution can only be amended by a special resolution passed by at least 75% of Shareholders present and voting at a general meeting of Photon. At least 28 days written notice specifying the intention to amend the Constitution by special resolution must be given.

11.10 Ownership restrictions

The sale and purchase of Shares is regulated by a number of laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section contains a general description of these laws.

11.10.1 Foreign Acquisitions and Takeovers Act

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) applies to acquisitions of shares, rights to shares, voting power and potential voting power in a company of 15% or more by a single foreign person and its associates ("**Substantial Interest**"), or 40% or more by two or more unassociated foreign persons and their associates ("**Aggregate Substantial Interest**").

Where an acquisition of a Substantial Interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a Substantial Interest or an Aggregate Substantial Interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

11.10.2 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply. The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in Photon.

11.11 Litigation

Other than as described in Section 2, Section 9.3.10 and Section 11.6.6, Photon is not otherwise a defendant party to any current material litigation and the Directors have no knowledge of any potential material litigation against Photon.

11.12 Interests or fees of Directors

As at the date of this Prospectus, the Directors of Photon and their associates had relevant interests in the following numbers of Shares and Options:

Director	Number of Photon Shares	Number of Options
Ms Susan McIntosh	488,890	Nil
Mr Brian Bickmore	143,018	Nil
Mr Paul Gregory	200,000	Nil

Except as set out above or otherwise in this Prospectus:

(a) no Director or proposed Director of Photon holds, or held at any time during the last two years prior to the date of this Prospectus, any interest in:
   a. the formation or promotion of Photon; or
   b. property acquired or proposed to be acquired by Photon in connection with its formation or promotion or the issue of New Shares under the Offer: or
   c. the offer of New Shares under this Prospectus; and

(b) no-one has paid or agreed to pay any amount, or given or agreed to give any benefit, whether in cash or shares or otherwise to any Director, either to induce them to become, or qualify them as, a Director or in connection with services provided by them in connection with the formation or promotion of Photon or the Offer.

11.13 Interests of experts and advisers

Gilbert + Tobin has acted as Australian legal adviser to Photon in relation to the Offer and has performed work in relation to Australian due diligence enquiries on legal matters. Photon has agreed to pay approximately $1.3 million to Gilbert + Tobin for these services as at the date of this Prospectus. Further amounts may be payable to Gilbert + Tobin in accordance with its usual time-based charge-out rates.

KPMG Transaction Services (Australia) Pty Limited has acted as Investigating Accountant to Photon in relation to the Offer and has performed due diligence enquiries in relation to certain financial information. Photon has agreed to pay KPMG Transaction Services (Australia) Pty Limited $1.3 million for these services as at the date of this Prospectus. Further amounts may be payable to KPMG Transaction Services (Australia) Pty Limited in accordance with its usual time-based charge-out rates.

KPMG has provided taxation advice to Photon in relation to the Offer. Photon has agreed to pay $10,000 to KPMG for these services as at the date of this Prospectus. Further amounts may be payable to KPMG in accordance with its usual time-based charge-out rates.

Macquarie Capital Advisers Limited and UBS AG, Australia Branch have acted as Financial Advisers, Underwriters and Joint Lead Managers in relation to the Offer. The Underwriters are entitled to receive the fees set out in Section 11.5 for these services.

Aquasia Pty Ltd has acted as financial adviser to the Photon Board in relation to the Offer. Photon has agreed to pay approximately $170,000 to Aquasia for these services at the date of this Prospectus. Aquasia is entitled to receive further time-based payments and a completion payment on the successful completion of the Offer to a maximum of $410,000.

Other than as set out above or otherwise in this Prospectus:

(a) no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus (each, a relevant person) holds at the date of this Prospectus, or has held at any time during the two years prior to the date of this Prospectus, any interest in;
   a. the formation or promotion of Photon; or
   b. any property acquired or proposed to be acquired by Photon in connection with its formation or promotion of the Offer; or
   c. the Offer; and

(b) no-one has paid or agreed to pay any amount, or given or agreed to give any benefit, to such relevant persons for services provided in connection with the formation or promotion of Photon or the Offer.

11.14 CEO Employment Agreement

Mr Philips was appointed by the Board as Chief Executive Officer effective 1 June 2010 pursuant to a Service Agreement dated 20 April 2010. On or about 17 August 2010, the Board and Mr Philips agreed to amend the Service Agreement in light of the proposed Recapitalisation Proposal. A summary of the terms of Mr Philips' revised Service Agreement are set out below.

11.14.1 Term

Mr Philips' appointment as Chief Executive Officer will continue until his appointment is terminated. Mr Philips' appointment may be terminated by Photon by giving Mr Philips 12 months notice without cause or without notice for serious misconduct or illness or incapacity. Mr Philips may terminate his appointment by giving Photon six months notice without cause or in the event of a fundamental change or any wilful, persistent and material unremedied breach of the agreement by Photon.

