PhotonGroup

Supplementary Bidder's Statement

of

PHOTON GROUP LIMITED
(ABN 97 091 524 515)

in relation to

DARK BLUE SEA LIMITED
(ABN 47 091 509 796)

GILBERT + TOBIN

LAWYERS

Legal Adviser to
Photon Group Limited

SUPPLEMENTARY BIDDER'S STATEMENT

This is a Supplementary Bidder's Statement under section 643 of the Corporations Act 2001 (Cth). It is the first Supplementary Bidder's Statement issued by Photon Group Limited (**Photon**) in relation to its off-market takeover bid for Dark Blue Sea Limited (**DBS**).

This first Supplementary Bidder's Statement supplements and should be read together with the Bidder's Statement dated 11 January 2007 (**Original Bidder's Statement**). This document will prevail in the event of any inconsistency with the Original Bidder's Statement. Terms defined in the Original Bidder's Statement have the same meaning where used in this document.

A copy of this document was lodged with ASIC on and is dated 7 March 2007. ASIC takes no responsibility for the contents of this document.

If you have any other questions regarding the Offer contact the Shareholder Information Line on 1300 301 216 (toll free for calls made from within Australia) or +61 3 9415 4607 (for calls made from outside Australia). As required by the Corporations Act, calls to these numbers will be recorded.

If you are in any doubt about how to deal with the Offer, you should consult your financial or other professional adviser.

1 Photon Announcement

On 7 March 2007, Photon lodged an announcement with ASX concerning its Offers for DBS Shares (**Announcement**). In the Announcement, Photon stated its intention that, subject to receiving sufficient acceptances to increase its relevant interest in DBS Shares to more than 50% on or before 6pm on 2 April 2007, it proposes to increase its current offer price of 76 cents per DBS Share to 90 cents per DBS Share[1] and declare its Offers unconditional.

Photon also stated in the Announcement that, subject to increasing its relevant interest in DBS Shares to more than 50% on or before 6pm on 2 April 2007 and further increasing its relevant interest in DBS Shares to more than 90% by the end of the Offer Period, Photon will further increase its offer price to $1.00 per DBS Share.[1]

Photon also stated in the Announcement that:

(a) it will not increase its offer price for DBS Shares except in accordance with the Announcement; and

(b) the current Offer Period, which is scheduled to close at 7pm on 10 April 2007, will not be extended by Photon unless:

  (i) another takeover bid or control proposal is made or announced for DBS;

  (ii) the Offer Period is automatically extended under section 624(2) of the Corporations Act; or

  (iii) Photon's relevant interest in DBS Shares is increased to more than 50% on or before 2 April 2007.

DBS Shareholders should note the following in relation to the above:

(a) if you accept Photon's Offer and the Offer becomes unconditional or the Offer conditions are satisfied, but Photon's relevant interest in DBS Shares is not more than 50% on or before 6pm

[1] Note that under the Offer terms Photon is entitled to, and will, deduct from the revised Offer consideration the sum of 1.5 cents per DBS Share for which an acceptance is received (unless Photon has been paid, or is entitled to be paid, that amount in respect of the DBS Shares for which it has received acceptances) to take account of the interim dividend in that sum that was announced on 26 February 2007 by DBS.

on 2 April 2007, then you will receive the current cash consideration under the Offer of 76 cents per DBS Share[1];

(b) if the 50% threshold referred to above is reached on or before 6pm on 2 April 2007, Photon will increase its offer price to 90 cents per DBS Share[1] and declare its Offer unconditional;

(c) if the 50% threshold referred to above is reached on or before 6pm on 2 April 2007 and the 90% threshold referred to above is reached before the end of the Offer Period, Photon will increase its offer price to $1.00 per DBS Share[1]. It should be noted that if this occurs in the last seven days of the Offer Period, the Offer Period will automatically be extended for a period of 14 days after the date the price increase is effected;

(d) all DBS Shareholders who accept, or have accepted, Photon's Offer will be able to participate in any increased offer price which will result if the 50% and/or 90% thresholds referred to above are reached, regardless of when they accepted the Offer; and

(e) DBS Shareholders who accept, or have accepted, Photon's Offer before a price increase is effected will be paid the increase within five Business Days after the increase is effected. DBS Shareholders who accept Photon's Offer after a price increase is effected will be paid the increase within five Business Days after a valid acceptance is received by Photon.

A copy of the Announcement is attached as Annexure A to this Supplementary Bidder's Statement.

