PhotonGroup

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17 August 2010

ASX Markets Supervision Pty Limited
20 Bridge Street
Sydney NSW 2000

Attention: Ms Emma Badhni, Senior Advisor, Issuers

Dear Emma

Photon Group Limited – Notice of Meeting

We attach a copy of the Notice of Meeting for the General Meeting of Photon Group Limited to be held on 17 September 2010.

It is expected that the Notice of Meeting will be dispatched to shareholders on 18 August 2010.

Yours sincerely

Eleni North
Company Secretary

PhotonGroup

Photon Group Limited
ABN 97 091 524 515

Notice of General Meeting

Notice is hereby given that a General Meeting of members of Photon Group Limited will be held at Level 4, 60 Carrington Street, Sydney at 11.00am on Friday, 17 September 2010.

Notice of General Meeting

NOTICE IS GIVEN that a General Meeting of the members of Photon Group Limited ABN 97 091 524 515 (**Photon** or the **Company**) will be held on Friday, 17 September 2010, commencing at 11.00am (AEST) at Level 4, 60 Carrington Street, Sydney NSW 2000 (the **General Meeting**).

The explanatory notes that accompanies and forms part of this Notice of Meeting (Explanatory Notes) describes the various matters to be considered.

Ordinary business

1 Approval of proposed issue of New Shares under the Shareholder Offer

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

"That, subject to Resolutions 2 and 3 being passed, approval be given for all purposes, including pursuant to ASX Listing Rule 7.1, for the issue of up to 807 million New Shares that are proposed to be issued under or in relation to the Shareholder Offer at the Offer Price of $0.10 per New Share, on the terms specified in the accompanying Explanatory Notes."

2 Approval of proposed issue of New Shares under the Placement

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

"That, subject to Resolutions 1 and 3 being passed, approval be given for all purposes, including pursuant to ASX Listing Rule 7.1, for the issue of up to 400 million New Shares that are proposed to be issued under or in relation to the Placement at the Offer Price of $0.10 per New Share, on the terms specified in the accompanying Explanatory Notes."

3 Approval of proposed issue of New Shares under the Deferred Consideration Issue

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

"That, subject to Resolutions 1 and 2 being passed, approval be given for all purposes, including pursuant to ASX Listing Rule 7.1, for the issue of up to 269 million New Shares that are proposed to be issued under the Deferred Consideration Issue at the Offer Price of $0.10 per New Share, on the terms specified in the accompanying Explanatory Notes."

4 Approval of the proposed issue of New Shares to Mr Jeremy Philips

To consider and, if thought fit, to pass the following resolution as an ordinary resolution of the Company:

"That, subject to Resolutions 1, 2 and 3 being passed, approval be given for all purposes, including ASX Listing Rule 10.11, for the issue of up to 76.4 million New Shares to Mr Jeremy Philips, the Chief Executive Officer of Photon, at the Offer Price of $0.10 per New Share, on the terms specified in the accompanying Explanatory Notes."

By Order of the Board

Eleni North
Company Secretary

17 August 2010

Notes

Interdependence

Each of Resolutions 1, 2 and 3 (the **Recapitalisation Resolutions**) are inter-conditional. This means that each of the Recapitalisation Resolutions needs to be passed for all of the Recapitalisation Resolutions to be effective and the Recapitalisation Proposal to proceed.

Resolution 4 (the **Related Party Resolution**) is conditional on each of the Recapitalisation Resolutions. This means that if any of the Recapitalisation Resolutions are not passed the approval sought in relation to the Related Party Resolution will not be effective. The Recapitalisation Resolutions are not, however, conditional upon the Related Party Resolution being passed. This means that if the Related Party Resolution is not passed, any approvals given in relation to the Recapitalisation Resolutions will still be effective.

Voting exclusion statement

Photon will disregard any votes cast:

1–3 in respect of Resolutions 1, 2 and 3, by:

(a) RG Capital;
(b) any other Shareholder who is a Substantial Holder in the Company;
(c) the Underwriters;
(d) each person who will participate in the proposed Placement;
(e) each of the Deferred Consideration Beneficiaries; and
(f) Mr Jeremy Philips;

and each of their respective Associates.

ASX has granted the Company a waiver from ASX listing rule 14.11 to permit the Company to count votes cast on Resolutions 1, 2 and 3 by holders of securities who participated in the Placement to the extent only that those holders are acting solely in a fiduciary, nominee or custodial capacity on behalf of beneficiaries who did not participate in the Placement (**Nominee Holders**). The waiver is subject to the following conditions:

(a) the beneficiaries provide written confirmation to the Nominee Holders that they have no interest in the outcome of the Placement, nor are they an Associate of a person who has an interest in the outcome of the Placement;
(b) the beneficiaries may direct the Nominee Holders to vote for or against Resolutions 1, 2 and 3; and
(c) the Nominee Holders do not exercise discretion in casting a vote on behalf of the beneficiaries.

4 in respect of Resolution 4, by Mr Jeremy Philips and his Associates.

However, Photon need not disregard a vote if:

– it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
– it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting entitlements

1 For the purposes of the General Meeting, Shares will be taken to be held by the person(s) who are registered as holders of Shares as at 7.00pm (AEST) on Wednesday, 15 September 2010 (**Voting Entitlement Date**). Transactions recorded after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

2 A Shareholder can attend and vote at the General Meeting:
  – in person or, where a Shareholder is a body corporate, by its representative;
  – by proxy; or
  – by attorney.

3 A proxy form for the General Meeting is enclosed. A proxy, attorney or representative may, but need not, be a member of the Company.

4 A Shareholder entitled to cast 2 or more votes may appoint up to 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

5 If a Shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes. If a Shareholder appoints 2 proxies, neither may vote on a show of hands if more than one proxy attends. If it is desired to appoint 2 proxies, an additional proxy form can be obtained from Computershare Investor Services Pty Limited.

6 To be valid, the proxy form (together with any power of attorney or other authority) must be returned:
  (a) by post to the share registry Computershare Investor Services Pty Limited GPO Box 242, Melbourne VIC 3001;
  (b) online at www.investorvote.com.au;
  (c) **Custodian voting** – for Intermediary Online subscribers only (**Custodians**) please visit www.intermediaryonline.com to submit your voting intentions; or
  (d) successfully transmitted by facsimile to Computershare Investor Services Pty Limited on +61 3 9473 2555 (outside Australia) or 1800 783 447 (within Australia),

  by no later than 11.00am (AEST) on Wednesday, 15 September 2010.

7 In respect of each of the Resolutions, the Chairman presently intends to vote all undirected proxies in favour of each of the Resolutions.

8 If a representative of a corporate Shareholder is to attend the General Meeting, a valid certificate of appointment of a corporate representative must be produced prior to admission to the General Meeting. This certificate can be obtained from Computershare Investor Services Pty Limited located at Level 4, 60 Carrington Street, Sydney, NSW, 2000, or online at www.investorcentre.com under the information tab, "Downloadable Forms".