If Photon terminates without cause or on account of illness or injury or Mr Philips terminates his employment, Mr Philips is entitled to receive a payment equivalent to 12 months Average Base Salary (calculated in accordance with the Corporations Act) plus Superannuation Entitlements inclusive of any payment in lieu of notice.

If Mr Philips' appointment is terminated for serious misconduct, he is not entitled to receive any payments other than Base Salary and Superannuation Entitlements to the termination date, reimbursement of expenses and accrued annual leave.

11.14.2 Remuneration

Mr Philips' remuneration comprises the components set out below:

(a) Base Salary and Superannuation Entitlements

Mr Philips is entitled to receive a Base Salary of $1,275,000 including a Superannuation Entitlement of $50,000 ("**Total Fixed Remuneration**") and a $25,000 car allowance. The Total Fixed Remuneration will increase by 5% per annum, or such higher amount as the Board reasonably determines.

(b) Short-term Incentives ("STI")

a. NPATA Payment

Mr Philips is entitled to receive a payment referable to Photon's net profit after tax and before amortisation of acquired intangibles ("**NPATA**") in each financial year of the employment commencing with the financial year ended 30 June 2011. The payment is 5% of Photon's normalised NPATA in excess of $20 million (adjusted for businesses disposed of after 1 July 2010). Mr Philips is entitled to a pro-rata NPATA payment upon termination unless his employment is terminated by Photon for serious misconduct.

b. Discretionary STI

Mr Philips is eligible to receive a discretionary short-term incentive bonus of up to $200,000 per annum, conditional upon him achieving certain non-financial strategic targets set by the Board. No bonus is payable in respect of a financial year where Mr Philips is terminated or resigns without cause.

(c) Key amendments to Service Agreement

The key amendments to the Service Agreement are as follows:

- to convert the employment from a four year fixed term to ongoing employment. The employment was/is terminable by Photon on 12 months' notice without cause under both the previous and new Service Agreement;
- to adjust the method of calculation of the annual NPATA short-term incentive payment (NPATA Payment) to adjust for businesses disposed of after 1 July 2010 without deduction. Under the Original Services Agreement, an amount of $300,000 was deducted from this payment;
- to require 12 months' notice of termination by Photon at any time without cause. Under the previous fixed term arrangement, the period of notice reduced in the last year of the fixed term to notice equivalent to the balance of the four year term;
- to require a pro-rata NPATA payment and a payment of 12 months' Average Base Salary plus Superannuation Entitlement inclusive of notice in the event Mr Philips resigns his employment without cause. This payment was excluded in these circumstances under the previous Service Agreement; and
- to grant Mr Philips an indemnity in respect of certain tax liabilities which he may incur in connection with his participation in the Equity Raising.

(d) Long-Term Incentives

Mr Philips will participate in a long-term incentive plan which facilitates his Share ownership and links a significant proportion of his potential remuneration to Photon's Share price performance over a three to five year period.

Photon issued 9 million Existing Shares to Mr Philips following execution of this Service Agreement. The funding for Mr Philips' subscription was provided by Photon pursuant to a limited recourse loan as required by the Service Agreement. As a result of his interest in these Shares, Mr Philips has a 4.8% shareholding in Photon before completion of the Recapitalisation Proposal.

The incentive arrangements under Mr Philips' long-term incentive plan require Photon, in the circumstance where it issues Shares during the first 12 months of his employment for the purpose of raising capital, to offer Mr Philips the right to acquire such additional Shares as will, following the issue of Shares, maintain his proportionate holding relative to the total number of Shares on issue and to provide a further limited recourse loan to fund the additional Shares subscribed for (on the same terms as the original limited recourse loan). Photon's obligation to issue Shares in these circumstances is subject to any required Shareholder approvals.

Consistent with the terms of Mr Philips' long-term incentive plan, the Board is seeking Shareholder approval for the issue of up to an additional 72.9 million New Shares to Mr Philips to allow him to subscribe for New Shares, following completion of the Equity Raising and Deferred Consideration Issue in such number as will maintain his proportionate holding at 4.8%, being his current shareholding in Photon ("**CEO LTI Shares**"). Photon will provide Mr Philips with an additional limited recourse loan to fund his subscription for all such CEO LTI Shares on the same terms as applied to the initial issue of 9 million Existing Shares. If Shareholders do not approve this issue of the CEO LTI Shares, Photon is required to offer Mr Philips an alternative long-term incentive arrangement, the terms of which have not been determined, but which will be designed to provide Mr Philips with an incentive plan which places him in no worse position, on an after tax basis, than he would have been in had Shareholders approved the issue of the CEO LTI Shares. The CEO LTI Shares will be issued to Mr Philips on the Allotment Date. All CEO LTI Shares issued to Mr Philips will be subject to vesting and escrow conditions. Mr Philips is not permitted to deal with any long-term incentive shares (including the CEO LTI Shares) unless they have vested. The CEO LTI Shares will vest as follows: 2/9 on 30 June 2012; 1/3 on 30 June 2013; and the remainder on 30 June 2014. The loan must be repaid in tranches at the earlier of the sale of the shares and 12 months from the date that the shares vest.

