Webcentral Group Limited

(ABN: 21 073 716 793)

FINANCIAL INFORMATION
FOR THE HALF YEAR ENDED
30 JUNE 2020

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Appendix 4D

1. Company Information

Name of entity	Webcentral Group Limited (formerly Arq Group Limited)
ABN or equivalent company reference	21 073 716 793
Reporting period	30 June 2020 (Comparative period – 30 June 2019)

2. Results for announcement to the market

	Six months ended 30 June		
	2020 $A'000s	**Movement $A'000s (%)**	**2019[2] $A'000s**
Revenue from ordinary activities and continuing operations[1]	21,603	▼ 25,062 (53.7%)	46,665
Underlying earnings before interest, tax, depreciation and amortisation from continuing operations[1,2,3]	1,513	▼ 7,155 (82.5%)	8,668
Loss after tax from continuing operations[3,4]	(17,975)	▼ 19,584 (1,217.3 %)	1,609
Loss after tax attributable to members of the parent[4]	(19,113)	▼ 18,506 (3,048.8%)	(607)

(1) Revenue from ordinary activities and continuing operations includes a reversal of revenue of $9,096,000 (excluding GST) associated with the settlement of a customer dispute – see page 9 for further details. This is excluded from underlying earnings before interest, tax, depreciation and amortisation in the Directors Report, but is included in revenue from continuing operations in accordance with Australian Accounting Standards.

(2) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance. Refer to the Directors Report for a reconciliation of this information to statutory IFRS information.

(3) Due to the presentation of the Enterprise business as a discontinued operation for the six months ended 30 June 2020, the prior period comparatives have been restated in accordance with *AASB 5: Non-current Assets Held for Sale and Discontinued Operations*.

(4) Loss after tax from continuing operations and loss after tax attributable to members of the parent for the six months ended 30 June 2020 includes a loss on disposal of the Enterprise business of $1,565,000 presented in discontinued operations, as well as the reversal of revenue described in footnote 1.

3. Dividends

	Amount per security (cents)	**Franked amount per security**
Previous corresponding period		
Final dividend	4.5 cents	100%
Interim dividend	0.0 cents	N/A
	4.5 cents	

No final and interim dividend was, and is proposed to be, declared with respect to the current period.

4. Net tangible asset backing

	Current period	Previous period
Net tangible asset backing per ordinary security	(53.14) cents	(54.08) cents

Net tangible assets are calculated firstly from the Group's net assets at 30 June 2020, which were $11,668,000, and adjusted for $16,000 of net deferred tax assets, $10,025,000 of right-of-use lease assets and $76,557,000 of intangible assets associated with the Group's previous acquisitions and capitalised software.

5. Details of entities over which control has been gained or lost

The Group sold Arq Group Enterprise Pty Ltd on 2 March 2020, consisting of the assets and liabilities related to the former Enterprise business. The results of the former Enterprise business during the period ended 30 June 2020, including prior period comparatives, have been presented as a discontinued operation and information about its performance during the period is described in the accompanying Directors Report attached to the Group's half-year Financial Report.

6. Other information

It is recommended that this Appendix 4D be read in conjunction with the financial report for the year ended 31 December 2019 and considered together with any public announcements made by Webcentral Group Limited and its controlled entities during the half year ended 30 June 2020 in accordance with the continuous disclosure obligations of the ASX listing rules.

Additional Appendix 4D disclosure requirements can be found in the attached half-year Financial Report. Information should be read in conjunction with Webcentral Group Limited's 2019 Annual Report and the attached half-year Financial Report.

This report is based on the half-year Financial Report which has been reviewed by the Group's auditors with the Independent Auditor's Review Report included in the half-year Financial Report.

