

Photon Group

Rights Issue Offer Document

For a non-renounceable pro rata offer of New Shares each at an Issue Price of \$3.00 on the basis of 1 New Share for every 3 Shares held on the Record Date.

If you are an Eligible Shareholder, this is an important document that requires your immediate attention. It should be read in its entirety. If, after reading this document, you have any questions about the securities being offered under it or any other matter, you should contact your stockbroker, solicitor, accountant or other professional adviser.

Underwriters



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IMPORTANT NOTICES

This Offer Document is dated
4 June 2008.

This Offer is being made without a prospectus in accordance with section 708AA of the Corporations Act.

This Offer Document is not a prospectus or any other form of disclosure document regulated by the Corporations Act and has not been lodged with ASIC. Accordingly, this Offer Document does not contain all of the information which a prospective investor may require to make an investment decision and it does not contain all of the information which would otherwise be required by Australian law or any other law to be disclosed in a prospectus. Announcements made by Photon to ASX are available from the ASX website www.asx.com.au. The information in this Offer Document does not constitute a securities recommendation or financial product advice.

This Offer Document is important and should be read in its entirety before deciding to participate in the Offer. This Offer does not take into account, and this Offer Document has been prepared without taking into account, the investment objectives, financial or taxation situation or particular needs of any Applicant.

Before applying for New Shares, each Applicant should consider whether such an investment, and the information contained in this Offer Document, are appropriate to their particular needs, and considering their individual risk profile for speculative investments, investment objectives and individual financial circumstances. Each Applicant should consult their stockbroker, solicitor, accountant or other professional adviser without delay.

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

By returning an Entitlement and Acceptance Form or lodging an Entitlement and Acceptance Form with your stockbroker or otherwise arranging for payment for your

New Shares through BPAY® in accordance with the instructions on the Entitlement and Acceptance Form, you acknowledge that you have received and read this Offer Document, you have acted in accordance with the terms of the Offer detailed in this Offer Document and you agree to all of the terms and conditions as detailed in this Offer Document.

Offering restrictions

This Offer Document has been prepared to comply with the requirements of the laws of Australia. No action has been taken to lodge this Offer Document in any jurisdiction outside of Australia, or to otherwise permit a public offering of Rights or Shares, in any jurisdiction outside Australia.

The Offer is not being extended to any Shareholder whose registered address is outside of Australia or New Zealand other than Eligible Institutional Shareholders, and persons who receive this Offer Document (including an electronic copy) in jurisdictions outside Australia and New Zealand should ignore those sections which relate to the Offer. Any failure to comply with foreign legal restrictions in connection with the Offer may constitute a violation of applicable securities laws, and persons who enter into possession of this Offer Document should seek advice on and observe any such restrictions. This Offer Document does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

Future performance and forward looking statements

Neither Photon nor any other person warrants or guarantees the future performance of the New Shares or any return on any investment made pursuant to the Rights Issue.

The pro forma financial information provided in this Offer Document is for illustrative purposes only and is not represented as being indicative of Photon's view on its future financial condition and/or performance.

The forward looking statements in this Offer Document 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 Offer Document. Investors should specifically refer to section 5, "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 Offer Document.

Definitions, currency and time

Definitions of certain terms used in this Offer Document are contained in section 8. All references to currency are to Australian dollars and all references to time are to AEST, unless otherwise indicated.

Governing law

This Offer Document, the Offer and the contracts formed on acceptance of the Applications are governed by the law applicable in New South Wales, Australia. Each Applicant submits to the exclusive jurisdiction of the courts of New South Wales, Australia.

Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Offer Document. Any information or representation in connection with the Offer not contained in the Offer Document may not be relied upon as having been authorised by the Company or any of its officers.

The Underwriters:

- have not authorised, permitted or caused the issue, lodgement, submission, despatch or provision of this document;
- do not make, or purport to make, any statement in this document, and there is no statement in this document which is based on any statement by the Underwriters; 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 document.

Enquiries

If you have any questions in relation to the Rights Issue, please contact your stockbroker, solicitor, accountant or financial adviser. If you have questions in relation to how to complete the Entitlement and Acceptance Form, please call the Photon Group Rights Issue Infoline on 1300 727 501 (Australia) or +61 3 9946 4441 (International).

Privacy

As a Shareholder, Photon and the Share Registry have already collected certain personal information from you. If you apply for New Shares, Photon and the Share Registry may update your personal information or collect additional personal information. Such information will be used to assess your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

Company and tax law requires some of the information to be collected. If you do not provide the information requested, your Application may not be able to be processed efficiently, if at all.

Photon and the Share Registry may disclose your personal information for purposes related to your shareholding to their agents and service providers as authorised under the Privacy Act.

Under the Privacy Act, you may request access to your personal information held by (or on behalf of) Photon or the Share Registry.

If Photon's or the Share Registry's record of your personal information is incorrect or out of date, it is important that you contact the Share Registry so that your records can be corrected.

Message from the Executive Chairman

4 June 2008

Dear Shareholder,

On behalf of the Board, it is my pleasure to invite you to participate in the Rights Issue announced by the Company on 4 June 2008. This provides you with the opportunity to increase your investment in Photon to further participate in the continued growth of the Company.

Details of the Offer

Eligible Shareholders are being offered the opportunity to subscribe for 1 New Share for every 3 Shares held on the Record Date at the Issue Price of \$3.00 per New Share. This represents a discount of 25.9% to the closing price of Photon Shares trading on ASX on Friday, 30 May 2008 and a 20.8% discount to the theoretical ex-rights price on that date.

