



**DARK BLUE SEA LIMITED**  
**ACN 091 509 796**

**Company Announcement**

**Date: 21 March, 2007**

The Company's Office  
Australian Stock Exchange

Dear Sir/Madam,

**Re: PHOTON GROUP LIMITED OFF MARKET TAKEOVER OFFER FOR THE  
ORDINARY SHARES IN DARK BLUE SEA LIMITED - THIRD SUPPLEMENTARY  
TARGET'S STATEMENT**

In accordance with Section 647(3) of the *Corporations Act 2001 (Cwlth)*, we **enclose** a copy of our Third Supplementary Target's Statement, which supplements the Target's Statement dated 8 February 2007, the Supplementary Target's Statement dated 16 February 2007 and the Second Supplementary Target's Statement dated 1 March 2007 in relation to the off-market takeover bid by Photon Group Limited to acquire all the ordinary shares in Dark Blue Sea Limited.

The Third Supplementary Target's Statement was today lodged with the Australian Securities & Investments Commission and has also been served on to Photon Group Limited.

Yours faithfully,

Richard Moore  
Chief Executive Officer  
Dark Blue Sea Ltd

## THIRD SUPPLEMENTARY TARGET'S STATEMENT BY

DARK BLUE SEA LIMITED ACN 091 509 795 ("DBS")

### IN RESPECT OF THE OFFER BY PHOTON GROUP LIMITED ACN 091 524 515 ("PHOTON") FOR ALL ORDINARY SHARES IN DBS

This third supplementary target's statement dated 21<sup>st</sup> March 2007 ("**Third Supplementary Target's Statement**") supplements, and must be read in conjunction with:

- (i) the Target's Statement of DBS dated 8 February 2007 and lodged with the Australian Securities and Investments Commission ("**ASIC**") on 8 February 2007 in connection with Photon's takeover bid for all the ordinary shares in DBS ("**Target Statement**"); and
- (ii) the Second Supplementary Target's Statement dated 1 March 2007 and lodged with the Australian Securities and Investments Commission ("**ASIC**") on 1 March 2007 in connection with Photon's takeover bid for all the ordinary shares in DBS ("**Second Supplementary Target Statement**").

This Third Supplementary Target's Statement was lodged with the ASIC on 21<sup>st</sup> March 2007.

The definitions and interpretation provisions of the Target's Statement apply to this Third Supplementary Target's Statement.

ASIC takes no responsibility for the content of this Third Supplementary Target's Statement.

### PHOTON'S REVISED OFFER DOCUMENTATION

On 7 March 2007, DBS was served with a copy of a Supplementary Bidder's Statement issued by Photon dated 7 March 2007 ("**First Supplementary Bidder's Statement**"). Annexed to the First Supplementary Bidder's Statement was an announcement by Photon to the ASX on 7 March 2007 ("**7 March Announcement**") and a Valuation of Dark Blue Sea Limited provided by Lonergan Edwards & Associates Limited dated 7 March 2007 ("**Lonergan Valuation**").

On 13 March 2007, Photon made an announcement to the ASX ("**13 March Announcement**") and in a Supplementary Bidder's Statement (Number 2) issued by Photon on 14 March 2007 ("**Supplementary Bidder's Statement (Number 2)**"), Photon stated that that it **will not waive the conditions** (including the minimum acceptance condition of 50.1% and the breach of the condition in clause 8.8(a)(iv)(D) of the Bidder's Statement as a result of the declaration by DBS of the 1.5 cents interim dividend) or declare the Offer unconditional, **unless** it has received sufficient acceptances to increase its relevant interest in DBS Shares to more than 50% on or before 6.00pm on 2 April 2007.

