DREAMSCAPE NETWORKS LIMITED

ABN 98 612 069 842

APPENDIX 4E

Preliminary Final Report to ASX in Accordance with the Listing Rule 4.3A

I. Details of the Reporting Periods

This report covers the financial year ended 30 June 2019. Corresponding comparative information covers the financial year ended 30 June 2018.

II. Results for Announcement to the Market

		Note		%	**30 June 2019** **$'000**	30 June 2018 $'000
(i)	Revenue	1	Up by	21%	**74,264**	61,565
(ii)	Net profit for the year attributable to members (NPAT)	1	Up by	107%	**5,647**	2,733
(iii)	Dividends				**n/a**	n/a
(iv)	Record date for determining entitlements for dividend				**n/a**	n/a
(v)	Brief explanation of any figures above necessary to enable figures to be understood					

Note 1:

Dreamscape Networks Limited (the 'Company') has delivered a strong full year profit result, with positive contributions from both South East Asia and above market growth in the underlying business in Australia. The results are consistent with the Company's framework to deliver sustainable profitable growth over the long term. The Company's investment into South East Asia in personnel, infrastructure and marketing is part of the Company's core strategy aimed at driving long-term growth in shareholder value.

The Company continues its progress with its integration of recent acquisitions and their operations, with the full benefit of synergies and operational consolidation expected to be realised in financial year 2020.

The domestic underlying business increased its Total Bookings[1] year-on-year contributing 6% to the total growth in Bookings for the Company. This is an encouraging result given the fact that the Australian market place remains flat. The balance of the growth in Total Bookings of 13% has come from the acquisitions made in Australia and South East Asia, but primarily driven by the year-on-year improvements in the Singapore based Vodien Internet Solutions Group of companies.

This increase in Total Bookings flows through to be the improvement in Revenue. The improvement in Revenue has generated an improved Gross Profit with a corresponding improvement in the Net Profit for the year ended 30 June 2019.

Highlights for the fiscal year

- Bookings for the year increased by 19% to $77.7 million;
- Revenue for the year increased by 21% to $74.3 million;
- Adjusted Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA)[2] of $14.9 million;
- Successful acquisition of a number of domestic and international strategic bolt on businesses;
- Successful transition of global headquarters to Singapore. The move integrates marketing for the Group's brands, Crazy Domains and Vodien. It also consolidates the executive team, and strengthens finance, administration and human resources functions for the Dreamscape Networks Group;
- Premium customer care service satisfaction maintained at 92%+ during the financial year;
- Successful increase of the CBA acquisition funding facility to a total of $23 million.

Reconciliation of Statutory Net Profit after Tax (NPAT) to Statutory Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA)

	30-Jun-19 $'000	30-Jun-18 $'000
Statutory NPAT	**5,647**	2,733
Adjustments:		
Interest income – net	**1,291**	509
Depreciation and amortisation	**3,486**	2,104
Provision for income tax – net	**1,700**	990
Statutory EBITDA	**12,124**	6,336

Reconciliation of Statutory EBITDA to Adjusted EBITDA

Adjusted EBITDA for the financial year ended 30 June 2019 was $14.9 million (2018: $10.3 million).

	30-Jun-19 $'000	30-Jun-18 $'000
Statutory EBITDA	**12,124**	6,336
Add:		
Effect of net deferred revenue	**2,070**	2,109
Share-based compensation	**123**	602
Unrealized foreign exchange (gain) / losses – net	**(171)**	516
Acquisition related costs	**317**	529
Restructure related costs	**284**	170
Scheme of Arrangement costs	**177**	-
Adjusted EBITDA	**14,924**	10,262

The Company believes this Non-IFRS and operational measure is useful in monitoring and understanding the Group's business and they should not be considered in isolation nor as a substitute for IFRS measures.

1. "Total Bookings" represents cash receipts from the sale of products to customers in a given period before effecting adjustments for net refunds granted within the period. This provides valuable insight into the sales of our products and the performance of our business since we typically collect payment at the time of sale.