If Mr Philips' employment is terminated by Photon for serious misconduct, Mr Philips immediately forfeits any long-term incentive shares (including the CEO LTI Shares) which have not vested. If Mr Philips' employment is terminated by Mr Philips, the long-term incentive shares (including the CEO LTI Shares) continue to vest (subject to his compliance with post employment restrictions) for the contractual notice period and the period of the post employment restrictions (as described below).

All long-term incentive shares (including the CEO LTI Shares) will automatically vest on a change of control event.

Photon has also agreed to provide Mr Philips with an indemnity in respect of Australian income tax, including related interest, fines, penalties, charges and other costs referable to that Australian income tax (collectively "**tax**") payable by him in respect of the CEO LTI Shares. The indemnity will only apply where the CEO LTI Shares are issued at a discount, that is where the market value of a Photon Share on the day of issue under the Recapitalisation Proposal is greater than the Offer Price ($0.10) (the difference being the "**discount**") and the discount is treated as taxable for income tax purposes. If the indemnity applies, then Photon's liability under the indemnity should not exceed an amount equal to 46.5% of the discount multiplied by the total number of CEO LTI Shares. On the assumption that the maximum number of CEO LTI Shares issued is 72.9 million, this would mean that for every one cent of discount, it is anticipated that the amount payable under the indemnity would be $338,985 (exclusive of related interests, fines, penalties, charges and other costs). If the issue of the CEO LTI Shares at a discount gives rise to a taxing event which is covered by the indemnity ("**the taxing event**"), Mr Philips may obtain a benefit in the form of future reduced tax payable upon disposal of his CEO LTI Shares because of the taxing event. Where Photon is required to make a payment under the indemnity, Mr Philips is obliged to pass the benefit of the resulting tax savings in respect of any CEO LTI Shares which he ceases to own back to Photon. The effect of this is to partially reimburse Photon for payments previously made by Photon under the indemnity.

(e) Key terms of the loan arrangements

a. Mr Philips was loaned $1.13 per share to facilitate the acquisition by him of 9 million long-term incentive Shares issued to him in June 2010. The amount of the loan was $10.17 million;
b. Subject to Shareholder approval, Photon will make a further loan to Mr Philips in respect of up to 72.9 million New Shares at the rate of $0.10 cents per share. If the issue of New Shares is approved, the amount of the loan will be up to $7.29 million. The loan will be on the same terms and conditions as apply in relation to the loan referenced in (e)(i) above;
c. Interest accrues on the loans at a rate equal to the dividend paid on each share net of tax payable by Mr Philips on the dividend;
d. Repayment is to be made at the earlier of the sale of the relevant shares and 12 months after vesting. Mr Philips may elect to forfeit the Shares to which any loan repayment relates in lieu of making a repayment which is due.

(f) Key amendments to long-term incentive arrangements

The key amendments to the long-term incentive arrangements are as follows:

a. if Shareholder approval to issue up to 72.9 million New Shares proposed to be issued to Mr Philips in connection with the Recapitalisation Proposal referred to above is not forthcoming, Photon is obliged to put in place a comparable alternative long-term incentive plan;
b. all long-term incentive Shares (including the CEO LTI Shares) automatically vest on a change of control; and
c. if Mr Philips' employment is terminated by Mr Philips, the long-term incentive Shares (including the CEO LTI Shares) continue to vest (subject to his compliance with post employment restrictions) for the contractual notice period and the period of the post employment restrictions.

(g) Restraint

Under the terms of Mr Philips' appointment, Mr Philips has agreed to a restraint arrangement which operates for a period of 12 months following termination of his employment for any reason. The restraint operates in the geographical area of Australia, United Kingdom and the United States.

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11.15 Mr Tim Hughes Employment Arrangements

Photon has entered into an agreement with Mr Hughes under which:

- Mr Hughes' executive employment would cease with effect from 30 September 2010; and
- there will be a termination payment of $1,120,000 less taxation in accordance with Mr Hughes' employment contract. Photon has made a provision in FY2010F for a termination payment.

Mr Hughes has agreed that this payment will be paid as follows:

(a) 50% will be paid on or about 30 September 2010; and

(b) the balance is to be paid substantially on the terms as the Tranche 3A and Tranche 3B Payments are to be paid to Deferred Consideration Beneficiaries, whose due date for payment under their Original Acquisition Agreement was on or about 30 September 2010.

Photon has agreed to reduce the non-compete and restraint provisions included in Mr Hughes' employment contract from 12 months to six months.

The terms of this agreement will be confirmed in a deed to be signed by the parties.