Shareholders should note that the Offer is non-renounceable. This means that your Rights to subscribe for New Shares under this Offer Document are not transferable and there will be no trading of Rights on ASX.

Use of proceeds

The Offer is expected to raise approximately \$76.6 million. The Offer is fully underwritten by UBS and Southern Cross Equities. The Principals who represent 40.35% of the Share Register have provided an irrevocable commitment to take up their full Entitlement of New Shares.

The Company has been successful in acquiring 13 companies since July 2007 across each of its five specialist divisions, including the acquisition of Naked Communications, one of the world's leading communications strategy consultancies, in February this year. The Board believes that the Company's diversified international portfolio of specialist companies will provide an excellent platform for future growth. The Company has a significant earnings base from diversified marketing and communications activities (including direct marketing, public relations and internet communications), with less than 15% of forecast FY08 EBITDA from traditional advertising agencies.

As a result of its success in delivering on acquisition opportunities, the Company currently has debt facilities of around \$346 million, which today are drawn to approximately \$322 million. Of the total facilities, \$76 million matures in October 2011, \$120 million matures in October 2010 and \$150 million matures in July 2009. The Offer will enable Photon to reduce the balance of debt due in 2009 to approximately \$52 million and the total debt drawn under these facilities to \$245.4 million, which should provide a solid financial base for future growth. The Offer will allow Photon to continue to pursue opportunities to acquire high quality businesses whilst also maintaining prudent leverage ratios.

Next steps

Information about the Offer and the key risks of investing in the Company are set out in this Offer Document. I encourage you to read it carefully before making your investment decision.

On behalf of the Board, I commend this Offer to you and look forward to you continuing your investment in the Company.

Yours sincerely,



Tim Hughes
Executive Chairman

Key dates

Event	Date
Offer Document lodged with ASX	4 June 2008
Shares quoted on an "ex" Entitlement basis	6 June 2008
Record Date for determining Entitlements	13 June 2008
Offer Document Despatched to Eligible Shareholders	17 June 2008
Offer Opening Date	17 June 2008
Offer Closing Date	8 July 2008
Trading on ASX of New Shares on a deferred settlement basis	9 July 2008
Allotment	16 July 2008
Trading on ASX of New Shares on a normal settlement basis	17 July 2008
Despatch of holding statements	18 July 2008

These dates are subject to change and are indicative only. Photon reserves the right to amend this Timetable, with the consent of the Underwriters where required, including, subject to the Corporations Act and the Listing Rules, to extend the Closing Date, and Photon reserves the right to withdraw the Offer at any time in its absolute discretion.

Key Offer statistics

Issue Price per New Share	\$3.00 per New Share
Entitlement – holders of Shares	1 New Share for every 3 Shares held at 5.00pm AEST on the Record Date
Number of New Shares offered under the Rights Issue ¹	Approximately 25.5 million
Amount to be raised under the Rights Issue ²	Approximately \$76.6 million
Total number of Shares on issue at completion of the Offer ¹	102,119,159

1. Due to the rounding of Entitlements, the exact number of New Shares to be issued under the Rights Issue will not be known until completion of the Rights Issue.
2. The Rights Issue is underwritten by the Underwriters. See section 7.1 for a summary of the Underwriting Agreement. If the Underwriting Agreement is terminated, the full amount of the Rights Issue may not be received, or the Rights Issue may not proceed.

1 Key information

1.1 Offer

This Offer Document contains an Offer of New Shares in Photon under a non-renounceable Rights Issue. Under the Offer, Eligible Shareholders are entitled to subscribe for 1 New Share for every 3 Shares held on the Record Date, at an Issue Price of \$3.00 each, subject to the terms of this Offer Document.

The New Shares will be fully paid and will rank equally with Photon's existing Shares on issue. The Closing Date and time for acceptances and payments is 5.00pm AEST on **8 July 2008**.

Details of the Offer are set out in full in section 2.

1.2 What you need to do

The number of New Shares to which you are entitled (**Entitlement**) is shown on the accompanying Entitlement and Acceptance Form. Eligible Shareholders may:

- take up all of the Entitlement in full (refer section 3.2); or
- take up part of the Entitlement and allow the balance to lapse (refer section 3.3); or
- allow all of the Entitlement to lapse (refer section 3.4).

See section 3 for detailed instructions of what you need to do.

1.3 Purpose of the Offer and use of proceeds

The Offer is fully Underwritten³ and will result in approximately 25,529,790 New Shares⁴ being issued, raising approximately \$76,589,369 (before the costs of the Offer).

The Company intends to apply the net proceeds of the Offer towards reducing the amounts drawn under its existing debt facilities.

1.4

Financial impact of the Offer

A summary of the financial impact on Photon of the Offer is contained in section 4.

1.5

Effects of the Offer on the capital structure of Photon

There are 76,589,369 Shares on issue as at the date of this Offer Document. After the issue of the New Shares under the Offer there will be approximately 102,119,159 Shares⁴ on issue.