Mr. Brendan White

Interim Chief Financial Officer

Melbourne

28 August 2020

Corporate Information

Directors

Mr. A. Reitzer	(Chair)
Mr. A. Macpherson	
Mr. L. Bloch	(Retired 16 August 2020)
Mr. K. Siegling	
Ms. N. Sparks, AM	(Retired 27 February 2020)
Mr. S. Martin	(Retired 27 February 2020)

Chief Executive Officer

Mr. B. Fenton	(Appointed 11 February 2020) (Interim Chief Executive Officer)
Mr. T. Sternson	(Resigned 11 February 2020)

Chief Financial Officer

Mr. B. White	(Appointed 23 March 2020) (Interim Chief Financial Officer)
Mr. F. Bearsley	(Ceased employment 23 March 2020)

Company Secretaries

Mr. M. Licciardo	(Appointed 17 July 2020)
Ms. A. Jordan	(Ceased employment 17 July 2020)
Mr. F. Bearsley	(Ceased employment 23 March 2020)

Registered Office

Level 23, 680 George Street
Sydney, NSW, 2000
Tel: +61 2 9215 6300

Share Register

Link Market Services Limited
Tower 4, 727 Collins Street
Melbourne, VIC, 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne, VIC, 3000

Internet address

https://www.webcentralgroup.com.au

Directors' Report

This report has been prepared and presented with respect to the consolidated entity ("the Group"), being Webcentral Group Limited ("the Company" or "Webcentral") (formerly Arq Group Limited) and the entities it controlled during the six months ended 30 June 2020.

The names of the Company's directors in office during the half year ended 30 June 2020 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Directors

Mr. A. Reitzer	(Chair)
Mr. A. Macpherson	
Mr. L. Bloch	(Retired 16 August 2020)
Mr. K. Siegling	
Ms. N. Sparks, AM	(Retired 27 February 2020)
Mr. S. Martin	(Retired 27 February 2020)

Company secretaries

Mr. M. Licciardo	(Appointed 17 July 2020)
Ms. A. Jordan	(Ceased employment 17 July 2020)
Mr. F. Bearsley	(Ceased employment 23 March 2020)

Principal activities

The principal activities of the Group during the half year are described as follows:

Continuing operations[1] – SMB

SMB provides domain name registrations and renewals, website and email hosting, website development, search engine marketing and social advertising campaigns for businesses in Australia and New Zealand.

Discontinued operations[1] – Enterprise

Enterprise provides services including cloud, mobile application development, data and analytics to Australian enterprise and government organisations. The Enterprise division is represented by the net assets of Arq Group Enterprise Pty Ltd, which was sold on 2 March 2020. The sale included the rights to the Arq brand.

[1] Continuing operations refers to the SMB segment, as a result of the classification of the Enterprise business as a discontinued operation for the half year ended 30 June 2020. For comparability, the prior period comparative has been re-presented throughout the consolidated interim financial statements.

Review and results of operations

Earnings per Share

	Six months ended 30-Jun-20 cents	30-Jun-19 cents
From continuing operations[1]		
Basic (loss) / earnings per share	(14.72)	0.50
Diluted (loss) / earnings per share	(14.72)	0.50
Attributable to members of the parent		
Basic loss per share	(15.65)	(0.51)
Diluted loss per share	(15.65)	(0.51)

(1) Continuing operations refers to the SMB segment, as a result of the classification of the Enterprise business as a discontinued operation for the half year ended 30 June 2020. For comparability, the prior year comparative has been re-presented.

Reported loss per share from continuing operations at 30 June 2020 was 14.72 cents (2019: profit per share of 0.50 cents). Loss per share attributable to members of the parent at 30 June 2020 was 15.65 cents (2019: 0.51 cents). This is driven by non-cash reversal of receivables associated with the settlement of a customer dispute and loss on disposal of the former Enterprise business.

Dividends

No dividends were paid during the period. No interim dividend has been declared related to the current period.