11.16 Consents

Each of the parties named below:

(a) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its consent to be named in this Prospectus in the form and context in which it is named;

(b) has not made, or purported to make, any statement in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified in paragraph (a) above and paragraph (e) below;

(c) has not authorised or caused the issue of this Prospectus;

(d) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified in paragraph (e) below; and

(e) in the case of KPMG Transaction Services (Australia) Pty Limited, has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its consent:

  (i) to the inclusion in this Prospectus of references to it being Photon's auditor and statements in this Prospectus regarding its review of Photon's financial statements; and

  (ii) the inclusion of the Investigating Accountant's Report in Section 8 of this Prospectus in the form and context in which the report is included.

CONSENTS

Role	Consenting Party
Financial Adviser, Joint Lead Manager and Underwriter	Macquarie Capital Advisers Limited
Financial Adviser, Joint Lead Manager and Underwriter	UBS AG, Australia Branch
Financial Adviser to the Board	Aquasia
Australian Legal Adviser	Gilbert + Tobin
Auditor	KPMG
Investigating Accountant	KPMG Transaction Services (Australia) Pty Limited
Share Registry	Computershare Investor Services Pty Limited

11.17 ASX Waivers

Photon has sought waivers from the ASX in relation to the Equity Raising including waivers from:

- Listing Rule 7.3.8 to ensure Shareholder's votes are not disregarded on the resolution to approve the Shareholder Offer (other than substantial Shareholders and underwriters and sub-underwriters of the Equity Raising);
- Listing Rule 10.11 to enable related parties of Photon to participate in the Shareholder Offer on the same terms as other Shareholders; and
- Listing Rule 7.15 to enable Photon to have a record date for the Shareholder Offer that occurs prior to the date on which Shareholder approval for the Shareholder Offer is obtained; and
- Listing Rule 14.11 to enable nominees to vote on the resolutions seeking to approve the Recapitalisation Resolutions in respect of Shares held on behalf of beneficiaries who do not participate in the Placement.

11.18 ASIC modification

Photon has obtained a modification from section 708A(11) of the Corporations Act to enable the New Shares issued under the Institutional Shareholder Offer, Placement and Deferred Consideration Issue to be onsold within 12 months of this issue without the need for a disclosure document.

11.19 Withdrawal of Offer

Photon and the Directors reserve the right to withdraw all or part of the Offer and this Prospectus at any time prior to the issue of New Shares to applicants under the Shareholder Offer or Placement, in which case Photon will refund Application Monies as soon as practicable in accordance with the Corporations Act and without any payment of interest.

11.20 Foreign selling restrictions

The distribution of this Prospectus (including an electronic copy) in jurisdictions outside Australia may be restricted by law. If you come into possession of this Prospectus in jurisdictions outside Australia, then you should seek advice on, and observe any such restrictions. If you fail to comply with such restrictions, that failure may constitute a violation of applicable securities laws. Photon disclaims all liabilities to such persons.

This Prospectus or the New Shares have not been and will not be, registered in any jurisdiction other than Australia. This Prospectus does not constitute an offer or invitation in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

European Economic Area – Belgium, Germany and Netherlands

The information in this document has been prepared on the basis that all offers of New Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("**Prospectus Directive**"), as implemented in Member States of the European Economic Area (each, a "**Relevant Member State**"), from the requirement to produce a prospectus for offers of securities.

An offer to the public of New Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

(a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (i) an average of at least 250 employees during its last fiscal year; (ii) a total balance sheet of more than €43,000,000 (as shown on its last annual unconsolidated or consolidated financial statements) and (iii) an annual net turnover of more than €50,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

(c) to fewer than 100 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Company or any underwriter for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

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France
This document is not being distributed in the context of a public offering of financial securities (offre au public de titres financiers) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (Code monétaire et financier) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers ("**AMF**"). The New Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This document and any other offering material relating to the New Shares have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed or caused to be distributed, directly or indirectly, to the public in France.

Such offers, sales and distributions have been and shall only be made in France to (i) qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-1 to D.411-3, D.734-1, D. 744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (ii) a restricted number of non-qualified investors (cercle restreint d'investisseurs) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the New Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Hong Kong
WARNING: This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**"), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "**SFO**"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong by means of any document, other than:

- to "professional investors" (as defined in the SFO); or
- in other circumstances that do not result in this document being a "prospectus" (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted New Shares may sell, or offer to sell, such shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such shares.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Ireland
The information in this document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). The New Shares have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to (i) qualified investors as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 100 natural or legal persons who are not qualified investors.

Italy
The offering of the New Shares in the Republic of Italy has not been authorised by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, "**CONSOB**") pursuant to the Italian securities legislation and, accordingly, no offering material relating to the New Shares may be distributed in Italy and such securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998 ("**Decree No. 58**"), other than:

- to Italian qualified investors, as defined in Article 100 of Decree no.58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999 ("**Regulation no. 11971**") as amended ("**Qualified Investors**"); and
- in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971 as amended.