1.6

Risk factors

Any investment in Photon involves general risks associated with an investment of shares listed on ASX. The price of the New Shares may rise or fall. There are also a number of risk factors, both specific to Photon and of a general nature, which may affect the future operating and financial performance of Photon and the value of an investment in Photon. These specific risks include:

- competitive industry dynamics;
- ability of clients to terminate contracts on short notice;
- seasonality of revenue;
- dependence on key personnel;
- management of profitability and growth of acquisitions;
- access to debt and equity funding to support the business and its growth;
- availability of future acquisitions;
- international business risk, including foreign exchange exposure;
- identification of risk in completed and future acquisitions; and
- asset value impairment.

There is a further discussion of risks in section 5. Before deciding to invest in New Shares, Eligible Shareholders should consider all risk factors carefully.

3. See section 7.1 for a summary of the Underwriting Agreement. If the Underwriting Agreement is terminated, the full amount of the Rights Issue may not be received, or the Rights Issue may not proceed.

4. Due to the rounding of Entitlements, the exact number of New Shares to be issued under the Rights Issue will not be known until completion of the Rights Issue.

1 Key information continued

1.7

CHESS

The Company participates in the Clearing House Electronic Subregister System, known as CHESS. ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532 (**ASTC**), a wholly owned subsidiary of ASX, operates CHESS in accordance with the Listing Rules and ASTC Settlement Rules.

Under CHESS, Applicants will not receive a certificate but will receive a statement of their holding of New Shares.

If you are registered in the Issuer Sponsored Subregister, your statement will be despatched by Security Transfer Registrars Pty Ltd and will contain the number of New Shares issued to you under this Offer Document and your security holder reference number.

A CHESS statement or Issuer Sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. Shareholders may request a statement at any other time; however, there may be a charge associated with the provision of this service.

2 Details of the Offer

2.1

The Offer

Photon is making a pro rata non-renounceable rights issue offering Eligible Shareholders 1 New Share for every 3 Shares they hold on the Record Date, being 5.00 pm AEST on 13 June 2008. The Issue Price of \$3.00 per New Share is payable in full on application.

The number of New Shares to which you are entitled (**Entitlement**) is shown on the accompanying Entitlement and Acceptance Form. In determining Entitlements under the Rights Issue, any fractional Entitlement, after aggregating all holdings of the one Eligible Shareholder, will be rounded up to the nearest whole number.

2.2

Opening and Closing Dates

The Offer will open for receipt of acceptances on **17 June 2008**. The Closing Date and time for acceptances and payments is 5.00pm AEST on **8 July 2008**, subject to Photon varying those dates in accordance with the Corporations Act, with the Listing Rules and with the consent of the Underwriters if required.

2.3

Who is entitled to participate in the Offer?

Every Eligible Shareholder who is registered as the holder of Shares at 5.00pm AEST on the Record Date is entitled to participate in the Offer.

2.4

No Rights trading

The offer is non-renounceable. This means that your Right to subscribe for New Shares under this Offer Document is not transferable and there will be no trading of Rights on ASX. Any Rights not taken up by an Eligible Shareholder will be taken up by the Underwriters, subject to the terms of the Underwriting Agreement.

2.5

Issue of New Shares and refund of Application Monies

Photon expects that the New Shares will be issued by 16 July 2008 and holding statements will be despatched on 18 July 2008. Issues of New Shares under this Offer will only be made after approval for their quotation on ASX has been granted.

Application Monies will be held in a subscription account established and held by Photon on behalf of each Eligible Shareholder until the New Shares are issued. If the above condition for the issue of New Shares is not satisfied, the Application Monies will be refunded to Eligible Shareholders.

If the Application Monies are refundable, they will be refunded as soon as reasonably practicable. Interest earned on the Application Monies will be for the benefit of Photon and will be retained by Photon irrespective of whether New Shares are issued.

2 Details of the Offer continued

2.6

Underwriting

The Offer is fully underwritten by UBS and Southern Cross Equities.

The Underwriters have agreed to take up or procure subscribers for any New Shares which are not accepted by Eligible Shareholders, subject to the terms of the Underwriting Agreement. The Principals, who represent 40.35% of the Share Register, have provided an irrevocable commitment to take up their full Entitlement of 10,301,006 New Shares.

Details of the Underwriting Agreement are set out in section 7.1.

2.7

Restrictions on the Offer in jurisdictions outside Australia

This Offer does not constitute an offer or invitation to subscribe for New Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue this Offer Document.

In accordance with the Listing Rules, Entitlement and Acceptance Forms are not being sent to Non-participating Shareholders. It is the responsibility of any Shareholder outside Australia or New Zealand to ensure compliance with the laws of any country relevant to their Application.

No action has been taken to register or qualify the Offer in any jurisdiction outside Australia.

3 What you need to do

3.1

What you may do

The number of New Shares to which Eligible Shareholders are entitled is shown on the accompanying Entitlement and Acceptance Form. Eligible Shareholders may:

- take up all of the Entitlement in full (refer section 3.2); or
- take up part of the Entitlement and allow the balance to lapse (refer section 3.3); or
- allow all of the Entitlement to lapse (refer section 3.4).

Non-participating Shareholders may not take any of the steps set out in sections 3.2 and 3.3.

The Company reserves the right to reject any Entitlement and Acceptance Form that is not correctly completed or that is received after the Closing Date. An Application for your Entitlement may be for any number of New Shares but must not exceed your Entitlement as shown on the Form. If it does, your Application will be deemed to be for your full Entitlement.

By completing an Entitlement and Acceptance Form or paying your Application Monies through BPAY®, Shareholders will be deemed to have made the representations, warranties and agreements set out in the Entitlement and Acceptance Form.