1 Introduction

These Explanatory Notes contain information relevant to the Resolutions set out in the Notice of Meeting and should, together with all other information in the Prospectus, be read carefully and in its entirety by Shareholders before making any decision in relation to the Resolutions.

If you have any doubt regarding the information contained in these Explanatory Notes, the Prospectus or any action you should take in respect of such information, you should consult your financial, legal, taxation or other professional adviser.

Shareholders should note that these Explanatory Notes provide only a high level overview of the Recapitalisation Proposal, including the intended use of funds. Shareholders are urged to read these Explanatory Notes and the Prospectus carefully and in their entirety for a full description of the Recapitalisation Proposal being proposed by the Company.

Defined terms used in these Explanatory Notes are set out in the Glossary in section 11.

2 Overview of the Recapitalisation Proposal

2.1 Why is the Recapitalisation Proposal being pursued?

Photon experienced a disappointing financial result in FY2010F, including a significant NPAT loss of $87.4 million driven by one-off costs, losses associated with discontinued businesses and a non-cash impairment of its intangible assets (which together aggregated to a negative impact of $108.4 million after tax). In addition, there has been a material increase in its Deferred Consideration Liabilities. Photon has insufficient funds under its existing debt facilities to meet its Deferred Consideration Payments due on or around 30 September 2010 and, without a waiver from its lender which expires at 30 September 2010, would be in breach of its banking covenants.

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

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

The effect of the Recapitalisation Proposal is that it will enable Photon to pay Deferred Consideration Payments due in September 2010 and help Photon avoid being in breach of debt facilities at that date. This is the key advantage of the Recapitalisation Proposal. If the Recapitalisation Proposal is not implemented, the solvency of the Company will be threatened as Photon will not be in a position to meet its obligations to the Deferred Consideration Beneficiaries and its lender which fall due on or about 30 September 2010 unless those parties agree to an alternative restructure of these liabilities which does not require a capital raising. No assurance can be given that this will be achieved. If Photon was able to successfully renegotiate these obligations, the Directors consider that this will be at further cost to Photon and on terms significantly less favourable than those which could have been achieved had the Recapitalisation Proposal been approved.

The key disadvantages of the Recapitalisation Proposal are dilution of Shareholders, restrictions on Photon's ability to pay future dividends, significant transaction costs of approximately $12.9 million and that completion of the Recapitalisation Proposal does not guarantee the future financial performance of Photon.

2.2 Summary of the Recapitalisation Proposal

(a) Deferred Consideration Restructure

Photon has entered into agreements with substantially all of the Vendors of the Operating Entities which are expected to receive future Deferred Consideration Payments to restructure the terms of those Deferred Consideration Payments. The effect of the new arrangements is to provide an aggregate cap for substantially all of the estimated future Deferred Consideration Payments of approximately $176 million.[1] The new arrangements also reduce the total estimated future cash required for Deferred Consideration Payments from approximately $170 million to approximately $149 million as approximately 15% of the aggregate final capped payments will be paid in Photon Shares. Further, approximately $83 million of the $149 million expected future cash payments will only be made if Photon reaches certain hurdles in relation to financial performance and leverage ratio levels. The restructure is conditional upon a number of matters, including completion of the Equity Raising.

Note:

1 This estimate includes payments in Australian dollars (A$112.1 million), pound sterling (£36.2 million) and US dollars (US$0.3 million) converted to Australian dollars at the relevant exchange rates at 30 June 2010 (1GBP=1.76AUD and 1USD=1.17AUD). Excludes approximately $5 million in expected future dividend payments to the shareholders of a non-wholly owned Operating Entity that is currently subject to a put option arrangement.

(b) Debt Refinancing

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

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

The bank guarantees will be provided to the Deferred Consideration Beneficiaries to guarantee the cash portion of the Deferred Consideration Payments due after 30 September 2010. These bank guarantees will be called upon to the extent that Photon cannot make a Deferred Consideration Payment from the $230 million cash advance facilities or its operating cash flows. The New Facilities will have a term of three years and covenants and margins that are substantially in line with the covenants and margins of Photon's previous facilities.

(c) Equity Raising

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

– an offer to eligible Photon Shareholders ("**Shareholder Offer**"); and
– a placement to sophisticated and professional investors ("**Placement**").

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

2.3 What are the key disadvantages of the Recapitalisation Proposal?

Although the Recapitalisation Proposal is necessary to address Photon's current capital requirements, implementation of the Recapitalisation Proposal has the following key disadvantages for Shareholders:

– **Dilution of Shareholders:** The Recapitalisation Proposal, including the Equity Raising, will result in the issue of up to approximately 1,516.2 million New Shares. This will mean that the percentage holdings in Photon of Shareholders may be diluted, even if they participate in the Shareholder Offer, and this dilution may be significant. In addition, Ineligible Retail Shareholders will be diluted as they cannot participate in the Shareholder Offer. Shareholders that do not participate in the Shareholder Offer will be diluted by approximately 89%. See Section 7.2(a) of these Explanatory Notes for further details, including examples of the potential level of dilution.
– **Restrictions on dividends:** Photon is subject to material restrictions on the payment of future dividends under its New Facilities and terms of the Deferred Consideration Restructure which may extend to September 2018. See section 7.2(c) of these Explanatory Notes for further details of the restrictions on dividends.
– **Transaction costs:** If the Recapitalisation Proposal is implemented Photon will incur transaction costs of approximately $12.9 million;
– **Future performance:** The completion of the Recapitalisation Proposal will not guarantee the success of Photon's future financial performance. If Photon's financial performance continues to deteriorate, Photon may be in breach of its debt financial covenants and may not be able to meet its future Deferred Consideration Payments. See Section 7.2(b) for further details.

2.4 What is the outlook for Photon after the Recapitalisation Proposal?

(a) FY2010 performance of the Group

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

Further details regarding Photon's financial performance in FY2010 are set out in Section 7 of the Prospectus.

(b) Outlook and strategic objectives

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

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

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

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

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

Further details on Photon's outlook and strategic objectives are set out in Section 6 of the Prospectus and the risks of achieving these objectives are set out in Section 9 of the Prospectus.

2.5 Were other options considered?

Photon and its advisers have considered a number of options to address the Company's position. These have included, but are not limited to, the divestment of certain operating businesses and various alternative capital raising structures. In the course of the review, Photon held a number of discussions with the Vendors of the Operating Entities who are expected to receive Deferred Consideration Payments, Photon's lender, potential equity investors and its financial advisers to help develop and evaluate the possible alternatives.

The Board ultimately concluded that, of the options available, the Recapitalisation Proposal would likely provide the most advantageous outcome for Photon and its Shareholders.

2.6 What Shareholder approvals are required for the Recapitalisation Proposal?

The Equity Raising and issue of New Shares to the Deferred Consideration Beneficiaries as part of the Deferred Consideration Restructure (**Deferred Consideration Issue**) require Shareholder approval as set out in Resolutions 1 to 3 of this Notice of Meeting. Shareholders must approve the issue of New Shares under the Equity Raising and Deferred Consideration Issue in order for the Recapitalisation Proposal to be implemented.

