PhotonGroup

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ASX RELEASE

PHOTON ANNOUNCES EXTENSION OF EXECUTIVE CHAIRMAN'S SERVICE AGREEMENT AND SENIOR EXECUTIVE OPTION PLAN

Photon Group Limited (**Photon**) today announced that Tim Hughes, the Company's Executive Chairman, has agreed to a three year extension to his Service Agreement and the introduction of a new Senior Executive Option Plan (**SEOP**).

Commenting on Mr Hughes' extended contract and the introduction of the SEOP, Mr Brian Bickmore, Chairman of the Photon Remuneration Committee, said:

"Following a strategic review by UBS in determining the most appropriate growth path to deliver ongoing shareholder value, the Photon Board, in recognition of the future contribution to be made by the Executive Chairman and Senior Executives in delivering that growth, have agreed to an extension to the Executive Chairman's service agreement and the introduction of a new Senior Executive Option Plan outlined below."

The Board is particularly pleased that Mr Hughes who has been integral in the development and growth of Photon has committed to a further three years."

Three Year Extension to Tim Hughes' Service Agreement

Mr Hughes' service contract has been extended so that it expires on 30 June 2010. Under the terms of the service contract, and subject to shareholder approval, Mr Hughes will be issued with two tranches of options. Each issue will be subject to the approval of Photon's shareholders at its upcoming 2007 Annual General Meeting (**AGM**). Further details of the options will be provided in Photon's Notice of Meeting for its 2007 AGM. The material terms of the options include:

- **Initial Options:** A total of 1,000,000 options will be issued to Mr Hughes subject to shareholder approval. Upon exercise each option will give Mr Hughes the right to be issued one Photon share. The options will have a $6.00 exercise price (being an amount which is referable to the market value at the time when the remuneration committee and Mr Hughes commenced discussions on an extension of his Service Agreement). Unless that Board determines otherwise, the options will not vest until 1 July 2010 and the options will lapse if Mr Hughes ceases to be employed by Photon.

- **SEOP Options:** It is proposed that Mr Hughes be issued a total of 3,000,000 options under the SEOP. The terms of Mr Hughes' participation will be the same as for other participants in the SEOP, which is described in further detail below.

Further details of Mr Hughes' Service Agreement are set out in Attachment A to this Announcement.

Senior Executive Option Plan

The SEOP is designed to incentivise the Company's executive directors, division leaders and other senior management. The material terms of the SEOP are set out in Attachment B. The Board presently intends to issue up to 8 million options (**Initial SEOP Options**) with a $6.00 exercise price under the SEOP (but additional options may be issued under the plan). The issue of all 8 million Initial SEOP Options will be subject to shareholder approval at Photon's 2007 AGM.

As further described in Attachment B, the vesting of the Initial SEOP Options is subject to a performance hurdle based on the year on year increase in the Photon share price. In summary, for all options issued to a SEOP participant to vest, the year on year Photon cumulative share price growth for the years ending 30 June 2008, 30 June 2009 and 30 June 2010 must increase by a minimum of 18%.

As noted above, it is proposed that Mr Hughes will be issued 3,000,000 of the Initial SEOP Options. Other proposed participants include Matthew Bailey, Photon's Chief Executive Officer, who will be issued 900,000 options subject to shareholder approval. Further details of the SEOP will be provided with the Notice of Meeting for the 2007 AGM.

Attachment A

Term

Mr Hughes' Service Agreement expires on 30 June 2010.

The Service Agreement provides for 3 months notice of termination on the part of Photon. In addition Mr Hughes is restrained for one year following the termination or expiration of the Agreement from being involved in businesses that are competitive with Photon (and other associated activities).

Mr Hughes will not be entitled to any termination payment other than:

- Fixed Remuneration for the duration of the notice period (or payment in lieu of working out the notice period); and
- any accrued statutory entitlements.

Fixed Remuneration

Annual Fixed Remuneration of $500,000 (plus statutory superannuation contributions).

Other

In lieu of further salary, 1 million options and participation in the SEOP.

Mr Hughes is allowed to have one other external Chairmanship.

Attachment B

Senior Executive Option Plan (SEOP)

The main features of the SEOP are set out below. Further details will be provided in Photon's Notice of Meeting for the 2007 AGM.

Participation: Senior executives of Photon may, by invitation of the Board, participate in the SEOP (**SEOP Participants**). Executive Directors of Photon are eligible to participate in the SEOP.