Sale of the Enterprise business

On 11 February 2020, the Company announced that it had entered into a binding agreement to sell Arq Group Enterprise Pty Limited to an entity owned by a consortium comprising Quadrant Private Equity and certain members of the Enterprise leadership team for $35,000,000 (less a final payment of $5,979,000 due to the vendors of InfoReady Pty Limited, which was acquired by the Company in 2016) on a cash free, debt free basis. The net assets of Arq Group Enterprise Pty Limited represents the Group's former Enterprise business. The sale included the rights to the Arq brand. The sale completed on 2 March 2020 and the net proceeds were used to reduce the amounts drawn under the Group's existing debt facilities. A transitional services agreement was also entered into in connection with the Enterprise sale, and the parties continue to work together to manage the smooth transition of the Enterprise business following its divestment.

Subsequent to the half year ended 30 June 2020, the completion accounts for the Enterprise business sale were finalised. This finalisation resulted in an aggregate amount of $1,558,000 becoming payable by the Company to the consortium. The parties agreed that, given the Company's cash flow position, rather than the Company making an immediate payment in full, the Company will make monthly payments to the consortium of $260,000 between July 2020 and December 2020 (inclusive) in respect of that amount.

The finalisation of the completion accounts is an adjusting event to the transaction consideration at 30 June 2020 and accordingly, the Group recognised a $1,565,000 net loss (inclusive of movements in working capital balances up to the date of disposal) on the disposal of the net assets of Arq Group Enterprise Pty Ltd (including the Arq brand).

Scheme of arrangement

On 13 July 2020, the Company announced that it had entered a scheme implementation deed with Web.com Group, Inc. ("Web.com"), under which Web.com proposes to acquire all of the shares in the Company, by way of a scheme of arrangement ("Scheme"). Web.com is a company established in Delaware in the United States of America. Headquartered in Jacksonville, Florida, Web.com has operations in North America, South America, the UK, Australia and South East Asia. Web.com is indirectly wholly owned by the Siris Capital Funds (and five investors that indirectly own less than 5% of Web.com on a fully diluted basis). The Siris Capital Funds are managed and/or advised by Siris Capital Group, LLC and its affiliates (together, "Siris Capital"). Siris Capital is a private equity firm based in the United States of America.

If the Scheme is approved and implemented, the Company's shareholders will receive $0.10 in cash per Webcentral share ("Scheme Consideration"). The Scheme Consideration implies an equity value for Webcentral of approximately $12,200,000[2] and an enterprise value ("EV") for Webcentral of approximately $57,800,000.[3]

Web.com will refinance the Group's existing debt facilities and ensure the full and final repayment of existing drawn-down debt. The implementation of the Scheme represents the completion of the Company's strategic review process.

On 21 August 2020, the Supreme Court of New South Wales made orders approving the convening of a meeting of Webcentral shareholders to consider and vote on the Scheme ("Scheme Meeting"). A copy of the scheme booklet, which includes the independent expert's report and notice of Scheme Meeting, is attached the Company's ASX announcement dated 24 August 2020. The Scheme Meeting will be held at 9.00am (Sydney time) on Tuesday, 29 September 2020.

The Scheme is subject to limited conditions, including approval of the Company's shareholders, the Court and the Australian Foreign Investment Review Board. The Scheme is not subject to financing or completion of due diligence and Web.com has received confirmation from the Australian Competition and Consumer Commission that it will not oppose the Scheme. If the Scheme becomes effective, Web.com will acquire all of the shares in the Company for the Scheme Consideration. The Company will be delisted from the ASX and will become a wholly owned subsidiary of Web.com.

Impact of the COVID-19 pandemic

On 11 March 2020, the World Health Organisation (WHO) declared the outbreak of the novel coronavirus (COVID-19) as a global pandemic.