2.7 What are the other conditions of the Recapitalisation Proposal?

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

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

3 Details of the Recapitalisation Proposal

3.1 Deferred Consideration Restructure

(a) Overview of the Deferred Consideration Restructure

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

- 15 Operating Entities are expected to meet the earnings targets necessary to receive a payment and have entered into Deferred Consideration Restructure Agreements;
- 2 Operating Entities have waived their rights to receive future payments; and
- Photon considers that the remaining 2 Operating Entities are highly unlikely to meet their earnings targets required to receive future payments.[1]

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

The new arrangements include in approximate terms the following:

- payments equal to the lesser of the amount determined in accordance with the Original Acquisition Agreement and an agreed cap;
- 35% of the aggregate capped payment will be paid in cash on the date when payment was due under the Original Acquisition Agreement (**Tranche 1 Payment**);
- 15% of the aggregate capped payments will be satisfied by the issue of Photon Shares at the Issue Price on the Allotment Date (**Tranche 2 Payment**);
- 50% of the Tranche 3 Payment will only be paid if Group EBITDA for the last 12 months is greater than $85 million and Photon's leverage ratio (calculated consistently with its banking facilities referred to in Section 11.8 of the Prospectus) is less than 2.25 times (**Tranche 3A Payment**);
- the remaining 50% of the Tranche 3 Payment will only be paid if Group EBITDA for the last 12 months is greater than $95 million and Photon's leverage ratio (calculated consistently with its banking facilities referred to in Section 11.8 of the Prospectus) is less than 2.25 times (**Tranche 3B Payment**); and
- Tranche 3A and Tranche 3B Payments will not be payable if the applicable triggers have not been satisfied by a sunset date of 5 years from the payment date provided for in the Original Acquisition Agreement.

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

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

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

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

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

- the maturity profile of the restructured Deferred Consideration Payments – see Table 7.5.1a of the Prospectus;
- the pro-forma balance sheet impact – see Section 7.6 of the Prospectus;
- exchange rate sensitivity analysis – see Section 7.7 of the Prospectus; and
- sensitivity analysis if the Tranche 3A and Tranche 3B triggers are not satisfied – see Table 7.5.1b of the Prospectus.

(b) Shareholder approval for the Deferred Consideration Issue

As part of the Deferred Consideration Restructure, approximately 269 million New Shares will be issued to the Deferred Consideration Beneficiaries. The Deferred Consideration Issue requires Shareholder approval under ASX Listing Rule 7.1 as set out in Resolution 3 of this Notice of Meeting.

Note:

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

3.2 The Debt Refinancing

(a) Waivers received

Photon has entered into waiver agreements with its lender which provide for increased headroom in certain of the financial covenants until the earlier of the date upon which Photon receives the proceeds from the Equity Raising and 30 September 2010.

(b) Overview of New Facilities

Photon has agreed with its lender, subject to the satisfaction of the conditions detailed in Section 11.8 of the Prospectus, to refinance its existing $280.0 million debt facilities (currently drawn to $274.0 million) with $230.0 million of cash advance facilities and a $45.0 million bank guarantee facility (**New Facilities**). Following the refinancing, and after the payment of Deferred Consideration Payments due on or about 30 September 2010, Photon will have $206.8 million of drawn debt against a facility of $230 million. The New Facilities will have a 3 year term expiring in September 2013. Although the New Facilities have covenants and margins that are substantially in line with previous facilities, Photon will continue to have high debt levels after implementation of the Recapitalisation Proposal. Photon will be reliant on continuing operational cash flows, after meeting the working capital requirements of the operating businesses, to pay down debt in order to meet future Deferred Consideration Payments.

It should be noted that under the New Facilities, Photon will be restricted from paying a dividend until 30 September 2012 and only then if its leverage ratio is below 2.25 times and all Deferred Consideration Payments have been made, guaranteed or cease to be payable. The key financial covenants and terms are detailed in Section 11.8 of the Prospectus.

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

3.3 Equity Raising

(a) Components of Equity Raising

If the Recapitalisation Resolutions are passed, Photon intends to raise a minimum of $102.5 million at $0.10 per New Share via:

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

  (**Shareholder Offer**).

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

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

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

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

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

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

The Shareholder Offer is not provided to Ineligible Retail Shareholders, being Retail Shareholders that reside outside of Australia. Accordingly, Ineligible Retail Shareholders will be diluted by the Recapitalisation Proposal.

Further details of the allocation policy are set out in Section 4.2.4 of the Prospectus and the risks associated with dilution are set out in Section 7.2(a) below and Section 9.2.3 of the Prospectus.

(b) Shareholder approval for the Equity Raising
The Shareholder Offer and the Placement each require Photon Shareholder approval under ASX Listing Rule 7.1 as set out in Resolution 1 (approval of the Shareholder Offer) and Resolution 2 (approval of the Placement).

(c) Participation of RG Capital and the CEO
Photon Group's largest Shareholder, RG Capital, currently owns 23.8% of Photon (prior to the Equity Raising). RG Capital has committed to subscribe through the Shareholder Offer and the Placement, and to sub-underwrite the Retail Shareholder Offer, for the number of New Shares required to maintain its current ownership after the Recapitalisation Proposal. RG Capital's commitment represents participation in the Equity Raising of up to approximately $32.3 million. In addition, RG Capital has agreed to sub-underwrite a further $2.7 million worth of New Shares to take its total investment under the Shareholder Offer to $35.0 million pursuant to section 611 item 9 of the Corporations Act which in general terms permits a shareholder with a greater than 20% interest to increase their shareholding level by 3% in rolling 6 month periods. The maximum percentage holding of RG Capital immediately post the Recapitalisation Proposal is 25.5%.

The Board considers that it is in the best interests of Shareholders that RG Capital is provided the opportunity to maintain a significant holding in Photon following the implementation of the Recapitalisation Proposal as this commitment by RG Capital has been critical to the Company's ability to obtain an underwritten equity raising at a level which is necessary to meet the Company's financial requirements. The level of shareholding may increase from the current level of 23.8% to 25.5%.

Further detail regarding the participation of the CEO, Mr Jeremy Philips, in the Equity Raising and Recapitalisation Proposal is set out in Section 5 of these Explanatory Notes.

(d) Participation of Directors
As at the date of these Explanatory Notes, the Directors of Photon have relevant interests in the following numbers of Shares and Options as listed in the table below. The intentions of the Directors in relation to their participation in the Equity Raising is set out in the table below.

Director	Number of Shares	Number of Options	Intentions
Ms Susan McIntosh	488,890	Nil	Ms McIntosh and her Associates intend to subscribe for their full entitlement under the Shareholder Offer.
Mr Brian Bickmore	143,018	Nil	Mr Bickmore and his Associates intend to subscribe for their full entitlement under the Shareholder Offer.
Mr Paul Gregory	200,000	Nil	Mr Gregory does not presently intend to participate in the Equity Raising.