2 Independent Valuation

The DBS Target's Statement did not include an independent expert's report in relation to the value of DBS Shares (although Photon acknowledges that DBS was not required to obtain such report under the Corporations Act).

To assist DBS Shareholders in their assessment of whether the Offer is fair and reasonable and whether to accept the Offer in respect of their DBS Shares, Photon has obtained an independent valuation from Lonergan Edwards Associates Limited (**Independent Valuer**) in relation to the value of DBS Shares.

The Independent Valuer has valued DBS Shares in the range of $0.92 to $1.06 per share. This valuation range:

(a) has been assessed on an ex-dividend basis and represents the value of DBS Shares after allowing for the payment of the 1.5 cent interim dividend declared by DBS on 26 February 2007;

(b) represents the value of 100% of the DBS Shares and includes a takeover (control) premium to reflect the benefits of control which would pass to an acquirer;

(c) represents a range of 20.9 to 24 times the annualised profit after tax achieved by DBS in the six months ended 31 December 2006; and

(d) represents a range of 13.9 to 16.2 times the annualised earnings before interest and tax achieved by DBS in the six months ended 31 December 2006.

A copy of the Independent Valuer's report dated 7 March 2007 (**Independent Valuation**) is included as Annexure "B" to this Supplementary Bidder's Statement.

The Independent Valuer has given its written consent to the Independent Valuation being included in this Supplementary Bidder's Statement in the form and context in which it is included.

The Independent Valuer has not caused or authorised the issue of this Supplementary Bidder's Statement, does not make, or purport to make, any statement in this Supplementary Bidder's

Statement (other than those included in the Independent Valuation) and takes no responsibility for any part of this Supplementary Bidder's Statement (other than the Independent Valuation).

3 Funding Arrangements

As noted in Section 4 of the Original Bidder's Statement, Photon intends to draw down on the Facility to satisfy its obligations to pay the Offer consideration to DBS Shareholders. One of the conditions precedent to draw down under the Facility (as outlined in the Original Bidder's Statement) was the execution of the Facility Documentation. Photon confirms that the Facility Documentation was executed by Photon and ANZ on 25 January 2007.

The Offer extends to all DBS Shares, including those issued as a result of the exercise of DBS Options prior to the end of the Offer Period. As at the date of this Supplementary Bidder's Statement, Photon understands that there are 84,615,517 DBS Shares on issue. Further, as noted in the DBS Target's Statement there are currently 3,999,000 DBS Options on issue, which may be exercisable as a result of the Bid.

Assuming all DBS Options are exercised before the end of the Offer Period and:

(a) Photon's relevant interest in DBS Shares increases to more than 50% on or before 6.00pm on 2 April 2007; and

(b) Photon's relevant interest in DBS Shares increases to more than 90% by the end of the Offer Period,

the maximum consideration payable by Photon under the Offer will be approximately $72 million.

The amount available to Photon under the Facility is sufficient to pay the maximum consideration payable by Photon under the Offer and Photon's costs and associated expenses incurred in relation to the Offer.

Photon is unaware of any reason which would prevent any:

(a) condition precedent to draw down under the Facility from being satisfied; or

(b) representation or warranty being given,

in sufficient time to allow the funds to be advanced by ANZ to Photon under the Facility to enable Photon to pay DBS Shareholders who accept the Offer, in accordance with the terms of the Offer.

On the basis of the arrangements described in Section 4 of the Original Bidder's Statement (as supplemented by this Supplementary Bidder's Statement), Photon is of the opinion that it has a reasonable basis for holding the view, and it holds the view, that it will be able to provide the consideration required to satisfy its obligations under the Offer.

* * * * *

Dated: 7 March 2007

This Supplementary Bidder's Statement was approved by a resolution of the Photon directors.

ANNEXURE A

Photon Announcement

ASX Announcement

Photon today announced its intention that, subject to receiving sufficient acceptances to increase its relevant interest in DBS Shares to more than 50% on or before 6pm on 2 April 2007, it proposes to increase its current offer price of 76 cents per DBS Share[1] and declare its Offer unconditional.

Photon also announced that, subject to increasing its relevant interest in DBS Shares to more than 50% on or before 6pm on 2 April 2007 and also increasing its relevant interest in DBS Shares to more than 90% before the end of the Offer Period, Photon will further increase its offer price to $1.00 per DBS Share.[1]

Photon currently holds 16,874,165 DBS Shares representing approximately 19.94% of DBS.

Photon also announced that it will not increase its offer price for DBS Shares except in accordance with this announcement.