3.2

If you wish to apply for all of your Entitlement

If you wish to take up the Entitlement in full, complete the Entitlement and Acceptance Form, in accordance with the instructions set out therein. Post your completed Entitlement and Acceptance Form, together with your Application Monies, in accordance with section 3.5 for the amount shown on the Entitlement and Acceptance Form to the Share Registry so that it is received no later than 5.00pm AEST on 8 July 2008 at the address set out below:

Photon Group Limited
Computershare Investor Services Pty Limited
GPO Box 253
Sydney NSW 2001
Australia

You may also take up all of your Entitlement by arranging for payment of the Application Monies through BPAY® in accordance with the instructions on the Entitlement and Acceptance Form. If payment is being made through BPAY®, you do not need to return the Entitlement and Acceptance Form. Your payment must be received by no later than 5.00pm AEST on 8 July 2008.

3.3

If you wish to apply for part of your Entitlement and allow the balance to lapse

If you wish to take up part of the Entitlement and allow the balance to lapse, complete the Entitlement and Acceptance Form for the number of New Shares you wish to take up and follow the steps required in accordance with section 3.2. Alternatively, arrange for payment through BPAY® in accordance with the instructions on the Entitlement and Acceptance Form. If you take no further action, the balance of the Entitlement will lapse.

3.4

If you wish to allow all of your Entitlement to lapse

If you do not wish to accept any part of the Entitlement, do not take any further action and the Entitlement will lapse. You will receive no payment for your lapsed Entitlement. 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.

3.5

Payment

The Issue Price for the New Shares is payable in full on application by a payment of \$3.00 per New Share. The Entitlement and Acceptance Form must be accompanied by a cheque for the Application Monies. Cheques must be drawn in Australian currency on an Australian bank account and made payable to "Photon Group Limited Share Offer" and crossed "Not Negotiable".

Alternatively, you may arrange for payment of the Application Monies through BPAY® in accordance with the instructions on the Entitlement and Acceptance Form. Eligible Shareholders must not forward cash by mail. Receipts for payment will not be issued.

4 Financial information

The following Photon pro forma consolidated Balance Sheet shows the impact of the Offer on Photon's net assets as compared to the consolidated Balance Sheet at 31 December 2007. The consolidated Balance Sheet also includes pro forma adjustments for the acquisition of Naked Communications Limited and Retail Insights Limited, which were completed after 31 December 2007. The pro forma consolidated Balance Sheet assumes that funds raised from the Offer are applied to reducing the amount drawn under Photon's debt facilities.

Balance Sheet

\$A	31/12/2007 Consolidated Balance Sheet	Pro Forma ¹ Consolidated Balance Sheet
Current Assets		
Cash and cash equivalents	35,907,935	43,499,332
Trade and other receivables	83,737,572	100,341,769
Other assets	17,759,860	20,404,929
Total Current Assets	137,405,367	164,246,031
Non-Current Assets		
Receivables	87,187	87,187
Other financial assets	18,716,729	19,852,939
Property, Plant and Equipment	20,031,624	22,042,980
Intangibles	450,415,213	482,035,638
Deferred Tax Assets	9,963,412	9,963,412
Other assets	2,044,378	2,044,378
Total Non-Current Assets	501,258,543	536,026,534
Total Assets	638,663,910	700,272,565
Current Liabilities		
Trade and other payables	87,400,396	105,838,851
Interest bearing loans and borrowings	14,511,690	5,744,065
Income tax payable	7,713,255	8,138,623
Employee benefits	8,037,007	9,072,982
Provisions	1,826,315	1,826,315
Total Current Liabilities	119,488,663	130,620,836

	31/12/2007 Consolidated Balance Sheet	Pro Forma ¹ Consolidated Balance Sheet
Non-Current Liabilities		
Payables	34,988,395	34,988,395
Interest bearing loans and borrowings	276,751,522	250,577,819
Deferred Tax Liabilities	10,905,058	10,965,873
Employee benefits	744,485	744,485
Provisions	3,318,003	3,318,003
Total Non-Current Liabilities	326,707,463	300,594,575
Total Liabilities	446,196,126	431,215,411
Net Assets	192,467,784	269,057,154
Equity		
Issued capital	180,113,442	256,702,812
Retained Earnings	6,606,384	6,606,384
Reserves	4,074,735	4,074,735
Minority Interest	1,673,252	1,673,252
Total Equity	192,467,813	269,057,183

1. Pro Forma consolidated Balance Sheet includes the impact of 2H FY08 acquisitions (Retail Insight and Naked Communications) and the Offer, but does not adjust for the costs of the Offer or any other balance sheet movements since 31 December 2007 including the impact of the payment of the FY08 interim dividend.

5 Risk factors

Photon is subject to a number of risks and other factors that may impact on both its future performance and the market price at which its Shares trade. Broadly, these risks can be classified as risks general to investing in the stock market and risks specific to an investment in Photon.

The New Shares to be issued under the Rights Issue do not carry any guarantee of profitability, dividends or the price at which they will trade on ASX. The Directors consider that the following summary, which is not exhaustive, represents some of the major risk factors of which investors need to be aware. However, before taking up the Offer or investing in Photon, the Directors strongly recommend that Shareholders consult their professional advisers before deciding whether to subscribe for New Shares.

5.1

General

As with all stock market investments, there are risks associated with an investment in Photon. Share prices may rise or fall and the price of Shares might trade below or above the Issue Price for the New Shares.