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

3.4 Impact on Photon's capital structure

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

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

Notes:

1 The issue of the 65.3 million CEO LTI Shares is subject to Shareholder approval. Photon is required under Mr Philips' Service Agreement to provide him with a limited recourse loan to fund his subscription for all of the CEO LTI Shares. Please refer to Section 5 for further details. If the Shareholder Offer raises more than $102.5 million, Mr Philips will be issued with up to 7.6 million additional CEO LTI Shares (also subject to Shareholder approval).

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

As noted from the above table, the Recapitalisation Proposal, including the Equity Raising, will result in the issue of up to approximately 1,516.2 million New Shares. This will mean that the percentage holdings in Photon of Shareholders may be diluted, even if they participate in the Shareholder Offer, and this dilution may be significant. Examples of the dilutionary impact of the Recapitalisation Proposal are set out in Section 7.2(a) of these Explanatory Notes.

3.5 Sources and intended uses of funds from Equity Raising

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

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

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

Notes:

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

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

Refer to Sections 4.4 and 4.5 of the Prospectus for further details on the sources and uses of funds and the total number of New Shares to be issued.

3.6 Underwriting

Under the underwriting agreement dated 17 August 2010 between the Company and Macquarie and UBS (**Underwriting Agreement**), Macquarie and UBS (the **Underwriters**) agreed, subject to Shareholder approval and other conditions to underwrite the Placement and $62.5 million of the Shareholder Offer. The key terms of the Underwriting Agreement are summarised in Section 11.5 of the Prospectus. These include:

(a) Conditions Precedent and Termination Rights
The Underwriters' obligations to underwrite the Placement and $62.5 million of the Shareholder Offer are subject to satisfaction of a number of conditions precedent including the passing by Shareholders of the Recapitalisation Resolutions. The Underwriters may also terminate the Underwriting Agreement in specified circumstances set out in Section 11.5 of the Prospectus. Shareholders should be aware, therefore, that the effect of each of the Recapitalisation Resolutions not being passed is that the Underwriters would be entitled to not proceed with the underwriting of the Placement or the Shareholder Offer.

(b) Representations and Indemnities
Under the Underwriting Agreement, Photon gives certain customary representations and warranties for an offer of the kind the subject of the Equity Raising as well as an indemnity to the Underwriters in respect of losses incurred in connection with the Equity Raising (subject to certain limitations and exclusions).

(c) Underwriting fee and offer management fee
The Underwriters are each entitled to receive the following fees:

(a) an underwriting fee of $2.25 million;

(b) an advisory fee of $550,000; and

(c) a discretionary advisory fee of $200,000 payable on 31 December 2010 and only payable if Photon, in its absolute discretion, determines to make the payment.

3.7 Share Consolidation

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

4 Background to Resolutions 1–3 – Approval of Equity Raising and Deferred Consideration Issue

It is proposed that Photon will issue up to approximately 1,516.2 million New Shares at an Offer Price of $0.10 as a result of the Equity Raising and the Deferred Consideration Issue as follows:

(a) up to approximately 807 million New Shares to Eligible Shareholders and/or the Underwriters at the Offer Price of $0.10 per New Share under the Shareholder Offer;

(b) up to 400 million New Shares to institutions and sophisticated investors, RG Capital, Mr Jeremy Philips and/or the Underwriters at the Offer Price of $0.10 per New Share under the Placement; and

(c) up to approximately 269 million New Shares to the Deferred Consideration Beneficiaries at the Offer Price of $0.10 per New Share under the Deferred Consideration Issue.

Up to an additional 41.3 million New Shares will be issued to Mr Jeremy Philips (in addition to the 31.5 million and 3.5 million New Shares to be issued to him under the Shareholder Offer and the Placement respectively) at the Offer Price of $0.10 per New Share. Further details of this issue are provided in Section 5 of these Explanatory Notes.

Listing Rule 7.1 requires approval of the holders of ordinary securities for an issue by an entity of equity securities if, over a 12 month period, the number of the equity securities issued is more than 15% of the number of ordinary securities on issue at the start of that 12 month period (subject to certain exceptions set out in Listing Rule 7.2).

Approval is sought for the proposed issue of New Shares under the Equity Raising and the Deferred Consideration Issue to permit Photon to issue those New Shares without breaching the 15% limit which applies to Photon under ASX Listing Rule 7.1 and to preserve Photon's capacity to issue further Shares within this 15% limit in a 12 month period without the approval of Shareholders.

Resolution 1 – Shareholder Offer

For the purposes of Listing Rule 7.3 the following additional information is provided in relation to Resolution 1:

(a) the maximum number of New Shares that Photon will issue pursuant to the Shareholder Offer is 807 million;

(b) the date by which Photon will issue the New Shares under the Shareholder Offer is the Allotment Date;

(c) the Offer Price for the New Shares to be issued under the Shareholder Offer is $0.10 per New Share;

(d) the New Shares will be issued to Eligible Shareholders or, if not taken up by Eligible Shareholders, by or as directed by the Underwriters. The New Shares issued under the Shareholder Offer include 31.5 million New Shares to be issued to Mr Jeremy Philips which requires separate Shareholder approval as set out in Resolution 4. Further details regarding the proposed issue of New Shares to Mr Jeremy Philips, including the escrow arrangements which apply to this issue, are set out in Section 5 of these Explanatory Notes and Sections 1.5.4 and 11.14 of the Prospectus;

(e) the New Shares issued under the Shareholder Offer will be issued on the same terms as, and will rank equally with, all other existing Shares from the time of issue; and

(f) Photon will apply the net proceeds from the Shareholder Offer in accordance with the intended uses of funds described in Section 3.5 above.

Resolution 2 – Placement

For the purposes of Listing Rule 7.3 the following additional information is provided in relation to Resolution 2:

(a) the maximum number of New Shares that Photon will issue pursuant to the Placement is 400 million;

(b) the date by which Photon will issue the New Shares under the Placement is the Allotment Date;

(c) the Offer Price for the New Shares to be issued under the Placement is $0.10 per New Share;

(d) the New Shares will be issued to various institutions and sophisticated investors chosen by the Underwriters, RG Capital, Mr Jeremy Philips (subject to Shareholder approval under Resolution 4) and the Underwriters, being persons to whom offers of shares could be made without disclosure under Chapter 6D of the Corporations Act;

(e) the New Shares issued under the Placement will be issued on the same terms as, and will rank equally with, all other existing Shares from the time of issue of the New Shares; and

(f) Photon will apply the net proceeds from the Placement in accordance with the intended uses of funds described in Section 3.5 above.