2. "Adjusted EBITDA" is a Non-IFRS cash-based financial measure of the Dreamscape Networks Group performance that aligns with the Bookings and operating expenditures to evaluate the core operating profitability of the business. Adjusted EBITDA is calculated using the Statutory EBITDA calculation, primarily adjusted for the change in deferred revenue so as to include Total Bookings, the change in the deferred costs associated with the Total Bookings, and excluding the non-cash equity-based expenses including share-based compensation and unrealised foreign currency exchange losses/gains, transaction expenses and non-core one-off expenses.

III. Dividends

The Board did not declare nor pay any dividends for the financial year ended 30 June 2019, or propose to pay any dividends in relation to the financial year end.

IV. Annual Financial Information

This report includes the following statements:

- Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2019;
- Consolidated Statement of Financial Position as at 30 June 2019;
- Consolidated Statement of Cash Flows for the financial year ended 30 June 2019; and
- Consolidated Statement of Changes in Equity for the financial year ended 30 June 2019.

As at the date of issue of this report, the consolidated financial statements for the year ended 30 June 2019 are in the process of being audited.

dreamscape NETWORKS

V. Net Tangible Assets per Security

Net tangible assets are defined as the net assets of the Group less intangible assets. Assets classified as intangible assets include goodwill, software, and deferred tax assets.

	30-Jun-19	30-Jun-18
Net tangible liabilities per ordinary share (cents per share)	**(10.83)**	(8.10)

VI. Control Gained over Entities Having Material Effect

The Company has completed a number of business combinations for which the effect is disclosed under Note 9.

Tony Sparks
Company Secretary
Perth
30 August 2019

DREAMSCAPE NETWORKS LIMITED

ABN 98 612 069 842

PRELIMINARY FINAL REPORT

30 JUNE 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Notes	**30-Jun-19 $'000**	30-Jun-18 $'000
Revenue		**74,264**	61,565
Direct costs		**(28,391)**	(25,070)
Gross profit		**45,873**	36,495
Salaries and employee benefits		**(19,187)**	(17,471)
Marketing and promotions		**(3,969)**	(3,688)
General and administrative expenses		**(10,829)**	(8,215)
Operating profit		**11,888**	7,121
Depreciation and amortisation		**(3,486)**	(2,104)
Finance expenses		**(1,291)**	(509)
Other income - net		**292**	123
Foreign exchange losses - net		**(56)**	(908)
Profit before income tax		**7,347**	3,723
Income tax expense		**(1,700)**	(990)
Net profit for the year		**5,647**	2,733
Other comprehensive income, net of income tax			
Item that will not be reclassified to profit or loss			
Re-measurement of defined benefit obligation		**12**	-
Item that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations' financial statements		**3**	(109)
Other comprehensive income/(loss) for the year, net of income tax		**15**	(109)
Total comprehensive income for the year		**5,662**	2,624
Basic earnings per share (cents per share)	8	**1.45**	0.72
Diluted earnings per share (cents per share)	8	**1.45**	0.71

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	**30-Jun-19 $'000**	30-Jun-18 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**7,102**	5,627
Other financial assets		**2,663**	381
Trade and other receivables		**4,787**	5,206
Prepayments and other deposits		**2,242**	1,224
Total current assets		**16,794**	12,438
Non-current assets			
Property and equipment		**9,581**	8,667
Goodwill and other intangible assets	5	**63,592**	42,851
Deferred tax assets		**1,043**	1,284
Other non-current assets		**721**	1,018
Total non-current assets		**74,937**	53,820
TOTAL ASSETS		**91,731**	66,258
LIABILITIES			
Current liabilities			
Trade and other payables		**5,883**	5,012
Borrowings	4	**2,452**	313
Accrued expenses		**4,265**	2,606
Other current liabilities		**1,322**	1,748
Deferred revenue - net		**22,652**	19,435
Income tax payable		**1,886**	1,123
Total current liabilities		**38,460**	30,237
Non-current liabilities			
Borrowings	4	**18,360**	11,506
Deferred revenue - net		**12,169**	11,485
Deferred tax liabilities		**4,103**	118
Provision for employees' end of service benefits		**233**	291
Total non-current liabilities		**34,865**	23,400
TOTAL LIABILITIES		**73,325**	53,637
NET ASSETS		**18,406**	12,621
EQUITY			
Issued capital	6	**23,494**	23,225
Share-based payment reserve	7	**1,318**	1,464
Accumulated losses		**(6,577)**	(12,224)
Other reserves		**171**	156
TOTAL EQUITY		**18,406**	12,621