General factors that may affect the market price of Shares include:

- 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;
- variations in commodity prices;
- 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.

5.2

Specific risks relating to Photon

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

(a) Competitive nature of the industry

Photon and the Operating Companies 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. Further, the ability of clients to terminate contracts on short notice (discussed in more detail below) means clients may move their accounts to competitors on relatively short notice. In many cases, a Photon Operating Company represents a client for only a portion of its advertising or marketing services needs or only in particular geographic areas, thus enabling the client continually to compare the effectiveness of Photon's Operating Company against other companies' work. 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.

(b) Client's ability to terminate contracts on short notice

In the communications services industry, service agreements with clients are generally terminable by the client upon short notice, typically between three and six months. Some clients also put their advertising and communications contracts up for competitive bidding at regular intervals. Clients generally are able to reduce advertising and marketing spending or cancel projects at any time for any reason. Photon and its Operating Companies 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. Photon has in the past been able to grow its turnover notwithstanding client loss, but there is no guarantee that this will continue.

(c) Dependence on key personnel

The advertising and marketing services industries are highly dependent on the talent, creative abilities and technical skills of the personnel of the service providers and the relationships their personnel have with clients. Photon believes that its Operating Companies have established reputations in the industry that attract talented personnel, as well as structures for retaining and motivating existing employees. However, Photon, like all service providers, is vulnerable to adverse consequences from the loss of key employees including due to competition among providers of advertising and marketing services for talented personnel.

(d) Profitability and growth management

While the Company has successfully acquired and grown profitable Operating Companies to date, Photon's continued financial success is dependent upon the continued growth in profitability of these companies. To manage this growth effectively, Photon will need to maintain efficient control and supervision of its operating and financial systems and continue to expand and manage its employees. Future operating results depend to a large extent on management's ability to successfully manage and implement group strategy, organically grow the Operating Companies and manage corporate overhead costs according to budget.

(e) Seasonality of revenue

Photon's Operating Companies generally experience seasonality in earnings which historically has resulted in stronger revenue generation in the six months ending 30 June compared to the six months ending 31 December. Photon relies on the seasonality trends displayed by its Operating Companies historically to prepare forecasts and budgets. There is no guarantee that the seasonality trends displayed historically will continue in the future, including in the current financial year ending 30 June 2008.

(f) Current and additional capital requirements

There is no assurance that additional funding will be available to Photon in the future on acceptable terms. If adequate funds are not available, Photon may not be able to meet future funding obligations, take advantage of acquisition opportunities, develop new business concepts or otherwise respond to competitive pressures.

Photon has a \$346 million corporate debt facility, of which \$76 million matures in October 2011, \$120 million matures in October 2010 and \$150 million matures in July 2009. The facilities are currently drawn to \$322 million. Following the Rights Issue Photon will retain these facilities but will reduce the total debt drawn under these facilities to \$245.4 million and reduce the balance of the debt due in 2009 to approximately \$52 million. Historically, Photon has successfully refinanced its corporate debt facility when it has fallen due. However, 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. The next refinancing date is in July 2009 with up to \$150 million (drawn to approximately \$52 million following the Rights Issue) of corporate debt reaching maturity at this time. If Photon is not able to refinance these obligations when they fall due, it could have a materially adverse impact on Photon's financial position and its ability to meet its capital requirements.

(g) Interest rates

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 65% of its total interest rate exposure over the next 12 months subject to movements in interest rates. There is a risk that adverse interest rate movements may have a negative impact on the underlying profitability of Photon.

5 Risk factors continued

(h) Availability of further acquisitions

Photon will consider further acquisitions of businesses that are a strategic fit with its business model. There is a risk that appropriate acquisition opportunities or alliances may not be available or that the target companies may not be interested in dealing with Photon. This may impact on the strategic goals of the business.

(i) Risks involved in completed and future acquisitions

There is an inherent risk that the integration of a recently acquired business may encounter unexpected challenges or issues. As part of the review of any potential acquisition, Photon conducts business, legal, technical (if applicable) and financial due diligence with the goal of identifying and evaluating material risks involved in any particular transaction. Despite Photon's efforts, it may be unsuccessful in ascertaining or evaluating all such risks. As a result, it might not realise the intended advantages of any given acquisition and it also may suffer unexpected loss. Accordingly, Photon's results of operations and financial position could be adversely affected.

(j) Asset value impairment

Photon has a significant amount of acquired goodwill and other acquired intangible assets recorded on its balance sheet. It also has investments in other companies (including a 24% investment in Dark Blue Sea Limited). Photon annually tests the carrying value of goodwill and investments for impairment. The estimates and assumptions about results of operations and cash flows made in connection with impairment testing could differ from future actual results of operations and cash flows. In addition, future events could cause Photon to conclude that the asset values associated with a given operation have become impaired. Any resulting impairment loss could have a material impact on Photon's financial position, profitability and capacity to pay dividends.

Photon may use Shares, incur indebtedness, expend cash or use any combination of Shares, indebtedness and cash for all or part of the consideration to be paid in future acquisitions that would result in additional goodwill being recorded on Photon's balance sheet.

(k) Systems risk

A number of Photon's Operating Companies rely to a significant degree on its information technology systems and from time to time incur significant expenditure on systems upgrade and maintenance. IT systems are an essential part of a number of businesses in the group, and as a result, Photon is potentially exposed to a number of risks, including the capacity of existing systems and capital expenditure requirements going forward.