Resolution 3 – Deferred Consideration Issue

For the purposes of Listing Rule 7.3 the following additional information is provided in relation to Resolution 3:

(a) the maximum number of New Shares that Photon will issue pursuant to the Deferred Consideration Issue is 269 million;

(b) the date by which Photon will issue the New Shares under the Deferred Consideration Issue is the Allotment Date;

(c) the New Shares to be issued under the Deferred Consideration Issue will be issued at $0.10 per New Share;

(d) the New Shares will be issued to the Deferred Consideration Beneficiaries, being the Vendors of the following Operating Entities acquired by Photon:
   - Belgiovane Williams Mackay Pty Limited;
   - BMF Advertising Pty Limited;
   - City Public Relations Pty Limited;
   - Club Sales & Merchandising Pty Limited and Club Food Brokerage Pty Limited;
   - Found Agency Pty Limited;
   - Frank Public Relations Limited;
   - Frank Public Relations Pty Limited;
   - iMega Pty Limited;
   - ISS Marketing Pty Limited;
   - Mark Communications Pty Limited;
   - MessageNet Pty Ltd;
   - Naked Communications Limited;
   - North by Northwest Group Limited;
   - Resource Experience Limited;
   - Retail Insight Limited; and
   - Vox Marketing Group Pty Limited;

(e) subject to the escrow restrictions which apply to certain Deferred Consideration Beneficiaries as summarised below, the New Shares issued under the Deferred Consideration Issue will be issued on the same terms as, and will rank equally with, all other existing Shares from the time of issue.

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

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

- each Deferred Consideration Beneficiary agrees not to dispose of, or agree to dispose of, any of the New Shares issued to it as part of the Tranche 2 Payment Share issue for the period which commences on the date those New Shares are issued and ends on the date that the Deferred Consideration Beneficiary was originally entitled under its Original Acquisition Agreement to payment of the Deferred Consideration Payment; and
- in the event that a Deferred Consideration Beneficiary has been issued any excess New Shares pursuant to the Tranche 2 Payment Share issue, these New Shares will be disposed of and Photon will be entitled to the proceeds of sale (as further discussed in Section 11.6 of the Prospectus); and

(f) the issue of the New Shares under the Deferred Consideration Issue will not raise any new funds. However, the issue of the New Shares will be undertaken in order to convert $26.9 million of the Deferred Consideration Liability into New Shares at $0.10 each. Further information regarding the Deferred Consideration Issue and the payments to the Deferred Consideration Beneficiaries is set out in Section 3.1 above and Sections 1.3 and 11.6 of the Prospectus.

5 Background to Resolution 4 – Approval of proposed issue of New Shares to Mr Jeremy Philips

The maximum number of New Shares that may be issued to Mr Philips if Resolution 4 is passed is approximately 76.4 million New Shares. 3.5 million of these New Shares will be acquired by Mr Philips under the Placement. The balance, namely up to 72.9 million New Shares, will be issued pursuant to the terms of Mr Philip's Service Agreement. Further details of this are set out below.

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

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

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

Photon has also agreed to provide Mr Philips with an indemnity in respect of Australian income tax, including related interest, fines, penalties, charges and other costs referable to that Australian income tax (collectively **tax**) payable by him in respect of the CEO LTI Shares. The indemnity will only apply where the CEO LTI Shares are issued at a discount, that is where the market value of a Photon Share on the day of issue under the Recapitalisation Proposal is greater than the Offer Price ($0.10) (the difference being **the discount**) and the discount is treated as taxable for income tax purposes. If the indemnity applies, then Photon's liability under the indemnity should not exceed an amount equal to 46.5% of the discount multiplied by the total number of CEO LTI Shares. On the assumption that the maximum number of CEO LTI Shares issued is 72.9 million, this would mean that for every one cent of discount, it is anticipated that the amount payable under the indemnity would be $338,985 (exclusive of related interest, fines, penalties, charges and other costs).

If the issue of the CEO LTI Shares at a discount gives rise to a taxing event which is covered by the indemnity (**the taxing event**), Mr Philips may obtain a benefit in the form of future reduced tax payable upon disposal of his CEO LTI Shares because of the taxing event. Where Photon is required to make a payment under the indemnity, Mr Philips is obliged to pass the benefit of the resulting tax savings in respect of any CEO LTI Shares which he ceases to own back to Photon. The effect of this is to partially reimburse Photon for payments previously made by Photon under the indemnity.

All CEO LTI Shares will be subject to vesting and escrow conditions as set out in his Service Agreement and described in Section 5(b) below. Further details of the issue of the CEO LTI Shares to Mr Philips and his Service Agreement, including recent amendments, are set out in Section 11.14 of the Prospectus.

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

(a) Key terms of the loan arrangements

The key terms of the loan arrangements between the Company and Mr Jeremy Philips which apply to the CEO LTI Shares are as follows:

(i) Mr Philips was loaned $1.13 per share to facilitate the acquisition by him of 9 million long-term incentive Shares issued to him in June 2010. The amount of the loan was $10.17 million;

(ii) subject to Shareholder approval for the issue of New Shares, Photon will make a further loan to Mr Philips in respect of up to 72.9 million New Shares at the rate of $0.10 cents per share. If the issue of New Shares is approved, the amount of the loan will be up to $7.29 million. The loan will be on the same terms and conditions as apply in relation to the loan referenced in 5(a)(i) above;

(iii) interest accrues on the loans at a rate equal to the dividend paid on each share net of tax payable by Mr Philips on the dividend; and

(iv) repayment is to be made at the earlier of the sale of the relevant shares and 12 months after vesting. Mr Philips may elect to forfeit the Shares to which any loan repayment relates in lieu of making a repayment which is due.

(b) Vesting Profile

The CEO LTI Shares will be issued to Mr Philips on the Allotment Date. All CEO LTI Shares issued to Mr Philips (other than the CEO Placement Shares) will be subject to vesting and escrow conditions. Mr Philips is not permitted to deal with any long-term incentive shares (including the CEO LTI Shares) unless they have vested. The CEO LTI Shares will vest as follows: 2/9 on 30 June 2012; 1/3 on 30 June 2013; and the remainder on 30 June 2014. The loan must be repaid in tranches at the earlier of the sale of the shares and 12 months from the date that the shares vest.

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

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

Listing Rule 10.11 requires the approval of ordinary shareholders to issue securities to a related party or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained. For the purposes of Listing Rule 10.11, a person who would be a related party in the future as further defined in section 228(6) of the Corporations Act will be a related party. Where an approval is given under Listing Rule 10.11, no separate approval is required under Listing Rule 7.1.

Under section 228(6) of the Corporations Act a person will be a related party of a public company if that person believes or has reasonable grounds to believe that they are likely to become a related party of the public company. A director is a related party for the purposes of section 228(6) of the Corporations Act and also Listing Rule 10.11. It is contemplated by Mr Jeremy Philips that he may be appointed as a director of Photon in the near future and he is therefore a related party for the purpose of Listing Rule 10.11.