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	**30-Jun-19 $'000**	30-Jun-18 $'000
Cash flows from operating activities			
Receipts from customers		**74,951**	63,286
Payments to suppliers and employees		**(62,031)**	(54,375)
Other income received		**194**	183
Income taxes paid		**(658)**	(1,219)
Net cash flows from operating activities		**12,456**	7,875
Cash flows from investing activities			
Purchase of property and equipment		**(4,099)**	(6,314)
Purchase of intangible assets		**(749)**	(725)
Proceed from sale of property and equipment		**398**	-
Business acquisitions, net of cash acquired	9	**(14,001)**	(22,912)
Payment for lease deposits		**(70)**	(859)
Net cash flows (used in) investing activities		**(18,521)**	(30,810)
Cash flows from financing activities			
Proceeds from loan		**13,742**	15,300
Loan finance charges		**(1,011)**	(443)
Repayment of loans		**(4,859)**	(3,115)
Payment of acquisition-related costs		**(317)**	(668)
Net cash flows from financing activities		**7,555**	11,074
Net increase / (decrease) in cash held		**1,490**	(11,861)
Cash and cash equivalents at the beginning of the year		**5,627**	17,698
Effects of exchange rate fluctuations on cash held		**(15)**	(210)
Cash and cash equivalents at the end of the year		**7,102**	5,627

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Issued capital	Share-based payment reserve	Accumulated losses	Other reserves	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2017 (restated)	12,920	1,180	(14,957)	265	(592)
Net profit for the period	-	-	2,733	-	2,733
Other comprehensive income for the period	-	-	-	(109)	(109)
Total comprehensive income for the period	-	-	2,733	(109)	2,624
Shares issued during the period	9,987	-	-	-	9,987
Share issued from conversion of performance rights	318	(318)	-	-	-
Share-based payments	-	602	-	-	602
Balance at 30 June 2018	**23,225**	**1,464**	**(12,224)**	**156**	**12,621**
Balance at 1 July 2018	**23,225**	**1,464**	**(12,224)**	**156**	**12,621**
Net profit for the period	-	-	5,647	-	5,647
Other comprehensive income for the period	-	-	-	15	15
Total comprehensive income for the period	-	-	5,647	15	5,662
Share issued from conversion of performance rights	269	(269)	-	-	-
Share-based payments	-	123	-	-	123
Balance at 30 June 2019	**23,494**	**1,318**	**(6,577)**	**171**	**18,406**

The accompanying notes form part of these financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1: ABOUT THIS REPORT

Business acquisitions during the financial year

Domain Name Registrar

On 1 July 2018, the Company completed the acquisition of the customers, systems and brands of the business operating as Domain Name Registrar (DNR) for a total consideration of $8.5 million.

DNR's principal focus is domain registrations (0.9% .au market share) and web hosting, with approximately 80% of its business coming from domain registrations and 20% from hosting.

The consideration of $8.5 million was funded through Dreamscape's existing Cash Advance Facility with Commonwealth Bank of Australia. There was no dilution to shareholders.

Webserver.sg

On 15 August 2018, the Company completed the acquisition of Webserver.sg Pte Ltd. 100% of Webserver's shares were acquired by Dreamscape's subsidiary Vodien Internet Solutions Pte Ltd.

Webserver.sg focuses on delivering domain names, shared hosting and email hosting services that add significant value to end customers.

Total consideration of S$460,000 was fully funded from operating cash flows.

PacHosting

On 1 October 2018, the Company completed the acquisition of 100% of Hong Kong based hosting and domain business PacHosting from privately held Pacificnet Hosting Limited for a total consideration of USD $3.0 million.

PacHosting's principal business is website and email hosting for SMB's and domain registration. The acquisition is consistent with Dreamscape's strategy to acquire earnings accretive, low risk assets that will be integrated with the Vodien brand.

The acquisition price was negotiated on deferred terms payable before 30 September 2019. Total consideration will be fully funded by internally generated cash flows and available debt facilities.

Hosting Australia

On 1 October 2018, the Company completed the acquisition of the customers, systems, and brand assets of the business operating as Hosting Australia. Hosting Australia is a newly established hosting business based in Melbourne, compatible with Dreamscape's business model. Total consideration of $800,000 was funded from internally generated cash flows and available debt facilities.