Photon's Offer is scheduled to close at 7.00pm on 10 April 2007. Photon will not extend the Offer Period, unless:

(a) another takeover bid or control proposal is made or announced for DBS; or

(b) the Offer Period is automatically extended under section 624(2) of the Corporations Act; or

(c) Photon's relevant interest in DBS Shares is increased to more than 50% on or before 2 April 2007.

In commenting on the announcement the Executive Chairman of Photon, Mr Tim Hughes, said:

> *"DBS Shareholders now have a clear choice. They can accept our Offer on or before 2 April 2007 knowing that if our interest in DBS increases to beyond 50% by that date we will increase our offer price to 90 cents and declare the Offers unconditional. In this event all DBS Shareholders who have accepted our Offer will receive payment of 90 cents for each of their DBS Shares (subject to any adjustment that is required to take account of the 1.5 cent interim dividend) within five Business Days. Further where we have increased our Offer to 90 cents for every DBS Share, the DBS Shareholders may also receive an additional 10 cents for their DBS Shares if our interest in DBS exceeds 90% before the end of the Offer Period because we will further increase our offer to $1.00 for each DBS Share in this event. We believe this proposal represents an outstanding opportunity for DBS Shareholders to realise the value of their investment.*

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[1] Note that under the Offer terms Photon is entitled to, and will, deduct from the revised Offer consideration the sum of 1.5 cents per DBS Share for which an acceptance is received (unless Photon has been paid, or is entitled to be paid, that amount in respect of the DBS Shares for which it has received acceptances) to take account of the interim dividend in that sum that was announced on 26 February 2007 by DBS.

In the event that the 50% and 90% thresholds referred to above are satisfied with the result that the Offer price is increased to $1.00, that increased Offer price of $1.00 per DBS Share represents:

(a) *a premium of approximately 54% to the price of 65 cents per share paid by Photon for its 19.88% interest in DBS on 8 December 2006; and*

(b) *15.2 times the annualised EBIT achieved by DBS in the six months ended 31 December 2006.*

In the absence of another takeover bid or control proposal for DBS or exceptionally strong earning's growth guidance from DBS it is difficult to understand why DBS Shareholders would not accept Photon's Offer.

The alternative for DBS Shareholders is not to accept our Offers knowing that if we do not receive acceptances to increase our interest in DBS to more than 50% on or before 2 April 2007 there will be no price increase and our offer will lapse unless all of the Offer conditions are satisfied at the end of the Offer Period. In this event and, as indicated in the DBS Target's Statement, there is a risk that the market price of DBS Shares may fall below the current Offer price of 76 cents per share."

Today Photon issued a Supplementary Bidder's Statement, which included an independent valuation prepared by Lonergan Edwards and Associates Limited (**Independent Valuer**) in relation to the value of DBS Shares. The Independent Valuer has valued DBS Shares in the range of $0.92 to $1.06 per share. This valuation range:

(a) has been assessed on an ex-dividend basis and represents the value of DBS Shares after allowing for the payment of the 1.5 cent interim dividend declared by DBS on 26 February 2007;

(b) represents the value of 100% of the DBS Shares and includes a takeover (control) premium to reflect the benefits of control which would pass to an acquirer;

(c) represents a range of 20.9 to 24 times the annualised profit after tax achieved by DBS in the six months ended 31 December 2006; and

(d) represents a range of 13.9 to 16.2 times the annualised earnings before interest and the tax achieved by DBS in the six months ended 31 December 2006.

A full copy of the report prepared by the Independent Valuer is attached to Photon's Supplementary Bidder's Statement, which was lodged with ASX and ASIC today. A copy of the Supplementary Bidder's Statement was given to DBS today and will be sent to all DBS Shareholders.

Tim Hughes

Executive Chairman

ANNEXURE B

Independent Valuation

LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Directors
PhotonGroup Ltd
Level 9
155 George Street
Sydney NSW 2000

7 March 2007

Subject: Valuation of Dark Blue Sea Limited

Dear Sirs

1 In accordance with your request we set out below our estimate of the current market value of 100% of the shares in Dark Blue Sea Limited (DBS).

Dark Blue Sea Limited

2 DBS is a company listed on the Australian Stock Exchange (ASX) and carries on the business of internet software development and marketing within the online advertising industry, specialising in internet domain names. It has various business units which facilitate the transfer of internet users to advertisers' websites in return for a fee

3 DBS owns a portfolio of approximately 545,000 internet domain names, the vast majority of which are termed generic key term domain names. These are domain names such as www.bedroomfurniture.com that are constructed from generic key words or phrases (eg "bedroom furniture" in this case).