For the purposes of Listing Rule 10.13, the following information is provided to Shareholders:

(a) the maximum number of New Shares that Photon will issue to Mr Jeremy Philips is approximately 76.4 million comprising up to 72.9 million CEO LTI Shares and 3.5 million CEO Placement Shares;

(b) the date by which Photon will issue the New Shares to Mr Jeremy Philips is the Allotment Date;

(c) the Offer Price for the New Shares to be issued to Mr Jeremy Philips is $0.10 per New Share;

(d) subject to the escrow restrictions and the terms of the loan agreement between Mr Jeremy Philips and the Company summarised in Section 5(a) and Section 5(b) above and Section 11.14 of the Prospectus, the CEO LTI Shares will be issued on the same terms as, and will rank equally with, all other existing Shares from the time of issue.

    The CEO Placement Shares will be issued on the same terms as, and will rank equally with, all other existing Shares from the time of issue; and

(e) the issue of the CEO LTI Shares to Mr Jeremy Philips will not have any net effect on the Company's immediate cash position because the Company will provide Mr Jeremy Philips with a limited recourse loan to fund the required consideration for the purchase of the New Shares. Further information in relation to the loan and other arrangements between the Company and Mr Jeremy Philips is set out in Section 5(a) above and in Section 11.14 of the Prospectus.

    The proceeds of the issue of the New Shares to Mr Jeremy Philips under the Placement will be applied in accordance with the intended uses of funds described in Section 3.5.

6 Directors' recommendations and intentions

The Directors unanimously recommend to Shareholders that they vote in favour of all of the Resolutions.

In respect of each of the Resolutions, the Chairman presently intends to vote all undirected proxies in favour of each of the Resolutions.

7 Key advantage and disadvantages if the Recapitalisation Resolutions are passed

The Recapitalisation Resolutions are Resolutions 1, 2 and 3.

The Directors consider that the key advantage and disadvantages of implementing the Equity Raising as part of the Recapitalisation Proposal are described below.

7.1 Advantage

The Recapitalisation Proposal will enable the Company to pay Deferred Consideration Payments due on or about 30 September 2010 and help Photon avoid being in breach of debt facility financial covenants contained in its debt facilities.

Photon's estimated future Deferred Consideration Payments are approximately $176 million. Cash Deferred Consideration Payments of approximately $46 million are due on or around 30 September 2010 unless the Deferred Consideration Restructure is implemented, in which case the cash Deferred Consideration Payments due on or around 30 September 2010 are reduced to $22.5 million which amounts will be met from funds available if the Recapitalisation Proposal completes. Further, Photon is currently operating under waiver agreements with its lender in relation to certain financial covenants in its debt facilities. These waivers will remain in place until the earlier of the completion of the Equity Raising and 30 September 2010.

Both the Debt Refinancing and the Deferred Consideration Restructure are conditional on the Equity Raising proceeding.

If Shareholders do not approve the Recapitalisation Resolutions:

- the Equity Raising will not proceed;
- the Deferred Consideration Restructure will not occur (and accordingly the restructure of the deferred consideration arrangements with Deferred Consideration Beneficiaries will not take effect) and the cash component of the Deferred Consideration Payments due on or around 30 September 2010 will be approximately $46 million. Unless an alternative restructure of Photon's Deferred Consideration Liability can be agreed with persons to whom Deferred Consideration Payments are due (in respect of which no assurance can be given), Photon will be unable to meet the Deferred Consideration Payments due on or around 30 September 2010 and subsequent payments;

- the proposed Debt Refinancing will not proceed;
- the Company will be in breach of financial covenants contained in its debt facilities as at 30 September 2010. This would entitle Photon's lender to cancel all of its debt facilities and demand immediate repayment of all outstanding debt owed to it by Photon; and
- the solvency of the Company will be threatened unless alternate funding or equity capital can be secured or an alternative restructure of existing liabilities (including liabilities owed to Photon's lender and the Deferred Consideration Beneficiaries) that does not require a capital raising, can be completed by 30 September 2010. No assurance can be given that this will be achieved. If Photon was able to successfully renegotiate these obligations, the Directors consider that this will be at further cost to Photon and on terms significantly less favourable than those which could have been achieved had the Recapitalisation Proposal been approved.

The Recapitalisation Proposal represents the only firm alternative reviewed by Photon that has the potential to address the funding and capital structure challenges that Photon faces in the required timeframe.

The Board will continue to evaluate all alternatives in the best interests of Shareholders. If a superior alternative to the Recapitalisation Proposal becomes available, Photon will update Shareholders appropriately.

7.2 Disadvantages

In addition to the matters raised in the Prospectus which describe risks of holding an investment in Photon Shares (refer in particular to Sections 2 and 9 of the Prospectus), the Equity Raising and Deferred Consideration Issue have a number of potential disadvantages that Shareholders should consider when deciding whether to vote in favour of or against the Recapitalisation Resolutions.

The Board is of the opinion that these potential disadvantages are substantially outweighed by the potential advantages and benefits associated with the Recapitalisation Proposal and accordingly they are in the best interest of Shareholders.

However, Shareholders should consider their individual circumstances and make their own determination as to how to vote on the Recapitalisation Resolutions.

The key potential disadvantages associated with the Recapitalisation Resolutions are set out below.

(a) Dilution

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

- 89% if you do not participate in the Shareholder Offer (including because you are ineligible to participate in the Shareholder Offer); and
- 42% if you take up your pro-rata entitlement under the Shareholder Offer.

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

(b) Recapitalisation Proposal no guarantee of future performance of Photon

The successful completion of the Equity Raising will enable Photon to pay down part of its debt, pay the Tranche 1 Payment portion of the restructured Deferred Consideration Payments due in or about September 2010 and cover transaction costs. While the Recapitalisation Proposal is necessary to address Photon's current capital requirements, it does not guarantee success of Photon's future financial performance. If there is a further deterioration in Photon's financial performance, there is a risk that Photon will breach its debt facility financial covenants and not be able to meet future Deferred Consideration Payments. As described in Section 6.3 of the Prospectus, Photon has recently completed a review of its operational strategy and structure and has restructured the business to exploit strengths and reduce complexity. In the event the Recapitalisation Resolutions are passed and the Equity Raising is successful, there can be no guarantee that Photon will meet its strategic objectives. See Section 9 of the Prospectus for further risks relating to Photon's financial performance and ability to meet its strategic objectives.

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

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

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

(d) Transaction Costs
The implementation of the Recapitalisation Proposal will result in transaction costs in the order of $12.9 million.

8 What will happen if Resolution 4 is passed?

If Shareholders approve Resolution 4 and all of the Recapitalisation Resolutions are passed, then Mr Jeremy Philips will be issued up to 76.4 million New Shares of which up to 72.9 million CEO LTI Shares will be funded by a limited recourse loan of up to $7.29 million provided by Photon on the terms referred to in these Explanatory Notes and 3.5 million CEO Placement Shares which will not be funded by the Company. If Mr Jeremy Philips is issued the maximum approximate 76.4 million New Shares his shareholding in the Company will be approximately 5.03%. Photon will also indemnify Mr Philips for certain tax consequences of his participation in the Equity Raising. Further information in relation to the arrangements between the Company and Mr Jeremy Philips is set out in Section 5 above and Sections 1.5.4 and 11.14 of the Prospectus.