Servermule

On 10 December 2018, the Company completed the acquisition of Nimbus2 Pty Ltd. Nimbus2 operates the hosting business Servermule.

Servermule is a well-established hosting business funded in 2011 and based in Sydney. Servermule is compatible with Dreamscape's business model.

Total consideration of $700,000 was funded from internally generated cash flows and available debt facilities.

The implications of the above listed acquisitions on the consolidated financial statements are as follows:

- The consolidated financial statements for the financial year ended 30 June 2019 reflect the abovementioned acquisitions from their respective acquisition dates.
- The comparative information for the year ended 30 June 2018 does not reflect the abovementioned acquisitions.

NOTE 2: BASIS OF PREPARATION

The consolidated financial statements have been prepared on an accrual basis and are based on historical costs.

The consolidated financial statements are presented in Australian Dollars (AUD), which is the functional and presentation currency of the Group. Under the option available to the Company under ASIC Legislative Document 2016/191, the accompanying financial information presented in AUD has been rounded to the nearest thousand dollars unless otherwise stated.

The consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, and consolidated statement of changes in equity provide comparative information as at and for the year ended 30 June 2018. Where necessary, the comparatives have been reclassified to be consistent with the current period disclosures.

Significant accounting judgments and key estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

- *Goodwill and other intangible assets*

  Goodwill on businesses acquisitions is included in intangible assets. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired, and is carried at cost less accumulated impairment losses.

  The Group performs impairment testing of goodwill at the end of each reporting period by assessing the recoverable amount of cash generating units (CGUs), considering both qualitative (external and internal impairment indicators specific to the Group's operating environment) and quantitative (expected revenue growth rates and cash flow projections) measures).

  Software is amortised over its estimated useful life, which is based on the expected usage of the asset. Any changes in the accounting estimate affecting amortisation are recorded in the consolidated statement of comprehensive income for the period of change.

- *Property and equipment*

  Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount of these assets.

  Depreciation is calculated on a straight-line basis over the estimated useful life of the assets.

  The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

  An item if property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the group. Gains and losses between the carrying amount and the disposal proceeds are taken to the consolidated statement of comprehensive income.

- *Recovery of deferred tax assets*

  Deferred tax assets are recognised for deductible temporary differences and unused tax losses as management considers that it is probable that sufficient taxable temporary differences are expected to reverse in a future period or future taxable profits will be available to utilize those temporary differences. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

- *Share-based payment reserves*

  The Group measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuator using a Black-Scholes model, using the assumptions detailed in Note 7.

NOTE 2: BASIS OF PREPARATION (continued)

- *Revenue from Contracts with Customers*

  The Group elected to early adopt AASB 15 Revenue from Contracts with Customers with an initial application date of 1 July 2017.

  The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks and rewards. Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

  The Company exercises considerable judgement taking into account all the relevant facts and circumstances when applying each step of this model to its contracts with customers.

Adoption of new and revised standards

The consolidated entity has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2018, including ASB 8 Financial Instruments (AASB 9).

AASB 9 replaces 139: Financial Instruments: recognition and Measurement. The key changes introduced by AASB 9 in relation to the accounting treatment for financial instruments include:

- Simplifying the general classification of financial assets into those measured at amortised cost and those measured at value;
- Permitting entities to irrevocably elect, on initial recognition, for gains and losses on equity instruments not held for trading to be presented in other comprehensive income (OCI);
- Requiring entities that elect to measure financial liabilities at fair value, to present the portion of the change in fair value arising from changes in the entity's own credit risk in OCI, except when it would create an "accounting mismatch".

The application of AASB 9 has not materially impacted the classification and measurement of the consolidated entity's financial assets and financial liabilities.

Going concern

Notwithstanding, the fact that the Group has a working capital deficiency of $21.7m, the Directors are of the opinion that the Group is a going concern for the following reasons:

- The Company reported a net profit of $5.65 million for the financial year ended 30 June 2019;
- The Group ended the financial year with a cash balance of $7.1 million and net assets of $18.4 million;
- The Group recorded net cash inflows from operating activities for the financial year ended 30 June 2019 of $12.46 million;
- The largest current liability is deferred revenue – net of $22.65m, which represents unearned revenue, net of deferred costs, that have been recognised on a time proportion basis for accounting purposes only and not as an amount due for refund.
- The Company is listed on the Australian Securities Exchange, having the flexibility to raise capital, if required;
- The Group is confident that it will maintain its profitability in the coming financial year.