Any offer, sale or delivery of the New Shares or distribution of any offer document relating to the New Shares in Italy (excluding placements where a Qualified Investor solicits an offer from the issuer) under the paragraphs above must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws; and
- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the New Shares in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971 as amended, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such New Shares being declared null and void and in the liability of the entity transferring the New Shares for any damages suffered by the investors.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (New Zealand). The New Shares are not being offered or sold within New Zealand, or allotted with a view to being offered for sale in New Zealand, and no person in New Zealand may accept the placement other than to:

- persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money; or
- persons who are each required to (i) pay a minimum subscription price of at least NZ$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ$500,000 for securities of the Company ("**initial securities**") in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

Norway

This document has not been approved by, or registered with, any Norwegian securities regulator pursuant to the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The New Shares may not be offered or sold, directly or indirectly, in Norway except:

(a) to "professional investors" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876);

(b) any natural person who is registered as a professional investor with the Oslo Stock Exchange (No. Oslo Børs) and who fulfils two or more of the following: (i) any natural person with an average execution of at least ten transactions in securities of significant volume per quarter for the last four quarters; (ii) any natural person with a portfolio of securities with a market value of at least €500,000; and (iii) any natural person who works, or has worked for at least one year, within the financial markets in a position which presupposes knowledge of investing in securities;

(c) to fewer than 100 natural or legal persons (other than "professional investors", as defined in clauses (a) and (b) above); or

(d) in any other circumstances provided that no such offer of New Shares shall result in a requirement for the registration, or the publication by the Company or an underwriter, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

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This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined under section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Sweden
This document has not been, and will not be, registered with or approved by Finansinspektionen (the Swedish Financial Supervisory Authority). Accordingly, this document may not be made available, nor may the New Shares be offered for sale in Sweden, other than under circumstances that are deemed not to require a prospectus under the Swedish Financial Instruments Trading Act (1991:980) (Sw. lag (1991:980) om handel med finansiella instrument). Any offering of New Shares in Sweden is limited to persons who are "qualified investors" (as defined in the Financial Instruments Trading Act). Only such investors may receive this document and they may not distribute it or the information contained in it to any other person.

Switzerland
The New Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the New Shares may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering material relating to the New Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of New Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

United Kingdom
Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("**FSMA**")) has been published or is intended to be published in respect of the New Shares. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA). This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of s.21 FSMA) received in connection with the issue or sale of the New Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which s.21(1) FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("**FPO**"); (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO; or (iii) to whom it may otherwise be lawfully communicated (together "**relevant persons**"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

United States
The Shareholder Offer is not being made in the United States or to, or for the account or benefit of, persons in the United States. Accordingly, Eligible Retail Shareholders who hold Shares on behalf of persons in the United States may not take up their rights or apply for New Shares on behalf of such persons, and may not send to such persons this Prospectus, the Shareholder Offer Acceptance Form or any other material relating to the Shareholder Offer.

This document has been prepared for publication in Australia and may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 (as amended) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

11.21 Transaction Costs

The total estimated Transaction Costs in connection with the Recapitalisation Proposal (including advisory, legal, accounting, tax, listing and administrative fees, the Joint Lead Managers' management and underwriting fees, the Debt Refinancing fees paid to the lender, printing, advertising and other expenses relating to this Prospectus) are currently estimated to be $12.9 million to be paid by Photon.

11.22 Privacy

As a Shareholder, Photon and the Share Registry collect personal information from you in order to process your Application, administer your shareholding and to provide you with services related to your shareholding. To do that, Photon and the Share Registry may disclose your personal information to our agents, contractors or third-party service providers to whom they outsource services such as mailing functions, registry and accounting. Photon may also disclose your personal information to your financial adviser, or as required by law. If you do not provide the information requested, your Application may not be able to be processed.

You can request access to your personal information held by or on behalf of Photon or the Share Registry by writing to or telephoning:

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

1300 885 080

11.23 Governing Law

This Prospectus and the contracts that arise from acceptance of the Applications are governed by the laws applicable in New South Wales, Australia and each Applicant submits to the non-exclusive jurisdiction of the courts of New South Wales, Australia.

11.24 Consent to lodgement

Each of the Directors has consented to the issue of this Prospectus and its lodgement with ASIC.