(l) Regulatory risk

Photon and its Operating Companies are required to comply with a variety of legal and regulatory regimes, including in relation to regulation governing privacy, electronic mail, online/SMS 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 Companies. Such changes could have an adverse effect on Photon's business and financial performance.

(m) Liability risk

The provision of services by Photon's Operating Companies carries with it the risk of liability for losses arising from their work, including indirect or consequential losses suffered by third parties. Photon and the Operating Companies will seek to limit their liability contractually to the extent permitted by the law, as it is interpreted from time to time, 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.

(n) Intellectual property and proprietary rights

The Operating Companies 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 copyrighting of the Operating Companies' intellectual property or proprietary rights will be prevented.

(o) Uncertain final acquisition price for Operating Companies

The acquisition agreements entered into with the vendors of certain Operating Companies require Photon to potentially make additional payments or issue further Shares based on deferred consideration arrangements. The final amounts to be paid and the number of Shares to be issued are uncertain and dependent on individual company EBIT performance, the level of growth in individual company EBIT performance, the Photon Share price, financial performance and the preferences of the vendors to receive cash or Shares.

(p) International business

Photon and the Operating Companies operate in 13 countries throughout the world. Photon's reporting currency is Australian dollars. However, Photon's significant international operations give rise to an exposure to changes in foreign exchange rates, since most 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 and financial position.

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.

(q) Unfavourable economic conditions

Photon's business is affected by downturns in general economic conditions, changes in clients' underlying businesses and decreases in marketing budgets.

Downturns in general economic conditions may adversely affect the businesses of Photon's Operating Companies' clients, which can have the effect of reducing the amount of services they purchase from Photon's Operating Companies and thus can materially adversely affect Photon's consolidated results of operations.

6 Tax

The taxation 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.

7 Additional information

7.1

Underwriting Agreement termination events

Photon has entered into the Underwriting Agreement with the Underwriters pursuant to which the Underwriters have agreed to fully underwrite the Rights Issue in equal proportions.

The Underwriters may at their cost appoint sub-underwriters to sub-underwrite the Rights Issue at their absolute discretion.

(a) Fees

The Underwriters will receive certain fees under the Underwriting Agreement, including an underwriting fee of 2.75% of the gross proceeds of the Rights Issue.

(b) Indemnity

Subject to certain exceptions, Photon has agreed to indemnify each Underwriter, their affiliates, related bodies corporate, directors, officers, employees, agents and advisers (**Indemnified Parties**) from and against all losses incurred by an Indemnified Party in connection with the Rights Issue.

(c) Termination events

Termination events where no link to materiality

An Underwriter may terminate the Underwriting Agreement with immediate effect if any of the following events occurs at any time before completion of the Rights Issue or such other time as specified below:

- (**disclosures**) a statement contained in any document lodged with ASIC or ASX or despatched to Shareholders in connection with the Rights Issue (**Offer Documents**) or any public information disclosed by Photon is or becomes misleading or deceptive in any material respect;
- (**compliance with law**) the Rights Issue does not comply with the law in any material respect;
- (**form of supplementary Offer Document**) Photon issues, lodges or despatches (as appropriate) a supplementary Offer Document in a form that has not been approved by the Underwriter;

- (**forecasts**) there are not or there cease to be reasonable grounds in the reasonable opinion of the Underwriter for certain future statements included in certain Offer Documents in relation to the Rights Issue;
- (**notice**) a statement in any shortfall notice is untrue or incorrect in any material respect;
- (**market fall**) at any time the S&P/ASX 200 Index falls to a level that is 90% or less of the level as at the close of trading on the date of the Underwriting Agreement and closes at or below that 90% level for at least two consecutive Business Days or until the Business Day immediately prior to the settlement date, whichever is shorter;
- (**quotation**) approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to the quotation of the New Shares on ASX or for the New Shares to be traded through CHESS or if granted, the approval is subsequently withdrawn or qualified;
- (**notifications**) any of the following notifications are made:
 - ASIC making a determination in relation to Photon under subsection 708AA(3) of the Corporations Act; or
 - an application is made by ASIC or ASIC commences any investigation or hearing in relation to the Rights Issue or any Offer Document;
- (**certificate**) Photon does not provide a closing certificate as and when required by the Underwriting Agreement or a statement in any closing certificate is untrue or incorrect in a material respect;
- (**lodgement**) the section 708AA notice is not lodged with ASX by 4 June 2008;
- (**withdrawal**) Photon withdraws the Rights Issue;
- (**adverse change**) any material adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of Photon, and the Photon group (insofar as the position in relation to an entity in the group affects the overall position of Photon), including any material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of Photon, and the Photon group, from those respectively disclosed in any Offer Document or public information;

7 Additional information continued

- (**Timetable**) the Rights Issue is not conducted in accordance with the Timetable or any event specified in the Timetable is delayed for more than two Business Days without the prior written consent of the Underwriters (which must not be unreasonably withheld or delayed);
- (**alteration of capital**) Photon alters the issued capital of the Company or disposes or attempts to dispose of a substantial part of the business or property of the Company without the prior written consent of the Underwriters (which must not be unreasonably withheld or delayed); or
- (**insolvency events**) any member of the Photon group becomes insolvent.