The Board recommends approval of this Resolution as the offer of the CEO LTI Shares is consistent with the terms of Mr Philips' Service Agreement which the Board considers constitutes reasonable remuneration in the circumstances of the Company and Mr Philips. The Board also recommends approval of this resolution which will result in the issue of the CEO Placement Shares to Mr Philips as it further evidences his commitment to the Company.

9 What will happen if Resolution 4 is not passed?

If Shareholders do not approve Resolution 4, then Mr Jeremy Philips will not be issued any New Shares under the Recapitalisation Proposal or otherwise. In this situation, Photon is required to offer Mr Jeremy Philips an alternative long-term incentive arrangement, the terms of which have not been determined, but which will be designed to provide Mr Philips with an incentive plan which places him in no worse position, on an after tax basis, than he would have been in had Shareholders approved the issue of the CEO LTI Shares. If Resolution 4 is not passed and Mr Jeremy Philips will continue to hold 9 million Shares.

Further information in relation to the arrangements between the Company and Mr Jeremy Philips is set out in Section 5 above and Sections 1.5.4 and 11.14 of the Prospectus.

10 No other material information

Other than as set out in the Notice of Meeting (including these Explanatory Notes) and the Prospectus, there is no other information that is known to any of the Directors which is material to the decision on how to vote on the Resolutions that has not been previously disclosed to all Shareholders.

11 Glossary

$, A$, dollars or **cents** means Australian dollars or cents (as appropriate).

Additional New Shares means New Shares applied for by an Applicant in excess of their entitlement under the Shareholder Offer.

AEST means Australian Eastern Standard Time.

Allotment Date means 29 September 2010 or such later date as agreed by Photon and the Joint Lead Managers which is no later than one month after the General Meeting.

Applicant means a person who lodges an Application Form pursuant to the Prospectus.

Application(s) means an application for New Shares under the Prospectus made on the Shareholder Offer Acceptance Form attached to, or accompanying, the Prospectus, and accompanied by the relevant Application Monies.

Application Monies means the monies payable in connection with an Application, being the amount of money accompanying a Shareholder Offer Acceptance Form.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to that term under section 11 and sections 13 to 17 of the Corporations Act. Section 13 is to be applied as if it was not confined to associate references occurring in Chapter 7 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or Australian Securities Exchange as the context requires.

Board means the Board of Directors of Photon.

CEO LTI Shares means the issue of up to 72.9 million New Shares to Mr Jeremy Philips in connection with the Recapitalisation Proposal in accordance with the terms of his Service Agreement and provided pursuant to a limited recourse loan in accordance with the Service Agreement.

CEO Placement Shares means the issue of 3.5 million New Shares to Mr Jeremy Philips pursuant to the Placement, which will not be funded by the Company.

Corporations Act means the Corporations Act 2001 (Cth) and its regulations.

Debt Refinancing means the refinancing of Photon's debt facilities as described in Section 3.2 of the Explanatory Notes.

Deferred Consideration Beneficiaries means the Vendors of the Operating Entities listed in Section 11.6 of the Prospectus who are entitled to receive a Deferred Consideration Payment which is outstanding at the date of the Prospectus.

Deferred Consideration Issue means the issue of New Shares to the Deferred Consideration Beneficiaries as part of the settlement of the restructured Deferred Consideration Payments as more fully described in Section 1.2 of the Prospectus.

Deferred Consideration Liabilities means the liabilities included on the balance sheet of Photon representing the present value of the expected future Deferred Consideration Payments to Deferred Consideration Beneficiaries. This includes the present value of expected future dividend payments to shareholders of a non-wholly owned Operating Entity.

Deferred Consideration Payments means the outstanding amounts payable to the Deferred Consideration Beneficiaries pursuant to the terms of the Original Acquisition Agreements and the Deferred Consideration Restructure.

Deferred Consideration Restructure means the restructure of the Deferred Consideration Payments, including capping substantially all of the Deferred Consideration Liability and restructuring the timing and form of Deferred Consideration Payments on the terms set out in Section 11.6 of the Prospectus.

Deferred Consideration Restructure Agreements means the agreements entered into by Photon and the Deferred Consideration Beneficiaries to amend the Original Acquisition Agreements and give effect to the Deferred Consideration Restructure as described in Section 11.6 of the Prospectus.

Director means a director of Photon.

EBIT means earnings before interest and tax.

EBITDA means earnings before interest, tax, depreciation and amortisation.

Eligible Institutional Shareholder means each Shareholder who, as at the Record Date, is not an Ineligible Institutional Shareholder and who is:

– an Institutional Investor; and
– entitled to receive an offer under the Institutional Shareholder Offer as agreed by Photon and the Underwriter.

Eligible Retail Shareholder means each Shareholder who, as at the Record Date:

– has a registered address in Australia;
– is not in the United States and is not acting for the account or benefit of a person in the United States;
– is eligible under all applicable securities laws to receive an offer under the Retail Shareholder Offer; and
– is not an Eligible Institutional Shareholder or an Ineligible Institutional Shareholder.

Eligible Shareholders means the Eligible Institutional Shareholders and Eligible Retail Shareholders (or either one of them, as the context requires).

Equity Raising means the Shareholder Offer and the Placement.

Existing Shares means the existing Shares of Photon as at the Record Date.

Explanatory Notes means the explanatory notes to the Notice of Meeting.

FY2010 means the financial year ended 30 June 2010.

FY2010F means the unaudited financial results for the year ended 30 June 2010.

General Meeting means the General Meeting of Shareholders of Photon to be held at Level 4, 60 Carrington Street, Sydney NSW 2000, at 11.00am on Friday, 17 September 2010.

Group EBITDA means earnings before interest, tax, depreciation, amortisation and extraordinary and abnormal items of the Group.

Ineligible Institutional Shareholder means a Shareholder who, if it had a registered address in Australia would, in the reasonable opinion of Photon, be an Institutional Investor, but who Photon and the Underwriter agree shall not receive an offer under the Institutional Shareholder Offer.

Ineligible Retail Shareholder means a Shareholder who is not an Eligible Institutional Shareholder, an Ineligible Institutional Shareholder or an Eligible Retail Shareholder.

Institutional Investor means a person to whom an offer of New Shares may be made as part of the Institutional Shareholder Offer:

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

Institutional Shareholder Offer means the invitation to Eligible Institutional Shareholders to subscribe for New Shares as described in Section 3.3(a) of these Explanatory Notes and Section 4.7 of the Prospectus.

Joint Lead Managers means Macquarie and UBS.

Listing Rules means the listing rules of ASX as amended from time to time, including to the extent of any express written waiver by ASX in their application to the Company, and "Listing Rule" means any one of them.