NOTE 3: INCOME TAX

Dreamscape Networks Limited (the **Company**), being incorporated in Australia, is a resident for Australian tax purposes.

The subsidiaries of the Company include a combination of wholly owned Australian incorporated and foreign incorporated entities. The current income tax expense is a product of the taxable income multiplied by the applicable domestic tax rate of the country in which the subsidiary entity is domiciled.

Australia has Controlled Foreign Company (**CFC**) rules which are designed to attributable taxable income back to an Australian controller (in this case, the Company) of a CFC where certain types of passive or concessionally taxed income is warehoused offshore. The Australian Controller is then subject to Australian income tax on an accruals basis on the amount of attributable income from a CFC even if the profits of the CFC have not been repatriated back to Australia (e.g. via dividends).

The Company wholly owns foreign resident subsidiaries, who are CFCs, which derive the majority of their income from passive income in the form of "tainted services income" (which refers to income from services provided to an Australian resident directly or indirectly through an associate). These foreign resident subsidiaries include entities domiciled in the United Arab Emirates, Singapore, Philippines, and Ukraine. As a result, the income tax calculations in this financial report are based on the Company being assessed on its share of the attributable income from its CFCs.

NOTE 4: BORROWINGS

As announced to the ASX on 28 December 2017, the Company finalised a $20 million three-year cash advance facility with the Commonwealth Bank of Australia (CBA) to assist with the funding of business acquisitions. On 10 December 2018, Dreamscape announced that it had negotiated amendments to the $20 million advance facility, which was increased to $23 million with monies available for immediate drawdown. Funds were used for the balance of the purchase price for the Hong Kong business Pacificnet Hosting Limited (PacHosting) as announced 1 October 2018.

The CBA bank facility has a maturity date of 28 December 2020. The facility attracts a commercial interest rate based on the relevant period BBSY rate.

At 30 June 2019, the outstanding balance from the facility was $21.07 million.

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS

	30-Jun-19 $'000	30-Jun-18 $'000
Balance at beginning of period	**42,851**	3,645
Additions:		
Goodwill from business combinations:		
Vodien Group	**3,948**	29,895
Enetica Group	**-**	5,297
Quadra Hosting	**-**	2,808
Whois	**43**	301
Glasshat	**-**	300
Domain Name Registrar	**8,800**	-
Hosting Australia	**821**	-
Webserver.sg	**841**	-
Servermule	**522**	-
Pachosting	**5,339**	-
Customer lists	**705**	-
Software (net of amortisation)	**(278)**	605
Balance at end of year	**63,592**	42,851

NOTE 6: ISSUED CAPITAL

	30-Jun-19 $'000	30-Jun-18 $'000
Ordinary shares		
Issued and fully paid	**23,494**	23,225

	Year to 30 June 2019 No.	Year to 30 June 2019 $'000	Year to 30 June 2018 No.	Year to 30 June 2018 $'000
Movements in ordinary shares				
Balance at beginning of year	**387,773,333**	**23,225**	344,000,000	12,920
Issued as consideration for acquisition of Vodien[1]	**-**	**-**	42,500,000	9,987
Issued on conversion of performance rights	**1,073,333**	**268**	1,273,333	318
Balance at end of year	**388,846,666**	**23,493**	387,773,333	23,225

[1] On 31 July 2017, The Company announced it had completed the acquisition of the Vodien Group, comprising Vodien Internet Solutions Pte Ltd and all related companies and businesses. The acquisition was wholly internally funded through the issue of 42.5 million shares and the payment of SGD $20 million cash.

NOTE 7: SHARE-BASED PAYMENT RESERVE

No share based payment arrangements were entered into during the financial year. The following share based payment arrangements relating to options entered into in prior periods were still in place at the end of the financial year:

Directors and Executives

	Number of Options	Grant date	Expiry Date	Exercise Price	Fair value at grant date	Value recorded at 30 June 2019	Vesting Date
Tranche 1	11,000,000	2 November 2016	30 June 2020	$0.25	583,903	-	30 June 2017
Tranche 2	8,250,000	2 November 2016	30 June 2021	$0.35	250,147	-	30 June 2018
Tranche 3	8,250,000	2 November 2016	30 June 2022	$0.45	171,043	59,000	30 June 2019
	27,500,000				$1,005,093	$59,000	

The expense for the current financial year concerning the above listed options was $59,000 (2018: $215,277).