In light of the uncertainty created by the COVID-19 pandemic, the Group announced the withdrawal of its FY20 guidance on 15 April 2020. As noted in that announcement, since the onset of the COVID-19 outbreak and resulting market conditions, the business observed a reduction in small business spend away from digital marketing and online business promotion. In response, the Group executed certain initiatives to maximise cash preservation, including deferrals of tax payments and negotiating with its landlords for rent deferrals. Additionally, certain subsidiaries of the Group applied for and received amounts related to the Federal Government's JobKeeper payment scheme. However, there can be no certainty that the Group will be eligible for, and receive, future forms of Federal or State Government support. Further details on these matters and their impact on the results of the Group are described in the notes to the consolidated financial statements for the period ended 30 June 2020.

The ongoing impact of COVID-19 may result in sustained closures or a decline in business activity of the Group's customers, which would likely impact the Group's financial performance. Furthermore, the effects of ongoing measures introduced by State and Federal governments to limit transmission of COVID-19 (including the forced closures of business, overseas and domestic travel bans and quarantine requirements) will likely have a material negative impact on Australia's overall macro-economic environment to which Webcentral is exposed.

While future revenues and cash flows of Webcentral may be negatively impacted, at this time the Group is unable to estimate the exact scope and any financial impact COVID-19 may have on its operations in the future. The Group is currently monitoring the impact of COVID-19. To date, it has executed its business continuity framework and implemented crisis management tools to mitigate the impacts of COVID-19 on its business operations to a sufficiently acceptable level. The Group has identified further cost reduction and cash preservation strategies in the event that Group revenues are materially negatively impacted.

[2] Based on there being 122,131,124 Webcentral shares on issue.
[3] EV calculated based on equity value implied by the Scheme Consideration plus anticipated net debt (excluding bank guarantees, merchant facility, a direct debit facility and credit card debt) of approximately $45,600,000 on the implementation date of the Scheme.

Settlement of Customer Dispute

The Group's annual report for the year ended 31 December 2019 (published on the ASX on 30 March 2020 when Webcentral was still called Arq Group Limited) disclosed a customer dispute pursuant to a contract for the provision of services by the Group to the customer in respect of which, as at 31 December 2019, a trade receivable balance of $10,006,000 was held ("Customer Dispute"). During the reporting period, the Group received notice of a cross claim from the customer.

The conditions precedent to the Scheme (described on page 8 above) include the settlement (or the final determination by a court of competent jurisdiction, with all avenues of appeal having been exhausted) of the Customer Dispute (including all relevant claims and cross claims), on terms and conditions acceptable to Web.com acting reasonably.

Given the uncertainty that such litigation creates, Web.com was only willing to proceed with the Scheme subject to the inclusion of a condition requiring the settlement or final determination of the Customer Dispute on terms and conditions acceptable to Web.com, acting reasonably.

While the Company continued to believe that there were strong prospects of its claim succeeding and of the cross-claim being dismissed, in reaching their recommendation in favour of the Scheme, the Directors of the Company had regard to various factors. These include: the significant costs involved in litigation and the quantum of the cross-claim (approximately $28,800,000 plus interest) (notwithstanding Webcentral's views on its prospects), the potential business and management distraction of a lengthy litigation process, the outstanding debt of the Group, the repeated breaches of covenants in the Group's existing debt facilities, and Web.com's commitment to repay the Group's existing debt facilities in full upon implementation of the Scheme. There is no other clear path to repayment of the existing debt facilities, creating an uncertain future for the Group in the absence of the Scheme.

The scheme of arrangement proposed by Web.com emerged from the strategic review as a superior offer for the Company's shareholders, balancing the maximisation of shareholder value with transaction certainty. To this end, the Company made several attempts to settle the Customer Dispute.

As announced on 20 August 2020, this resulted in Webcentral Pty Ltd, being the member of the Group that is party to the Customer Dispute, entering into a release and settlement agreement ("Settlement Agreement") pursuant to which the Customer Dispute has been settled. Web.com confirmed to the Company in writing that the terms and conditions of the Settlement Agreement were acceptable to Web.com and that, accordingly, the condition precedent to the Scheme relating to the Customer Dispute has been satisfied.