The DBS Directors note that it may be possible that the minimum acceptance condition is satisfied after 2 April 2007 and before the close of the Offer Period. If this is the case, Photon would not be entitled to rely on the minimum acceptance condition to rescind all contracts resulting from acceptances of the Offer. However, as Photon has advised that it will not waive the breach of the condition in clause 8.8(a)(iv)(D) of the Bidder's Statement as a result of the declaration by DBS of the 1.5 cents interim dividend, unless it has received sufficient acceptances to increase its relevant interest in DBS Shares to more than 50% on or before 6pm on 2 April 2007. Accordingly, while the minimum acceptance condition may be satisfied, if acceptances for more than 50% are not received by 6pm on 2 April 2007, the Offer will not proceed.

As a result of the amendments to the terms of the Offer as contained in the **First Supplementary Bidder's Statement, the 13 March Announcement and the Supplementary Bidder's Statement (Number 2)** (collectively referred to herein as **the Revised Offer**), if you accept the Revised Offer in relation to your DBS Shares, then:

- (a) if Photon's relevant interest in DBS Shares does not increase to more than 50% on or before 6.00 pm on 2 April 2007, Photon will, at the end of the Offer Period, rescind all contracts resulting from acceptances of the Offer and **YOUR DBS SHARES WILL NOT BE ACQUIRED BY PHOTON**;

- (b) provided Photon's relevant interest in DBS Shares has increased to more than 50% on or before 6.00 pm on 2 April 2007, **YOUR DBS SHARES WILL BE ACQUIRED BY PHOTON AND YOU WILL RECEIVE 88.5 CENTS FOR EACH OF YOUR DBS SHARES<sup>1</sup>**;
- (c) subject to Photon increasing its relevant interest in DBS Shares to more than 50% on or before 6.00 pm on 2 April 2007 and further increasing its relevant interest in DBS Shares to more than 90% by the end of the Offer Period, **YOUR DBS SHARES WILL BE ACQUIRED BY PHOTON AND YOU WILL RECEIVE 98.5 CENTS FOR EACH OF YOUR DBS SHARES<sup>1</sup>**.

## THE LONERGAN VALUATION

In respect of the Lonergan Valuation, the DBS Directors make the following comments:

- The Lonergan Valuation was commissioned by Photon and was prepared without any consultation with DBS, the DBS Directors or senior management of DBS.
- The DBS Directors believe that there are a number of inherent defects in the methodology used in the Lonergan Valuation. Firstly, on the face of the Lonergan Valuation, it seems that the Lonergan Valuation has not taken into account, the potential additional value of the domain name portfolio that is expected to be realised from the secondary market domains for sale opportunity. Secondly, it has made no mention of the current industry activity or the current level of demand for large scale domain name portfolios. Thirdly, it has valued DBS' domain name portfolio on a "top down" basis (ie. based on the collective advertising revenue generated by the entire portfolio), rather than on a "bottom up" basis (ie. valuing the portfolio on a domain name by domain basis). To the best of the DBS Directors knowledge, the "bottom up" valuation is the current industry accepted methodology. Finally, the DBS Directors do not believe that the Lonergan Valuation has adequately valued DBS' intermediary business based on a recent comparable transaction.

### Secondary market domain name sales

- Whilst the DBS Directors appreciate that it is extremely difficult to place a value on the potential future financial benefits of the secondary market domains for sale opportunity, the DBS Directors believe that the Lonergan Valuation is deficient by not at least articulating the potential financial benefits to DBS Shareholders of a viable secondary market for domains. It should be noted that in preparing the Lonergan Valuation, no approach was made to DBS or the DBS Directors by either Photon or Lonergan Edwards & Associates Limited in order to gain an understanding of the potential benefit of the secondary market domains for sale opportunity for DBS.
- DBS is at advanced stage of negotiations with a number of retail registrars in relation to secondary market domain sales. Senior executives from DBS have recently been in the United States attending a large industry trade show where negotiations in respect of expanding and improving the secondary market domain sales have been ongoing. In addition to the efforts of DBS in this regard, there is also activity by other participants in relation to the establishment of a significantly improved secondary market industry.
- The DBS Directors are aware that the time frame before the DBS sees the tangible financial benefits from the secondary market domains sales initiatives currently being undertaken by DBS is uncertain. On the basis of current information, the DBS Directors believe that the impact will become progressively clearer over the next one to three months, with the full financial benefits expected to be realised over the next couple of years.