The fair value of share options granted was estimated as at the date of grant using the Black-Scholes model taking into account the terms and conditions upon which the options were granted.

Performance rights

The performance rights have been valued at $0.25 each, based on the IPO capital raising price. The Company will be required to record the value of these rights in its accounting records over the vesting period based on when the directors believe it is probable that any of the vesting conditions will be achieved.

At 30 June 2019, the directors have resolved that the Tranche 3 vesting condition has been achieved for those employees still with the Company. As a result, a value of $32,856 has been expensed, with a corresponding amount being reflected in share based payments reserve.

For those who ceased their employment with the Company during the financial year, the respective performance rights were cancelled and any amounts previously expensed were reversed.

NOTE 8: EARNINGS (LOSS) PER SHARE

	30-Jun-19	30-Jun-18
Basic earnings (loss) per share (cents per share)	**1.45**	0.72
Diluted earnings (loss) per share (cents per share)	**1.45**	0.71
Weighted average number of ordinary shares - basic	**388,755,506**	380,446,009
Weighted average number of ordinary shares - diluted	**389,562,172**	382,592,675

Options and performance rights are considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. On 30 June 2019, 806,666 (2018: 2,146,666) performance shares are considered to be dilutive.

NOTE 9: BUSINESS COMBINATIONS

Domain Names Registrar

On 1 July 2018, the Company completed the acquisition of the customers, systems, and brands of the business operating as Domain Name Registrar (DNR) for a total consideration of $8.5 million.

DNR's principal focus is domain registrations (0.9% .au market share) and web hosting, with approximately 80% of their business coming from domain registrations and 20% from hosting.

The consideration of $8.5 million was funded through Dreamscape's existing Cash Advance Facility with Commonwealth Bank of Australia. There was no dilution to shareholders.

From the date of acquisition, Domain Names Registrar has contributed $2.26 million to the consolidated revenue and approximately $0.64 million to the consolidated profit after tax attributable to the members of the parent.

The fair values of identifiable assets and liabilities acquired in the business combination were previously provisionally accounted for in accordance with AASB 3. Dreamscape completed a comprehensive analysis of the assets and liabilities acquired, which produced the fair values reported below.

	$'000
Net assets acquired	
Customer contracts	-
Systems	-
Brand assets	-
Deferred revenue	(259)
Fair value of net assets acquired	(259)
Consideration paid (inclusive of transfer duty) - cash	8,540
Excess consideration paid over net assets required	8,799

The provisional amounts previously disclosed were amended to reflect the final allocations.

NOTE 9: BUSINESS COMBINATIONS (continued)

PacHosting

On 1 October 2018, Dreamscape Networks Limited completed the acquisition of 100% of Hong Kong based hosting and domain business PacHosting from privately held Pacificnet Hosting Limited for a total consideration of USD $3.0 million.

PacHosting's principal business is website and email hosting for SMB's and domain registration. The acquisition is consistent with Dreamscape's strategy to acquire earnings accretive, low risk assets that will be integrated with the Vodien brand.

The acquisition price was negotiated on deferred terms payable before 30 September 2019. Total consideration will be fully funded by internally generated cash flows and available debt facilities.

From the date of acquisition, PacHosting has contributed $1.63 million to the consolidated revenue and approximately $0.38 million to the consolidated profit after tax attributable to the members of the parent. Had PacHosting been part of the Group for the full period, total revenue from PacHosting would have been approximately $2.17 million and net profit $0.51 million.

The fair values of identifiable assets and liabilities acquired in the business combination were previously provisionally accounted for in accordance with AASB 3. Dreamscape completed a comprehensive analysis of the assets and liabilities acquired, which produced the fair values reported below.