The terms of the Settlement Agreement provide for the release by both parties of any and all claims they may have in relation to the subject matter of the Customer Dispute. Each party has agreed to settle its claims for nil payment to the other. Under the Settlement Agreement, the Group has agreed to provide the customer with certain services free of charge until 31 December 2020. The parties have agreed to use all reasonable endeavours to terminate those services by 31 December 2020, and that the Group's obligations in relation to those services shall in any event terminate on or before 31 March 2021.

Following both parties settling their respective claim and cross-claim at nil, the trade receivable balance held in respect of the amounts claimed by Webcentral Pty Ltd under the Customer Dispute has been reversed to nil. As at 31 December 2019, this balance was $10,006,000 (inclusive of GST). The settlement results in a change in the variable consideration of revenue previously recognised for services performed that was associated with the disputed receivables, and therefore the impact of the settlement is a reversal of the GST-exclusive portion of all historical disputed services provided that has previously been recognised in revenue to date.

Performance from continuing operations

The following table provides a summary of our key financial metrics related to our continuing operations, being Revenue and Underlying Earnings before Interest, Tax, Depreciation and Amortisation (Underlying EBITDA)[1]

	Six months ended 30-Jun-20 $'000	30-Jun-19 $'000
CONTINUING OPERATIONS		
Revenue from contracts with customers		
SMB Direct (Core)	29,449	34,543
SMB Indirect (Non-Core)	1,250	12,122
- Less reversal of revenue from settlement of customer dispute	(9,096)	-
	(7,846)	12,122
Total revenue from contracts with customers	**21,603**	**46,665**
Underlying EBITDA[1]		
SMB Direct (Core)	3,982	4,521
Unallocated corporate costs	(3,560)	(1,819)
SMB Direct Underlying EBITDA after corporate and unallocated costs	**422**	**2,703**
SMB Indirect (Non-Core)	1,091	5,965
Total Underlying EBITDA	**1,513**	**8,668**

SMB Direct (Core) revenue has reduced as small businesses reduced their spend away from digital marketing and online business promotions during the COVID-19 pandemic. However, the Group has executed certain cost initiatives to maximise cash preservation and as such the Group's underlying EBITDA margins for SMB Direct have not been significantly impacted.

Both Revenue and Underlying EBITDA has decreased for SMB Indirect (Non-Core) following the Group divesting certain assets and liabilities related to the TPP Wholesale Reseller business on 31 July 2019. Also included in SMB Indirect's revenue is a reversal of previously recognised revenue associated with the settlement of a receivable balance in dispute as described in the "Settlement of Customer Dispute" section and has been presented below underlying EBITDA.

Performance from discontinued operations

The following table presents a summary of the performance of the Enterprise business that has been classified as a discontinued operation during the six months period ended 30 June 2020, up until the date of its disposal on 2 March 2020:

	Six months ended	
	30-Jun-20 $'000	30-Jun-19 $'000
Revenue from contracts with customers	12,781	44,233
Underlying EBITDA[(1)]	1,398	963

The following table presents total underlying EBITDA as an aggregation of both continuing and discontinued operations:

	Six months ended	
	30-Jun-20 $'000	30-Jun-19 $'000
Underlying EBITDA[(1)]		
Continuing operations	1,513	8,668
Discontinued operations	1,398	963
Total	**2,911**	**9,631**

(1) The Group believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance. Refer to page 12 for a reconciliation of this information to statutory IFRS information.

Management performance measures – underlying EBITDA

The Group makes use of a management performance measure, "Underlying EBITDA" (Earnings before Interest, Tax, Depreciation and Amortisation). The Group believes that Underlying EBITDA is useful for users of financial reports when assessing the Group's underlying business performance and profit generation after adjusting for non-recurring and unusual items affecting comparability between financial periods. Underlying EBITDA is also the primary financial performance indicator used by the Group and is the basis for driving internal business decision-making (such as budgets and forecasts) as well as setting remuneration and reward outcomes.