Issue Price: Options issued under the SEOP (**Options**) will be issued for nil consideration. Each Option carries the right, upon exercise and payment of the exercise price, to the issue of one Photon share.

Shareholder Approval: The issue of up to 8 million Options the subject of Photon's announcement of 12 July 2007 (**Initial SEOP Options**) is subject to shareholder approval to be sought at Photon's 2007 AGM.

No Loan: Photon will not provide any loan to any SEOP Participants in relation to the exercise of Options.

Exercise Price: The exercise price for the Initial SEOP Options is $6.00 per Option.

Vesting: The Board has a discretion to determine vesting conditions for Options issued under the SEOP.

Subject to the Service Condition and Performance Hurdle (each described below) being satisfied, for each person that is issued the Initial SEOP Options (**Initial SEOP Participant**):

(a) 1/3 of the Initial SEOP Options issued to an Initial SEOP Participant will vest on 1 July 2010 (**Tranche 1**);

(b) 1/3 of the Initial SEOP Options issued to an Initial SEOP Participant will vest on 1 July 2011 (**Tranche 2**); and

(c) 1/3 of the Initial SEOP Options issued to an Initial SEOP Participant will vest on 1 July 2011 (**Tranche 3**).

Expiry Date: The Board has a discretion to determine the Expiry Date for Options issued under the SEOP. The Board has determined in respect of the Initial SEOP Options that the Tranche 1 Options will expire on 31 March 2011 and the Tranche 2 and Tranche 3 Options will expire on 31 March 2012. Options not exercised on or before the Expiry Date automatically lapse.

Service Condition: Unless the Board determines otherwise, no SEOP Options will vest if a SEOP Participant is not employed by Photon at the time of vesting.

Performance Condition: The Board has a discretion to determine the performance conditions that will attach to Options issued under the SEOP.

In respect of the Initial SEOP Options, the Board has determined that the following Performance Conditions will apply:

(a) for the Tranche 1 Options, all Tranche 1 Options will vest if the increase in the volume weighted average price **(VWAP)** of Photon shares for the three months ending 30 June 2008 compared to the VWAP of Photon shares for the three months ending 30 June 2007 (**T1 Share Price Growth**) is 18% or more. Subject to the qualification noted below: (i) no Tranche 1 Options will vest if the T1 Share Price Growth is 8% or less; and (ii) if the T1 Share Price Growth is between 8% and 18%, Tranche 1 Options will vest on a straight line basis.

(b) for the Tranche 2 Options, all Tranche 2 Options will vest if the increase in the VWAP of Photon shares for the three months ending 30 June 2009 compared to the VWAP of Photon shares for the three months ending 30 June 2008 (**T2 Share Price Growth**) is 18% or more. Subject to the qualification noted below: (i) no Tranche 2 Options will vest if the T2 Share Price Growth is 8% or less; and (ii) if the T2 Share Price Growth is between 8% and 18%, Tranche 2 Options will vest on a straight line basis.

(c) for the Tranche 3 Options, all Tranche 3 Options will vest if the increase in the VWAP of Photon shares for the three months ending 30 June 2010 compared to the VWAP of Photon shares for the three months ending 30 June 2009, or, if higher, the VWAP in the three month period ending 30 June 2008 (High Watermark) (**T3 Share Price Growth**) is 18% or more. Subject to the qualification noted below: (i) no Tranche 3 Options will vest if the T3 Share Price Growth is 8% or less; and (ii) if the T3 Share Price Growth is between 8% and 18%, Tranche 3 Options will vest on a straight line basis.

Provision will be made for the ability to make up under performance in a prior period and a carry forward of over performance to subsequent periods.

Reconstructions: If at any time prior to the exercise by a SEOP Participant of any Options, there is a reconstruction (including a consolidation, subdivision, reduction or return) of the issued capital of Photon, the Options will be reorganised in the manner required by the ASX Listing Rules on a reconstruction of capital at the time of the reconstruction.

Bonus Issues: on each bonus date, each Option confers on the participant the right to receive on exercise of those Options not only an allotment of one share for each of the Options exercised but also an allotment of the additional shares and/or other securities which the SEOP Participant would have received had he or she participated in that bonus issue.

Rights Issues: Unexercised Options do not carry the right to participate in any new issues of securities by Photon.

Assignment of Options: A SEOP Participant may request the Board to issue the Options to a company controlled by the participant. The Options may not be assigned to any other person.