Termination events which are linked to materiality
An Underwriter may terminate the Underwriting Agreement with immediate effect if any of the following events occur at any time before completion of the Rights Issue or such other time as specified below:

- (**Notice**) a matter required to be included is omitted from the section 708AA notice (including, without limitation, having regard to section 708AA(7));
- (**new circumstances**) there occurs a new circumstance that arises after any Offer Document is issued, lodged or despatched (as appropriate) that would have been required to be included in the Offer Document if it had arisen before the Offer Document was lodged or despatched (as appropriate);
- (**supplementary Offer Document**) Photon issues, or in the reasonable opinion of the Underwriter becomes required to issue, a supplementary Offer Document;
- (**false, misleading or deceptive disclosures**) the verification material or any other information supplied by or on behalf of Photon to the Underwriters in relation to the due diligence undertaken in relation to the Rights Issue or the Photon group becomes false or misleading or deceptive, including by way of omission; or

- (**hostilities**) hostilities not presently existing 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, the United Kingdom, the United States of America, India, the People's Republic of China, the Democratic People's Republic of Korea, the Republic of Korea, Japan or any Member State of the European Union or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;
- (**change of law**) there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement), any of which does or is likely to prohibit, restrict or regulate the Rights Issue, capital issues, the level or likely level of valid Applications or stock markets;
- (**representations and warranties**) a representation or warranty contained in the Underwriting Agreement on the part of Photon is breached or becomes not true or correct;
- (**change in management**) a change in key management or the Board of Directors of Photon occurs;
- (**prosecution**) any of the following occur:
 - a Director of Photon is charged with an indictable offence;
 - any government agency commences any public action against Photon or any of its Directors in their capacity as a Director of Photon, or announces that it intends to take such action; or
 - any Director is disqualified from managing a corporation under the Corporations Act;
- (**compliance with agreements and regulatory requirements**) a contravention by Photon or any entity in the Photon group of the Corporations Act, Photon's constitution, or any of the Listing Rules, or Photon commits a fraudulent act;

- (**default**) a default by Photon in the performance of any of its obligations under the Underwriting Agreement occurs (including in respect of any conditions precedent);
- (**charges**) Photon or any of its related bodies corporate charges, or agrees to charge, the whole or a substantial part of the business or property of Photon other than:
 - a charge over any fees or commissions to which Photon is or will be entitled; or
 - as disclosed in the Offer Document; or
 - as agreed with the Underwriters (acting reasonably); or
 - as required to comply with Photon's existing facility agreement;
- (**disruption in financial markets**) any of the following occurs:
 - a general moratorium on commercial banking activities in Australia, New Zealand, the United Kingdom, the United States, Japan, India, the People's Republic of China, the Republic of Korea or any Member State of the European Union is declared by the relevant central banking authority in those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries;
 - any adverse effect on the financial markets in Australia, New Zealand, the United Kingdom, the United States, Japan, India, the People's Republic of China, the Republic of Korea or any Member State of the European Union or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries; or
 - trading in all securities quoted or listed on ASX, the New Zealand Exchange, the London Stock Exchange, the New York Stock Exchange or the Tokyo Stock Exchange is suspended or limited in a material respect for one day on which that exchange is open for trading; or
- (**forecasts**) there are not or cease to be reasonable grounds in the reasonable opinion of the Underwriters for certain future statements included in certain Offer Documents.

However, if any of the termination events linked to materiality occurs, an Underwriter may not terminate the Underwriting Agreement unless it has reasonable 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 Rights Issue; or
 - the performance of secondary market trading of the New Shares within the first two weeks of trading following the quotation of the New Shares; or
- has given or could give rise to a liability for the Underwriter; or
- has given or could give rise to a contravention by the Underwriter or the Underwriter being involved in a contravention of any law, regulation, treaty or administration action.

7.2

Commitments given by Principals

The Principals have given an irrevocable commitment to the Underwriters to subscribe for their full entitlement of New Shares under the Rights Issue. The Principals will be paid a fee of 0.5% of the value of their New Shares taken up, which will be paid by the Underwriters out of their underwriting fees.

7.3

Options

ASX has granted Photon a waiver, subject to Shareholder approval, to permit Photon to amend the terms of three of its Option plans to enable the exercise price of Options issued under those plans to be reduced in the event of a pro rata issue (including the Rights Issue) in accordance with the formula set out in Listing Rule 6.22.2.

Accordingly, Photon will seek Shareholder approval to make such amendments to these Option plans at the next annual general meeting of Photon. Further details will be provided in the notice of meeting for the 2008 annual general meeting.

All other Option plans of Photon permit the exercise price of Options to be reduced in accordance with the formula set out in Listing Rule 6.22.2 in the event of a pro rata issue of Photon, such as the Rights Issue.

7 Additional information continued

7.4 Investor presentation

On 4 June 2008 Photon released an investor presentation to ASX. Shareholders are encouraged to review this presentation, which can also be found on Photon's website, www.photongroup.com.

7.5 Continuous disclosure

Photon is a disclosing entity for the purposes of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. These disclosure obligations require Photon to disclose to ASX any information that a reasonable person would expect to have a material effect on the price or value of the securities of Photon.