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Section 12

$, A$, dollars or **cents**	Australian dollars or cents (as appropriate).
3A Trigger	As described in Section 11.6.4.
3B Trigger	As described in Section 11.6.4.
ABN	Australian Business Number.
Additional New Shares	New Shares applied for by an Applicant in excess of their entitlement under the Shareholder Offer.
AEST	Australian Eastern Standard Time.
Allotment Date	29 September 2010 or such later date as agreed by Photon and the Joint Lead Manager which is no later than one month after the General Meeting.
ANZ	Australian and New Zealand Banking Group Limited (ABN 11 005 357 522).
ANZ Termsheet	Termsheet entered into with ANZ on or about 16 August 2010 as set out in Section 11.8.
Applicant	A person that lodges an Application pursuant to this Prospectus.
Application(s)	An application for New Shares under this Prospectus made on the Shareholder Offer Acceptance Form attached to, or accompanying, this Prospectus, and accompanied by the relevant Application Monies.
Application Monies	The monies payable in connection with an Application, being the amount of money accompanying a Shareholder Offer Acceptance Form.
ASIC	Australian Securities and Investments Commission.
Associates	Has the meaning given to that term under section 11 and sections 13 to 17 of the Corporations Act. Section 13 is to be applied as if it was not confined to associate references occurring in Chapter 7 of the Corporations Act.
ASTC Settlement Rules	The settlement rules of the ASX Settlement Pty Limited (ABN 49 008 504 532).
ASX	ASX Limited (ABN 98 008 624 691) or Australian Securities Exchange as the context requires.
ATO	Australian Taxation Office.
Australian Accounting Standards	Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board and Urgent Issues Group Interpretations.
Board	The Board of Directors of Photon.
Business Day	Has the meaning given to it in the Listing Rules.
Capped Amounts	As described in Section 11.6.4.
CEO	Chief Executive Officer of Photon Group.
CEO LTI Shares	The issuance of up to 72.9 million New Shares to Mr Jeremy Philips in connection with the Recapitalisation Proposal in accordance with the terms of his Service Agreement and provided pursuant to a limited recourse loan in accordance with the Service Agreement.
CGT	Capital Gains Tax.
Chairman	Chairman of the Board.

CHESS	Clearing House Electronic Subregister System, operated in accordance with the Corporations Act.
Closing Date	The date on which the Offer closes, being 5.00pm (AEST) on 23 September 2010. These dates and times may be varied by Photon Group, in consultation with the Joint Lead Managers, without prior notice.
Company Secretary	The company secretary of Photon.
Constitution	The Constitution of Photon.
Corporate Directory	The Corporate Directory at the back of this Prospectus.
Corporations Act	Corporations Act 2001 (Cth) and its regulations.
CY	Calendar year ending 31 December.
Debt Refinancing	The refinancing of Photon's debt facilities as described in Section 1.4.
Deferred Consideration Beneficiaries	The Vendors of the Operating Entities who are entitled to receive a Deferred Consideration Payment, which is outstanding at the date of this Prospectus.
Deferred Consideration Issue	The issue of New Shares to the Deferred Consideration Beneficiaries as part of the settlement of the restructured Deferred Consideration Payments as described in Section 1.2.
Deferred Consideration Liabilities	The liabilities included on the balance sheet of Photon representing the present value of the expected future Deferred Consideration Payments to Deferred Consideration Beneficiaries. This includes the present value of expected future dividend payments to shareholders of a non-wholly owned Operating Entity.
Deferred Consideration Payments	The outstanding amounts payable to the Deferred Consideration Beneficiaries pursuant to the terms of the Original Acquisition Agreements and the Deferred Consideration Restructure.
Deferred Consideration Restructure	The restructure of the Deferred Consideration Payments, including capping substantially all of the Deferred Consideration Liability and restructuring the timing and form of Deferred Consideration Payments on the terms set out in Section 11.6.
Deferred Consideration Restructure Agreements	The agreements entered into by Photon and the Deferred Consideration Beneficiaries to amend the Original Acquisition Agreements and give effect to the Deferred Consideration Restructure as described in Section 11.6.
Director	A Director of Photon.
DPS	Dividends per share.
EBIT	Earnings before interest and tax.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Effective Date	The date on which the amendments as contemplated under the ANZ Term Sheet become effective.
Eligible Institutional Shareholder	Each Shareholder who, as at the Record Date, is not an Ineligible Institutional Shareholder and who is: – an Institutional Investor; and – entitled to receive an offer under the Institutional Shareholder Offer as agreed by Photon and the Underwriters.