4 On 11 December 2006 PhotonGroup Ltd (PGL) announced that it intended to make a takeover offer for the ordinary shares in DBS it did not already own at $0.65 cash per share. The offer was subsequently increased on 11 January 2007 to $0.76 cash per share.

Valuation summary

5 We summarise below our valuation of 100% of the shares in DBS on a controlling interest basis (after payment of the 1.5 cent interim dividend):

	Low A$m	High A$m
Value of domain name portfolio(1)	67.9	78.8
Value of External advertising intermediary business	8.6	10.0
Surplus cash	2.7	2.7
Cash to be received upon exercise of options	2.7	2.7
Value of 100% of the shares	81.9	94.2
Fully diluted shares on issue	88.6	88.6
Value per share (ex dividend)	A$0.92	A$1.06

Note:

1 The domain name portfolio has been valued in US dollars and has been converted to Australian dollars using an exchange rate of US$1 = A$0.78.

6 The above valuation range has been assessed on an ex-dividend basis. The valuation therefore represents the value after allowing for the payment of the 1.5 cent interim dividend to be paid on 27 March 2007[1].

7 It should also be noted that the above valuation range represents the value of 100% of the shares and includes a takeover (control) premium to reflect the benefits of control which would pass to an acquirer.

8 In our opinion, the minority interest or portfolio value of DBS shares (being the price at which the shares would be expected to trade in the absence of a successful takeover) would be significantly less than the above range (consistent with the portfolio nature of individual shareholdings).

Valuation methodology

9 As indicated above we have valued DBS' domain name portfolio separately from its advertising intermediary business. In our opinion, this is appropriate and reflects the different nature, growth profile and risks associated with these businesses.

10 The primary valuation methodology used to value the operating businesses has been the capitalisation of earnings before interest and tax (EBIT) method. Recent transaction evidence has also been considered when assessing the reasonableness of these values.

[1] DBS shares traded ex this dividend entitlement on 7 March 2007.

11 The market value of 100% of the shares in DBS has then been assessed by aggregating the market value of its businesses together with surplus cash.

12 Further detail with respect to the valuation of each business is set out below.

Valuation of domain name portfolio

13 As stated above DBS owns approximately 545,000 domain names. Of these approximately 110,000 domain names are profitable and generated annualised revenue of approximately US$6.3 million in the quarter ended 31 December 2006 (representing approximately US$58 per annum, on average, per domain name).

14 In contrast the 435,000 unprofitable domain names generated annualised revenue of approximately US$272,000 in the quarter ended 31 December 2006 (representing approximately US$0.63 per annum, on average, per domain name). Including proceeds from the sale of domain names increased this figure to, on average, US$3.55 per annum.

15 As it costs US$6 per annum to hold each domain name (being domain registration and/or renewal fees) the profitable domain names generate high profit margins, whereas the unprofitable domain names generate large losses. However, losses from unprofitable domain names are reduced by the sale of domain names throughout the year.

16 Our valuation of the company's profitable domain names have been calculated by capitalising earnings and represents a value of US$462 to US$519 per profitable domain name. Although, in our view, revenue multiples are not generally reliable valuation indicators, we note that our valuation range implies a revenue multiple of 8 to 9 times the level of annualised revenue achieved in the quarter ended 31 December 2006. This is consistent with the multiple of 8.6 times revenue at which Marchex, Inc. acquired the domain name portfolio of Named Development Ltd[2].

17 Our valuation of DBS' unprofitable domain names represents a value of US$5 to US$10 per domain name. This value reflects both the strategic value of these names and the fact that the revenue from these domain names (including proceeds from the sale of domain names) has historically been significantly less than their holding costs.

Value of External advertising intermediary business

18 The External advertising intermediary business refers to the extent to which revenue and profit is generated from internet traffic on domain names that are owned by customers of DBS (ie "external" internet traffic) rather than internet

[2] Refer page 12 of DBS' Target Statement dated 8 February 2007 and the press release by Marchex, Inc. dated 23 November 2004.

traffic sourced from company owned and operated domain names (referred to as "internal" internet traffic).