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<sup>1</sup> Photon has advised DBS Shareholders that under the Offer, 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 1.5 cents interim dividend that was announced on 26 February 2007 by DBS.

- The magnitude of the potential growth from secondary market domain sales is also very difficult to quantify. Retail domain name registrars are the largest natural supply channel through which to satisfy the demand for secondary market domain names. However, for a variety of reasons, retail registrars have not to date had the required inventory distribution systems in place. However, this is one of the initiatives that DBS has been implementing.
- The reason why many of the largest domain name portfolio owners (the source of domain name inventory) have not to date, been selling significant volumes of domain names is because the logistics have been too complicated. The DBS Directors believe that bringing together these demand and inventory sources in an effective way, which DBS is currently in the process of implementing, together with a number of strategic partners, may materially change the entire secondary domain sales market. The DBS Directors believe that other significant stakeholders in that industry share similar views. This would in turn, in the opinion of the DBS Directors, have a significant impact on DBS' financial position, both as the holder of one of the world's largest domain name inventory holdings and as the operator of the major distribution channel.
- Accordingly, the DBS Directors want to see how the secondary market initiative unfolds before making a proper assessment of the true worth of the Company.

#### **Current industry activity**

- The market for domain names is wider than Australian companies. Domain names are fully tradable assets with a global market. Domain name portfolios can also be segmented and each segment sold separately.
- The Lonergan Valuation makes no mention of the current industry climate or the level of demand that currently exists for large scale domain name portfolios.
- DBS has made extensive comments in previous announcements regarding recent industry activity, including a significant amount of industry consolidation, the injection of private equity funds and other capital raising activities currently being undertaken by other industry participants.
- As a result of this industry activity, there are a number of well funded US based companies that are actively looking to acquire domain name portfolios. In addition, there are numerous other smaller potential buyers in the market looking for suitable investment opportunities.

#### **Valuation methodology**

- The DBS Directors note that the Lonergan Valuation only provides a "top down" valuation of DBS' domain name portfolio. The Lonergan Valuation has not provided a "bottom up" valuation. The DBS Directors believe that a "bottom up" valuation is the industry accepted methodology on which domain name portfolios are currently transacted.
- DBS has extensive data on each domain in its portfolio. This information enables each domain to be segmented and optimally valued on an individual basis. .
- The DBS Directors are aware that the eventual sale of DBS or its assets is the best way for shareholders to realise their investment and the DBS Directors are working towards this outcome. However, the DBS Directors strongly believe that the way to achieve the best possible price for DBS' domain name portfolio (thereby maximizing shareholder value), is to hold a well structured auction at the appropriate time.
- This will involve inviting all potential buyers into an open and transparent bidding/tender process and providing them with the required information to value each domain on an individual basis. Given the current industry activity as outlined above, the DBS Directors are of the considered opinion that now is **not** the appropriate time to be approaching all potential buyers to conduct such an auction.