Macquarie means Macquarie Capital Advisers Limited ABN 79 123 199 548.

NPAT means net profit after taxes.

New Facilities means agreement with Photon's lender to refinance its existing debt facilities with $230 million cash advance facilities and a $45 million bank guarantee facility.

New Shares means the Shares to be issued under the Shareholder Offer, the Placement, the CEO LTI Shares and the Deferred Consideration Issue.

Nominee Holders has the meaning given in the Notes to the Notice of Meeting.

Normalised EBITDA means earnings before interest, tax, depreciation and amortisation and extraordinary and abnormal items.

Notice of Meeting means the Notice of General Meeting of which these Explanatory Notes forms part.

Offer means the offer of New Shares under the Prospectus.

Offer Price means $0.10 per New Share.

Operating Entities means operating subsidiaries of Photon.

Option means an option to be issued a Share.

Original Acquisition Agreements means those agreements as described in Section 3.1(a) of the Explanatory Notes and Section 11.6.1 of the Prospectus.

Photon or **Company** means Photon Group Limited ABN 97 091 524 515.

Photon Group or **Group** means Photon and each of its related bodies corporate and controlled entities.

Placement means the offer by way of placement of New Shares to Institutional Investors and Mr Jeremy Philips to raise an aggregate of approximately $40 million.

Pro-Rata Component means the component of the Shareholder Offer under which Eligible Shareholders may apply for 7 New Shares for every 2 Existing Shares held on the Record Date.

Prospectus means the prospectus dated 17 August 2010 issued by Photon in relation to the Retail Shareholder Offer, the Application Form and any supplementary prospectus.

Recapitalisation Conditions means the conditions described in Section 2.7 of the Explanatory Notes.

Recapitalisation Resolutions means Resolutions 1, 2 and 3 as set out in the Notice of Meeting.

Recapitalisation Proposal means the Deferred Consideration Restructure, Debt Refinancing and the Equity Raising.

Record Date means 7.00pm (AEST) on 13 August 2010 (subject to variation), being the date on which Eligible Shareholders who are permitted to participate in the Shareholder Offer will be determined.

Related Party Resolution means Resolution 4 as set out in the Notice of Meeting.

Resolutions means the resolutions proposed in the Notice of Meeting.

Retail Shareholder Offer means the invitation to Eligible Retail Shareholders in Australia and is made pursuant to the Prospectus as described in Section 3.3(a) of these Explanatory Notes and Section 4.2 of the Prospectus.

RG Capital means RG Capital Multimedia Limited, RG Capital Multimedia Pty Limited (ACN 000 648 331), Irish Global Equity Limited and their Associates.

Service Agreement means the service agreement entered into between Photon and Mr Jeremy Philips on or about 20 April 2010, as amended on or about 17 August 2010.

Shareholders means the members of Photon who are registered as the holders of one or more of the Shares as at the relevant time.

Shareholder Offer means the Offer to Eligible Shareholders as set out in Section 4.2 of the Prospectus.

Share Consolidation is as described in Section 3.7 of the Explanatory Notes.

Shares means fully paid ordinary shares in Photon.

Shortfall means New Shares not taken up by Eligible Retail Shareholders under the Pro-Rata Component of the Shareholder Offer or that would have been offered to Ineligible Retail Shareholders under the Pro-Rata Component of the Shareholder Offer if they had been entitled to participate in the Shareholder Offer.

Substantial Holder has the meaning given to that term under section 9 of the Corporations Act.

Sunset Date has the meaning more fully described in Section 7.2(c) of the Explanatory Notes.

Top-Up Component means the component of the Shareholder Offer under which Shareholders may apply for New Shares in excess of 7 New Shares for 2 Existing Shares held on the Record Date up to $10,000.

Tranche 1 Payment has the meaning given to that term in Section 3.1(a) of the Explanatory Notes.

Tranche 2 Payment has the meaning given to that term in Section 3.1(a) of the Explanatory Notes.

Tranche 3 Payment means the amount equal to the total actual Deferred Consideration Payment due to a Vendor under the terms of the applicable Deferred Consideration Restructure Agreement minus the amount of the Tranche 1 Payment and the Tranche 2 Payment due to that Vendor.

Tranche 3A Payment has the meaning given to that term in Section 3.1(a) of the Explanatory Notes.

Tranche 3B Payment has the meaning given to that term in Section 3.1(a) of the Explanatory Notes.

Transaction Costs has the meaning given to that term in Section 2.3 of these Explanatory Notes.

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

Underwriters means Macquarie and UBS, and for the purposes only of the Resolutions any sub-underwriters to the Equity Raising or other persons who may be allocated Shares under the Underwriting Agreement.

Underwriting Agreement means the underwriting agreement dated 17 August 2010 between the Company and the Underwriters.

US or **United States** means the United States of America.

Vendor Escrow Deed has the meaning given to that term in Section 4, Resolution 3(e).

Vendors means the vendors of the Operating Entities who entered into the Original Acquisition Agreements.

Voting Entitlement Date means 7.00pm (AEST) on Wednesday 15 September 2010.

PhotonGroup

Photon Group Limited
ABN 97 091 524 515

000001 000 PGA
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 706 274
(outside Australia) +61 3 9938 4338

Proxy Form

This proxy form relates to the General Meeting ("Meeting") of Photon Group Limited to be held at 11.00am (AEST) on Friday, 17 September 2010 at Level 4, 60 Carrington Street, Sydney NSW.

Vote online, 24 hours a day, 7 days a week:
www.investorvote.com.au

☑ **Cast your proxy vote**

☑ **Review and update your securityholding**

Your secure access information is:
Control Number: 999999

SRN/HIN: I9999999999 **PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 11.00am (AEST) on Wednesday, 15 September 2010.

How to Vote on Items of Business
All your securities will be voted in accordance with your directions.

Appointment of Proxy
Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms
Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the Meeting
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

The accompanying Notice of Meeting contains important information about each item of business. You should read this Notice carefully. If you have any questions about the Meeting or this proxy form, please call the Photon Shareholder Information Line on 1300 706 274 (within Australia) or +61 3 9938 4338 (from outside Australia) at any time between 8.30am and 5.00pm (AEST) Monday to Friday.

GO ONLINE TO VOTE,
or turn over to complete the form →

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 IND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Photon Group Limited hereby appoint

☐ **the Chairman of the meeting** **OR** ______________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Photon Group Limited to be held at the offices of Computershare Investor Services, Level 4, 60 Carrington Street, Sydney on Friday, 17 September 2010 at 11.00am (AEST) and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
1	Approval of proposed issue of New Shares under the Shareholder Offer	☐	☐	☐
2	Approval of proposed issue of New Shares under the Placement	☐	☐	☐
3	Approval of proposed issue of New Shares under the Deferred Consideration Issue	☐	☐	☐
4	Approval of the proposed issue of New Shares to Jeremy Philips	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______________________ Contact Daytime Telephone ______________________ Date ___/___/___