	$'000
Net assets acquired	
Customer contracts	-
Systems	-
Brand assets	20
Deferred revenue	(1,209)
Fair value of net assets acquired	(1,189)
Consideration paid – cash paid	3,501
– cash payable	729
Realised foreign exchange loss	(43)
Unrealised foreign exchange loss	(37)
Excess consideration paid over net assets required	5,339

The provisional amounts previously disclosed were amended to reflect the final allocations.

Other acquisitions

In addition to the above described acquisitions, Dreamscape also completed the following acquisitions during the financial year:

Webserver.sg

On 15 August 2018, Dreamscape Networks Limited completed the acquisition of Webserver.sg Pte Ltd. 100% of Webserver's shares were acquired by Dreamscape's subsidiary Vodien Internet Solutions Pte Ltd.

Webserver.sg focuses on delivering domain names, shared hosting and email hosting services that add significant value to end customers.

Total consideration of S$460,000 was fully funded from operating cash flows.

Hosting Australia

On 1 October 2018, Dreamscape Networks Limited completed the acquisition of the customers, systems, and brand assets of the business operating as Hosting Australia. Hosting Australia is a newly established hosting business based in Melbourne, compatible with Dreamscape's business model. Total consideration of $800,000 was funded from internally generated cash flows and available debt facilities.

NOTE 9: BUSINESS COMBINATIONS (continued)

Servermule

On 10 December 2018, Dreamscape Networks Limited completed the acquisition of Nimbus2 Pty Ltd. Nimbus2 operates the hosting business Servermule.

Servermule is a well-established hosting business funded in 2011 and based in Sydney. Servermule is compatible with Dreamscape's business model.

Total consideration of $700,000 was funded from internally generated cash flows and available debt facilities.

From the dates of acquisition, these three acquisitions combined contributed $0.81 million to the consolidated revenue and approximately $0.23 million to the consolidated profit after tax attributable to the members of the parent. Had these three acquisitions been part of the Group for the full period, total revenue would have been approximately $1.19 million and net profit $0.34 million.

The fair values of identifiable assets and liabilities acquired in these three business combinations were previously provisionally accounted for in accordance with AASB 3. Dreamscape completed a comprehensive analysis of the assets and liabilities acquired, which produced the fair values reported below.

	$'000
Net assets acquired	
Cash and cash equivalent	50
Trade and other receivables	-
Property and equipment	19
Trade and other payables	(11)
Deferred revenue	(228)
Fair value of net assets acquired	(170)
Consideration paid - cash	1,960
Realised foreign exchange gain	54
Excess consideration paid over net assets required	2,184

The provisional amounts previously disclosed were amended to reflect the final allocations.

NOTE 10: INTERESTS IN SUBSIDIARIES

The consolidated financial statements include the financial statements of Dreamscape Networks Limited and its subsidiaries listed in the table below:

Name of subsidiary	Registration and operation	Beneficial interest	% Equity Interest		Cost of Investment $'000	
			2019	2018	2019	2018
Pandora Enterprise Holdings Ltd	British Virgin Islands	100%	100%	100%	10,234	10,234
Crazy Domains FZ-LLC	United Arab Emirates	100%	100%	100%	13	13
Dreamscape Networks FZ-LLC	United Arab Emirates	100%	100%	100%	13	13
Dreamscape Networks (Australia) Pty Ltd.	Australia	100%	100%	100%	–	–
Web Address Registration Pty Ltd.	Australia	100%	100%	100%	1,000	1,000
Dreamscape Networks Europe Limited[1]	Cyprus	100%	100%	100%	7	7
Dreamscape Networks Inc.	Philippines	100%	87.75%	87.75%	2	2
Dreamscape Networks Pte. Ltd.	Singapore	100%	100%	100%	1	1
Dreamscape Networks (Thailand) Co. Ltd.[2]	Thailand	N/A	100%	100%	194	194
Dreamscape Networks LLC	Ukraine	100%	100%	100%	5	5
Dreamscape Networks, Inc. [1]	United States of America	100%	100%	100%	2	2
Vodien Australia Pty Ltd	Australia	100%	100%	100%	2,853	2,853
Domain Name Registrars (Australia) Pty Ltd	Australia	100%	100%	–	–	–
Domain Registration Services Pty Ltd	Australia	100%	100%	–	–	–
Nimbus2 Pty Ltd	Australia	100%	100%	–	700	–
Dreamscape Networks International Pte. Ltd.	Singapore	100%	100%	100%	–	–
PT Dreamscape Networks Indonesia	Indonesia	100%	100%	–	248	–
Enetica Pty. Ltd	Australia	100%	100%	100%	1,000	1,000
Webcity Australia Pty Ltd	Australia	100%	100%	100%	457	457
Vodien Internet Solutions Pte. Ltd. [3]	Singapore	100%	100%	100%	28,443	28,443
Webcity International Pte Ltd	Singapore	100%	100%	100%	3,000	3,000
Webserver.sg Pte Ltd.	Singapore	100%	100%	–	482	–
SGDomains.com Pte. Ltd. [3]	Singapore	100%	100%	100%	–	–
IT Works Internet Pte. Ltd. [3]	Singapore	100%	100%	100%	–	–
Singhost Pte. Ltd. [3]	Singapore	100%	100%	100%	–	–
Cloud Hosting Pte. [3] Ltd.	Singapore	100%	100%	100%	–	–
Cloud Hosting Sdn Bhd [3]	Malaysia	100%	100%	100%	–	–
Quest Rightshoring Services Pte Ltd [3, 4]	Singapore	100%	100%	100%	–	–
Quest Rightshoring Services Inc [3]	Philippines	100%	100%	100%	–	–