## Intermediary business

- Although the Lonergan Valuation did recognize and attribute a value for the Company's external advertising intermediary business, the DBS Directors believe that the Lonergan Valuation was grossly inadequate and did not address all of the relevant factors in valuing this component of DBS' business.
- In November 2006, AdLINK Media AG, a listed German company, paid approximately 35 Million Euro cash for an additional 23.8% interest in Sedo GmbH, a German Company operating a domain name secondary marketplace and a domain name traffic intermediary business. This acquisition gives an implied total value for Sedo of approximately 147 million Euro). In the 9 months to September 2006, Sedo generated revenue of approximately 30 million Euro.
- Accordingly, the price paid by AdLINK for its further share of Sedo equates to a revenue multiple of approximately 3.7 (based on the above information), whereas the Lonergan Valuation has based its valuation of DBS' similar intermediary business on a revenue multiple of only approximately 0.4.
- Using the AdLINK/Sedo deal as a comparable industry transaction, given the similarities between the domain name traffic monetisation/intermediary business operated by Sedo and DBS, it would appear that the Lonergan Valuation has grossly undervalued this component of DBS.
- **Any implied or notional valuation of DBS' intermediary business using the AdLINK/Sedo deal as a comparative transaction is indicative only, and should not be relied upon by DBS Shareholders as an independent valuation of DBS, DBS' intermediary business or your DBS Shares.**
- Finally, the DBS Directors note the comments made in the Lonergan Valuation that the revenue generated from the intermediary business is less reliable and subject to greater competition than DBS' internally generated revenue.
- Although this is true, DBS is widely recognised as one of the market leaders in the domain name monetisation space. The DBS Directors also have reason to believe that DBS has one of the best market intelligence databases on the domain name industry, containing information that would be of substantial value to other industry participants. Furthermore, while the DBS Directors acknowledge that it is a competitive industry, DBS has a significant number of long standing customers who have been very loyal to the Company, due to the quality of services provided. The DBS Directors have no reason to expect this situation to change.

## THE DIRECTORS RECOMMENDATIONS REGARDING THE REVISED OFFER

- The DBS Directors, who collectively own or control 16.3% of the DBS Shares, **do not intend to accept to the Revised Offer on its current terms.**
- However, in the event that Photon either were to vary the terms of the Revised Offer ("**Varied Offer**") or make a new offer to acquire some or all of the DBS Shares on terms more favourable than those contained in the Offer ("**New Offer**"), including an increase in the Offer price, then the DBS Directors would consider the Varied Offer or New Offer (as the case may be) on its merits and reserve the right to alter their position in regard to deciding whether or not to accept any Varied Offer and/or New Offer upon providing the required disclosure.

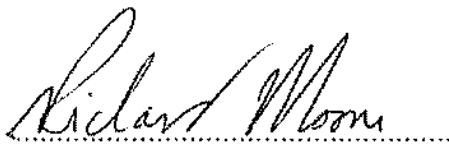
- The DBS Directors wish to make DBS Shareholders aware that given the conditions of the Revised Offer, the highest price DBS Shareholders will receive by accepting the Revised Offer would be the 88.5 cents per DBS Share (ex-dividend price<sup>2</sup>), as Photon will not be in a position to acquire more than 90% of the DBS Shares without the DBS Directors accepting the Revised Offer.
- The DBS Directors note that the fair price range of \$0.92 to \$1.06 for DBS Shares given by Lonergan Valuation is on an ex-dividend basis, yet the Revised Offer price of 88.5 cents per DBS Share (ex-dividend price<sup>2</sup>) is **below** even the lower end of the Lonergan Valuation range for DBS Shares.
- Furthermore, for the reasons outlined above, it is the considered opinion of the DBS Directors that the Lonergan Valuation is a very conservative valuation and does not take into account all of the relevant factors that should have been considered in attributing a fair value for DBS.
- Accordingly, the DBS Directors hereby unanimously recommend to DBS Shareholders that they **reject the Revised Offer on its current terms.**
- DBS Shareholders who are considering accepting the Revised Offer should seek their own independent professional financial advice.
- Given prevailing market prices for DBS Shares as at the date of this Third Supplementary Target's Statement, DBS shareholders who are considering accepting the Revised Offer should also consider selling their DBS Shares on-market.

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This Third Supplementary Target's Statement was approved by a resolution of directors of DBS on the 21<sup>st</sup> day of March 2007.

**Dated the 21<sup>st</sup> day of March 2007.**

Signed for and on behalf of Dark Blue Sea Limited by Richard Moore, being a director who was authorised to sign this statement by a resolution of the directors.



Richard Moore

Managing Director and Chief Executive Officer

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<sup>2</sup> Photon has advised DBS Shareholders that under the Offer, 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 1.5 cents interim dividend that was announced on 26 February 2007 by DBS.