Eligible Retail Shareholder	Each Shareholder who, as at the Record Date: – has a registered address in Australia; – is not in the United States and is not acting for the account or benefit of a person in the United States; – is eligible under all applicable securities laws to receive an offer under the Retail Shareholder Offer; and – is not an Eligible Institutional Shareholder or an Ineligible Institutional Shareholder.
Eligible Shareholder	Eligible Institutional Shareholder and Eligible Retail Shareholder (or either one of them, as the context requires).
EPS	Earnings per share.
Equity Raising	The Shareholder Offer and the Placement.
Excess Amount	As described in Section 5.2.
Existing Facilities Agreement	The facilities agreement dated 31 October 2007 with ANZ as amended from time to time.
Existing Shares	The existing Shares of Photon as at the Record Date.
Financial Information	The Historical Financial Information, Forecast Financial Information, and Pro-Forma Financial Information, as described in Section 7.1.
Forecast Financial Information	As described in Section 7.2.2.
FY	Financial year ended or ending 30 June as the context requires.
FY2009A	The actual financial results for the financial year ended 30 June 2009.
FY2010	The financial year ended 30 June 2010.
FY2010F	The unaudited financial results for the year ended 30 June 2010.
FY2010PF	The pro-forma financial results for the year ended 30 June 2010 as though the Recapitalisation Proposal had been completed on 30 June 2009.
General Meeting	The general meeting of Shareholders of Photon to be held at Level 4, 60 Carrington Street, Sydney NSW 2000, at 11.00am on Friday, 17 September 2010.
Group EBITDA	Earnings before interest, tax, depreciation, amortisation and extraordinary and abnormal items of the Group.
GST	Has the meaning given in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).
HIN	Holder Identification Number.
Historical Financial Information	As described in Section 7.1 and Section 7.2.1.
Ineligible Institutional Shareholder	A Shareholder who, if it had a registered address in Australia would, in the reasonable opinion of Photon, be an Institutional Investor, but who Photon and the Underwriter agree shall not receive an offer under the Institutional Shareholder Offer.
Ineligible Retail Shareholder	A Shareholder who is not an Eligible Institutional Shareholder, an Ineligible Institutional Shareholder or an Eligible Retail Shareholder.
Ineligible Shareholder	A Shareholder who is not an Eligible Shareholder.

Institutional Investor	A person to whom an offer of New Shares may be made as part of the Institutional Shareholder Offer:
	– in Australia without:
	  – a disclosure document (as defined in the Corporations Act) on the basis that such person is exempt from the disclosure requirements of Part 6D.2 in accordance with section 708(8) or 708(11) of the Corporations Act; and
	  – who is not, and is not acting for the account or benefit of, a person in the United States; or
	– outside Australia without registration, lodgement or approval of a formal disclosure document or other filing in accordance with the laws of that foreign jurisdiction (except to the extent Photon, in its absolute discretion, is willing to comply with such requirements) and who is not in the United States and is not acting for the account or benefit of a person in the United States.

Institutional Shareholder Offer	The invitation to Eligible Institutional Shareholders to subscribe for New Shares as described in Section 4.7.
Investigating Accountant	KPMG Transaction Services (Australia) Pty Limited (ABN 65 003 891 718).
Joint Lead Managers or **JLMs**	Macquarie Capital Advisers Limited and UBS AG, Australia Branch.
Listing Rules	The Official Listing Rules of ASX as amended and waived from time to time.
Macquarie Capital Advisers Limited	Macquarie Capital Advisers Limited (ABN 79 123 199 548).
New Facilities	Agreement with Photon's lender to refinance its existing debt facilities with $230 million cash advance facilities and a $45 million bank guarantee facility.
New Shares	The Shares to be issued under the Shareholder Offer, the Placement, the CEO LTI Shares and the Deferred Consideration Issue.
Non-Executive Director	Non-Executive Director of Photon.
Normalised EBITDA	Earnings before interest, tax, depreciation and amortisation and extraordinary and abnormal items.
Notice of Meeting	The notice of general meeting and its accompanying Explanatory Notes in relation to the general meeting of Photon to deal with resolutions relating to the Recapitalisation Proposal dated on or about the date of this Prospectus.
NPAT	Net profit after tax.
NPATA	Net profit after taxes before amortisation of acquired intangibles.
NZ$	New Zealand dollars.
Offer	The offer of New Shares under this Prospectus.
Offer Documents	This Prospectus and the Shareholder Offer Acceptance Form.
Offer Price	$0.10 per New Share.
Offer Shares	The 1,175 million New Shares being offered under this Prospectus.
Official List	The official list of entities that ASX has admitted and not removed from listing.
Operating Entities	Operating subsidiaries of Photon.
Option	An option to be issued a Share.

Original Acquisition Agreements	As described in Section 11.6.1.
PE	Price to earnings, being the ratio between market price and NPAT per Share.
Photon	Photon Group Limited (ABN 97 091 524 515).
Photon Group or **Group**	Photon and each of its related bodies corporate and controlled entities.
Photon Share or **Share**	A fully paid ordinary share in the capital of Photon.
Photon Shareholder Information Line	For further information, contact details as set out below: within Australia 1300 706 274 (local call cost); and outside Australia +61 3 9938 4338. The line is open from 8.30am to 5.00pm (AEST) Monday to Friday during the Shareholder Offer Period.
Placement	The offer by way of placement of New Shares to Institutional Investors and Jeremy Philips to raise an aggregate of approximately $40.0 million.
Pro-Forma Consolidated Balance Sheet	Has the meaning given in Section 7.5.
Pro-Forma Financial Information	Has the meaning given in Section 7.2.4.
Pro-Forma Forecast Consolidated Income Statement	Has the meaning given in Section 7.3.
Pro-Rata Component	The component of the Shareholder Offer under which Eligible Shareholders may apply for 7 New Shares for every 2 Existing Shares held on the Record Date.
Prospectus	This prospectus (including the electronic form of this prospectus), and any supplementary or replacement prospectus in relation to this document.
Recapitalisation Conditions	Has the meaning given in Section 1.6.
Recapitalisation Proposal	The Deferred Consideration Restructure, the Debt Refinancing and the Equity Raising.
Recapitalisation Resolutions	Resolutions 1, 2 and 3 as set out in the Notice of Meeting.
Record Date	7.00pm (AEST) on 13 August 2010 (subject to variation), being the date on which Eligible Shareholders who are permitted to participate in the Shareholder Offer will be determined.
Resolutions	The resolutions set out in the Notice of Meeting.
Retail Shareholder Offer	The invitation to Eligible Retail Shareholders made pursuant to this Prospectus as described in Section 4.2.
RG Capital	RG Capital Multimedia Limited, RG Capital Multimedia Pty Limited (ACN 000 648 331) and Irish Global Equity Limited and their Associates.
Service Agreement	The service agreement entered into between Photon and Jeremy Philips on or about 20 April 2010, as amended on or about 17 August 2010.