Underlying EBITDA is a non-IFRS and unaudited performance measure and therefore may not be comparable with measures sharing similar descriptions by other entities. A reconciliation of Underlying EBITDA to statutory IFRS performance measures (profit before tax) is shown below:

	Six months ended	
	30-Jun-20	**30-Jun-19**
	$'000	**$'000**
CONTINUING OPERATIONS		
(Loss) / profit before tax	**(18,641)**	**179**
Depreciation and amortisation expense	5,585	5,316
Interest income	(122)	(112)
Finance costs (excl. bank charges and merchant fees)	1,825	1,662
Gain on reassessment of contingent consideration liability	-	(98)
Net loss from changes in subleasing arrangements	259	-
Reversal of revenue from settlement of customer dispute(1)	9,096	
Branding costs	-	213
Integration costs	70	552
Transaction costs(2)	1,260	427
Restructuring costs(3)	2,107	365
Property costs	75	117
Other net non-operating expenses	-	47
Underlying EBITDA	**1,513**	**8,668**
DISCONTINUED OPERATIONS		
Loss before tax	**(936)**	**(1,795)**
Depreciation and amortisation expense	306	2,354
Finance costs (excl. bank charges and merchant fees)	50	190
Loss on sale of the Enterprise business	1,565	-
Restructuring costs(2)	413	-
Integration costs	-	215
Underlying EBITDA	**1,398**	**963**

(1) Refer to the discussion in the "Settlement of Customer Dispute" section of the Directors Report on page 9 for further details.

(2) $882,000 of the transaction costs incurred during the period are attributable to the sale of the SMB business pursuant to the Scheme. The remainder of the transaction costs relate to other activities as part of the strategic review contemporaneous to the sale of SMB, including debt restructuring and advisory, less any transaction costs settled during the period that has been reclassified to form part of the "Loss on sale of the Enterprise business" amount.

(3) $784,000 of the total restructuring costs in continuing and discontinued operations represents final termination and retention payments associated with former executives, fully settled during the period. The remainder represents the cost of cost base reduction initiatives implemented by the Group related to people.

Significant changes in affairs and going concern

Certain members of the Enterprise leadership team, including then Chief Executive Officer, Mr Tristan Sternson, transferred with sale of the Enterprise business. Accordingly, following the sale of the Enterprise division on 2 March 2020, the then head of the SMB division, Mr Brett Fenton, was promoted to interim Chief Executive Officer.

On 23 March 2020, the employment of Mr Fraser Bearsley (then Chief Financial Officer) with the Group ceased. Mr Brendan White was appointed as Interim Chief Financial Officer from that date.

On 15 April 2020, the Company released an announcement to the ASX withdrawing its previously announced guidance for the year 2020 as a result of the impact and anticipated significant further impact of COVID-19. To mitigate the impact of the COVID-19 pandemic, the Group continued to reduce its cost base across people, marketing, property and systems. This process resulted in a number of roles being made redundant to consolidate the organisation and simplify the operational structure, and included the removal of a number of senior and mid-level management roles to reduce overhead costs. In order to implement these cost reduction initiatives, the Group incurred $2,107,000 in restructuring costs related to continuing operations during the period.

The sale of the former Enterprise business included the rights to the Arq brand, meaning a new corporate trading name for the Company was required. At the Company's annual general meeting held on 28 May 2020, the Company's shareholders approved the change of the Company's name to Webcentral Group Limited.

Upon implementation of the Scheme, Web.com will ensure the full and final repayment by the Company of the Group's existing debt facilities under which there is anticipated to be approximately $45,600,000 repayable at implementation of the Scheme (excluding bank guarantees, a merchant facility, a direct debt facility and a credit card facility).