1. Dormant entity
2. On 9 March 2017, the directors of the Company deregistered Dreamscape Networks (Thailand) Co. Ltd. due to inactivity. As of 30 June 2019, the process of de-registration with the Department of Business Development in Thailand is in progress. Due to the immateriality of the balances, the profit or loss from discontinued operations was not shown separately in the consolidated statement of comprehensive income.
3. Vodien Internet Solutions and its subsidiaries were acquired for total consideration of $28.44 million. The cost of investment has been allocated wholly to Vodien Internet Solutions.
4. This entity is currently in the process of being liquidated.

NOTE 11: CONTINGENT LIABILITIES

Bank guarantees

The Group had contingent liabilities in respect of bank guarantees amounting to $41,310 (2018: $39,190), arising in the ordinary course of business.

GST Audit

Consistent with other foreign companies operating in the digital supply space in Australia, Dreamscape is currently subject of an Australian Taxation Office ("ATO") GST compliance audit. Dreamscape has been cooperating fully with the ATO's multiple requests for information. The matter remains incomplete, and no claim or assessment has been raised by the ATO and we cannot reliably assess the financial impact on Dreamscape.

NOTE 12: SIGNIFICANT EVENTS AFTER BALANCE DATE

Scheme Implementation Deed with Web.com Group, Inc.

On 24 July 2019, Dreamscape Networks Limited ("Dreamscape") announced that it had entered a Scheme Implementation Deed ("SID") with Web.com Group, Inc. ("Web.com") under which Web.com (or its wholly owned subsidiary) will acquire 100% of the issued share capital of Dreamscape by way of a Scheme of Arrangement ("Scheme"). Web.com is wholly owned by an affiliate of Siris Capital Group, LLC ("Siris"), a leading private equity firm based in New York.

Under the Scheme, Dreamscape's shareholders will receive cash consideration of A$0.27 per Dreamscape ordinary share ("Scheme Consideration"). Thereafter, Dreamscape will become a wholly owned subsidiary of Web.com.

The Scheme Consideration values Dreamscape's issued equity at approximately A$105.2 million. The transaction will be funded from Web.com's existing cash on balance sheet and its revolver facility and its offer does not include a financing condition.

Once the Scheme is implemented and Dreamscape is delisted from the official list of the ASX, the Scheme is conditional upon entering the SitePlus Call Option Deed, under which Dreamscape has a call option over 100% of SitePlus's shares for a grant price of A$2.00 ("SitePlus Call Option"). If approved by Dreamscape Shareholders and subsequently exercised by Dreamscape, an aggregate price of A$12 million will be payable to the owners of SitePlus ("Vendors") and to certain performance rights holders.

SitePlus is a related party to CEO and Managing Director, Mark Evans, thus the SitePlus Call Option Deed is therefore a transaction with a related party of Dreamscape.

The Scheme Meeting is expected to be held in early October 2019, where Dreamscape's Shareholders will have the opportunity to vote on the Scheme.

Subject to the various approvals and other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in late-October 2019.