19 While the large majority of DBS' revenue is currently generated from external traffic, in our opinion, the value of the External advertising intermediary business is significantly less than the value of the company's domain name portfolio. This is principally because:

(a) revenue from external traffic sources is much less reliable and is subject to greater competition in the traffic market

(b) almost all traffic arrangements can be cancelled on short notice, with contracted deals rarely extended beyond one or two years

(c) for external traffic sources, the arrangements are typically revenue share based and hence profits margins are lower. In this regard we note that gross profit margins averaged 26% of revenue for external traffic whereas the gross profit margin on internal traffic on the company's own profitable domain names was around 90% in the quarter ended 31 December 2006.

20 Further the significantly greater risk associated with the External advertising intermediary business is evident from the events in early October 2006 when a number of large advertisers withdrew from Roar, the company's advertising network. While the effect of this event on the company's own domain name portfolio was relatively minor, this event had a significant adverse short-term impact on the company's External advertising intermediary business.

Surplus cash

21 As at 31 December 2006 DBS had cash balances of around A$5.5 million. For the purposes of our valuation we have treated A$2.7 million as being surplus to the company's operations. We have assumed that the remaining A$2.8 million is required for the day-to-day business operations and the payment of the 1.5 cent dividend (to be paid on 27 March 2007).

Fully diluted shares on issue

22 Our valuation assumes that all outstanding options would be exercised in the event of a takeover. Consequently, we have assumed that there are 88.6 million fully diluted shares on issue, calculated as follows:

	Millions
Shares currently on issue	84.6
Options exercisable at A$0.50 each	2.3
Options exercisable at A$0.90 each	1.7
Fully diluted shares on issue	88.6

Overall earnings multiples

23 As DBS has not provided any earnings guidance with respect to the year ending 30 June 2007 and the company is not well researched by broking analysts, we have considered the reasonableness of our valuation range by annualising the EBIT and profit after tax achieved in the six months ended 31 December 2006.

24 Our valuation range implies the following EBIT and PE multiples based on the annualised EBIT and profit after tax achieved in the six months ended 31 December 2006:

Earnings Multiples	Low	High
EBIT	13.9	16.2
PE	20.9	24.0

25 In our opinion these multiples are appropriate and reflect:

(a) the large number of profitable domain names owned by the company

(b) the high level of growth achieved historically and expected in the future in the global online advertising industry

(c) the significant operating leverage provided by company owned domain names to increases in online advertising revenue, due to the fixed nature of domain name registration fees

(d) the potential for greater sales of company owned domain names in the future as internet usage increases

(e) the costs of retaining unprofitable domain names, which lowers current profitability.

Disclaimer

26 This report has been prepared based on publicly available information only. We have not had access to DBS management and have therefore been unable to substantiate certain matters which may have a material impact on our valuation range. Accordingly, shareholders in DBS should seek their own independent advice in connection with the offer by PhotonGroup Ltd.

Yours faithfully

Craig Edwards
Director

Wayne Lonergan
Director

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

27 Lonergan Edwards & Associates Limited (ABN53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

28 LEA holds Australian Financial Services Licence No 246532.

Financial Services Guide

29 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with this report.

30 This FSG is designed to assist retail clients in their use of any general financial product advice contained in this report. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of this report, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

31 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

32 This report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

33 You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Appendix A

Fees, commissions and other benefits we may receive

34 LEA charges fees to produce reports, including this report. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this report our fees are based on a time cost basis using agreed hourly rates.

35 Neither LEA nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.

36 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

37 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

38 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

39 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Services (FICS), an external complaints resolution service. You will not be charged for using the FICS service.

Contact details

40 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Qualifications, declarations and consents

Qualifications

41 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared more than 100 Independent Expert's Reports.

42 This report was prepared by Mr Craig Edwards and Mr Wayne Lonergan who are each authorised representatives of LEA. Mr Edwards and Mr Lonergan have over 13 years and over 35 years experience respectively in the provision of valuation advice.

Declarations

43 This report has been prepared at the request of the Directors of PhotonGroup Limited to be sent to Dark Blue Sea Limited (DBS) shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to the current market value of 100% of the shares in DBS.

Interests

44 At the date of this report, neither LEA, Mr Edwards nor Mr Lonergan have any interest in PhotonGroup Limited or DBS. LEA is entitled to receive a fee for the preparation of this report based on time expended at our standard hourly professional rates. With the exception of the above fee, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

Indemnification

45 As a condition of LEA's agreement to prepare this report, PhotonGroup Limited agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of PhotonGroup Limited which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

46 LEA consents to the inclusion of this report in the form and context in which it is included in PhotonGroup Limited's Supplementary Bidder's Statement.