Share Consolidation	As described in Section 1.8.
Share Registry	Computershare Investor Services Pty Limited (ABN 48 078 279 277).
Shareholder	A registered holder of Shares.
Shareholder Offer	The Offer to Eligible Shareholders as set out in Section 4.2.
Shareholder Offer Acceptance Form	The form attached to or accompanying this Prospectus on which Applications for New Shares can be made.
Shareholder Offer Period	The period from the date on which the Retail Shareholder Offer opens until the Closing Date. See "Key dates".
Shortfall	New Shares not taken up by Eligible Retail Shareholders under the Pro-Rata Component of the Shareholder Offer or that would have been offered to Ineligible Retail Shareholders under the Pro-Rata Component of the Shareholder Offer if they had been entitled to participate in the Shareholder Offer.
SRN	Securityholder Reference Number.
Sunset Date	As described in Section 11.6.4.
TFN	Tax File Number.
Top-Up Component	The component of the Shareholder Offer under which Eligible Shareholders may apply for New Shares in excess of 7 New Shares for 2 Existing Shares held on the Record Date up to $10,000.
Tranche 1 Payment	As described in Section 1.3.1.
Tranche 2 Payment	As described in Section 1.3.1.
Tranche 3 Payment	The amount equal to the total actual Deferred Consideration Payment due to a Vendor under the terms of the applicable Deferred Consideration Restructure Agreement minus the amount of the Tranche 1 Payment and the Tranche 2 Payment due to that Vendor.
Tranche 3A Payment	As described in Section 1.3.1.
Tranche 3B Payment	As described in Section 1.3.1.
Transaction Costs	As described in Section 11.21.
UBS AG, Australia Branch	UBS AG, Australia Branch (ABN 47 088 129 613).
Underwriters	Macquarie Capital Advisers Limited and UBS AG, Australia Branch, and for the purposes only of the Resolutions any sub-underwriters to the Equity Raising or other persons who may be allocated Shares under the Underwriting Agreement.
Underwriting Agreement	The underwriting agreement dated 17 August 2010 between Photon and the Joint Lead Managers.
US or **United States**	United States of America.
US Securities Act	The United States Securities Act of 1933, as amended.
US$	US dollars.
Vendor	The vendors of the Operating Entities who entered into the Original Acquisition Agreements.

Corporate directory

Offices and officers
Principal Registered Office
Level 9
155 George Street
Sydney NSW 2000

Telephone: +61 2 8213 3031
Facsimile: +61 2 8213 3030

Directors
Brian Bickmore (Chairman)
Paul Gregory
Susan McIntosh

Company Secretary
Eleni North

Location of Share Registry
Computershare Investor
Services Pty Limited
Level 4
60 Carrington Street
Sydney NSW 2000

Telephone: 1300 855 080
Outside Australia: +61 3 9415 4000
Facsimile: +61 2 8234 5050

Securities Exchange
Photon is listed on the Australian Securities Exchange (PGA).

The home exchange is Sydney.

Photon Group Limited
Shareholder Offer Information Line

Within Australia: 1300 706 274
Outside Australia: +61 3 9938 4338

Contact Hours: 8.30am to 5.00pm AEST Monday to Friday, during the Shareholder Offer Period

Other Information
Photon Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Legal Adviser to Offer
Gilbert + Tobin
Level 37
2 Park Street
Sydney NSW 2000

Auditor
KPMG
10 Shelley Street
Sydney NSW 2000

Investigating Accountant
KPMG Transaction Services (Australia) Pty Limited
10 Shelley Street
Sydney NSW 2000

Financial Advisers, Joint Lead Managers and Underwriters
Macquarie Capital Advisers Limited
Level 9
1 Martin Place
Sydney NSW 2000

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Financial Adviser to the Board
Aquasia
Level 9
9 Castlereagh Street
Sydney NSW 2000