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

7.6 Effect on control

Given the underwriting arrangements described in sections 2.6 and 7.1 and the irrevocable commitments given by the Principals described in section 7.2, the potential effect the issue of the New Shares under the Rights Issue will have on the control of Photon is as follows:

- (i) if all Eligible Shareholders take up their entitlements under the Rights Issue, then the Rights Issue will have no significant effect on the control of Photon;
- (ii) if particular Eligible Shareholders do not take up all of their entitlements under the Rights Issue, then the shareholding interests of those Eligible Shareholders in Photon will be diluted;
- (iii) the proportional interests of Non-participating Shareholders may be diluted because such Shareholders are not entitled to participate in the Rights Issue; and
- (iv) although the issue of New Shares to the Underwriters under the Rights Issue may increase the shareholding interests of the Underwriters in Photon, it is not expected to have any material effect on the control of Photon.

7.7 Withdrawal of Rights Issue

The Directors reserve their right to withdraw all or part of the Rights Issue at any time prior to the issue of New Shares, in which case Photon will refund Application Monies in accordance with the Corporations Act without payment of interest.

8 Defined terms

These definitions are provided to assist persons in understanding some of the expressions used in this Offer Document.

AEST means Australian Eastern Standard Time.

Applicant means an Eligible Shareholder who has applied to subscribe for New Shares by submitting an Entitlement and Acceptance Form or arranging for payment through BPAY® in accordance with the instructions on the Entitlement and Acceptance Form.

Application means the submission of an Entitlement and Acceptance Form accompanied by the relevant Application Monies or arranging for payment of the relevant Application Monies through BPAY® in accordance with the instructions on the Entitlement and Acceptance Form.

Application Monies means the aggregate amount of money payable for the New Shares applied for in a duly completed Entitlement and Acceptance Form or through BPAY®.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691.

Business Day has the same meaning as in the Listing Rules.

Closing Date means 8 July 2008.

Company or **Photon** means Photon Group Limited ACN 091 524 515.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the directors of the Company.

EBIT means Earnings Before Interest and Taxes.

EBITDA means Earnings Before Interest, Taxes, Depreciation and Amortisation.

Eligible Institutional Shareholder means a Shareholder as at the Record Date with a registered address that is not in Australia or New Zealand to whom Photon determines to make the Offer.

Eligible Shareholder means a Shareholder as at the Record Date who is not a Non-participating Shareholder.

Entitlement means the entitlement to subscribe for New Shares pursuant to the Offer.

Entitlement and Acceptance Form means the Entitlement and Acceptance Form accompanying this Offer Document.

FY08 means financial year ending 30 June 2008.

Issue Price means \$3.00 each per New Share.

Listing Rules means the official listing rules of ASX.

New Shares means Shares to be allotted and issued under the Offer.

Non-participating Shareholder means a Shareholder as at the Record Date whose registered address is not situated in Australia or New Zealand or who is not an Eligible Institutional Shareholder.

Offer means a pro rata non-renounceable offer to the Eligible Shareholders to subscribe for New Shares on the basis of 1 New Share for every 3 Shares of which the Eligible Shareholder is the registered holder as at 5.00pm AEST on the Record Date at an Issue Price of \$3.00 each per New Share, pursuant to the Offer Document.

Offer Document means this document.

Opening Date means 17 June 2008.

Operating Companies means any companies owned fully or partially by Photon.

Option means an option to acquire a Share.

Principals means the RG Capital Group of companies, Matthew Bailey (including his associates and members of his family) and Timothy Hughes (and his associates).

Privacy Act means the *Privacy Act 1988* (Cth).

Record Date means 5.00pm AEST on 13 June 2008.

Rights means the rights to subscribe for New Shares pursuant to this Offer Document.

Rights Issue means the issue of New Shares offered pursuant to the Offer.

Share Registry means Computershare Investor Services Pty Limited.

Share Register is the register comprising all of the Company's Shareholders and Shares held.

Shareholders means holders of Shares.

Shares means fully paid ordinary shares in the capital of the Company.

Southern Cross Equities means Southern Cross Equities Limited ABN 87 071 925 441.

Timetable means the indicative table set out on page 2 of the Offer Document.

UBS means UBS AG, Australia Branch
ABN 47 088 129 613.

Underwriters means UBS and Southern Cross Equities.

Underwriting Agreement means the underwriting agreement dated 4 June 2008 between the Company and the Underwriters.

Corporate Directory

Offices and officers

Principal Registered Office

Level 9, 155 George Street

Sydney NSW 2000

Telephone: 02 8213 3031

Facsimile: 02 8213 3030

Directors

Tim Hughes (Executive Chairman)

Matthew Bailey (CEO)

Sue McIntosh

Brian Bickmore

Paul Gregory

Company Secretary

Clare Battellino

Location of Share Registry

Computershare Investor

Services Pty Limited

Level 3, 60 Carrington Street

Sydney NSW 2000

Telephone: 1300 855 080

Outside Australia: + 61 3 9415 4000

Facsimile: + 61 2 8234 5050

Securities Exchange

The Company is listed on the Australian Securities

Exchange (PGA).

The home exchange is Sydney.

Other information

Photon Group Limited,
incorporated and domiciled in Australia,
is a publicly listed company limited by shares.

Legal Adviser to Offer

Gilbert + Tobin

2 Park Street

Sydney NSW 2000

Auditors

KPMG

10 Shelley Street

Sydney NSW 2000

Underwriters

UBS AG, Australia Branch

Level 16

2 Chifley Square

Sydney NSW 2000

Southern Cross Equities Limited

Level 32

88 Philip Street

Sydney NSW 2000

Photon Group Limited

Rights Issue Infoline

Tel: + 1300 727 501

Tel: + 61 3 9946 4441