If the Scheme does not become effective, there is no assurance that the Group's existing financiers will continue to provide the support that Webcentral requires to continue as a going concern.[4] In addition, it is expected to be challenging for Webcentral to find an alternative refinancing solution on terms that are commercially reasonable or at all, particularly in light of the challenges that have arisen as a result of the COVID-19 pandemic, its decreasing cash receipts, committed costs, high net leverage ratio and failure to satisfy its financial covenants in four consecutive reporting periods. In such circumstances, there is a real risk that Webcentral may have insufficient liquidity to meet its debts as and when they fall due, which may require the Company's Directors to consider the appointment of a voluntary administrator on the basis that Webcentral may be insolvent or likely to become insolvent in the near future.

It is important to note that even prior to implementation of the Scheme, Webcentral expects to require additional short-term funding and the ongoing support of its existing financiers to continue to provide the Group's existing debt facilities and any required additional funding to be able to continue as a going concern. In the event the Scheme is not approved by Webcentral shareholders and is not implemented, it is likely that Webcentral will have insufficient available liquidity to meet the amount of $2,500,000 due to its existing financiers on 30 November 2020.

Given the likelihood of the sale of the Group occurring by the implementation date of the Scheme, the Directors are satisfied there are reasonable grounds to conclude the Company and Group can continue as a going concern. The financial statements and notes have been prepared on a going concern basis at 30 June 2020 and do not include adjustments, if any, relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Based on current interactions with its existing financiers and with Web.com, as well as forecasted cash flows, the Directors are satisfied there are reasonable grounds to conclude the Company can continue as a going concern.

Other than as stated above, there have been no other significant changes in the state of affairs during the six months ended 30 June 2020.

[4] The existing financiers have provided support to Webcentral throughout its strategic review process. However, as a result of a review event that is subsisting, the existing financiers retain the right to cancel, and demand repayment of, the Group's existing debt facilities upon providing the Company with 60 days' written notice. Notably, however, given that the 31 January Review Event requires the existing financiers to give 60 days' written notice to accelerate the existing debt facilities, the existing debt facilities cannot be withdrawn prior to the anticipated implementation date of the Scheme (being 12 October 2020) using this acceleration right.

Significant events after reporting date

On 13 July 2020, the Company announced it had entered into a scheme implementation deed with Web.com under which Web.com proposes to acquire all of the shares in the Company, by way of a scheme of arrangement ("Scheme") for $0.10 per Webcentral share. Details of this have been described in the "Scheme of arrangement" section to this report.

On 30 July 2020, the completion accounts for the sale of the Group's former Enterprise business were finalised, details of which have been described in the "Sale of the Enterprise business" section to this report.

On 16 August 2020, Mr Larry Bloch retired as a director of the Board.

On 20 August 2020, Webcentral Pty Ltd, being the member of the Group that is party to the Customer Dispute, entered into a release and settlement agreement ("Settlement Agreement") pursuant to which the Customer Dispute has been settled, details of which have been described in the "Settlement of Customer Dispute" section to this report.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the half-year date and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial / Directors' Report) Instrument 2016/191 (Instrument 2016/191). The Company is an entity to which the Class Order applies.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Webcentral Group Limited support and have adhered to the principles of corporate governance. The Company's Corporate Governance Statement is available on the Company's website www.webcentralgroup.com.au.

Signed in accordance with a resolution of the Directors.

Mr. Andrew Reitzer
Chair
Sydney
28 August 2020

Financial Statements

Consolidated Statement of Comprehensive Income

For the half year ended 30 June 2020

	Notes	Six months ended 30-Jun-20 $'000	Six months ended 30-Jun-19 $'000
CONTINUING OPERATIONS			
Revenue from contracts with customers	3	30,699	46,665
Reversal of revenue due to settlement of customer dispute	3	(9,096)	-
Net revenue from contracts with customers		**21,603**	**46,665**
Cost of sales		(11,608)	(16,140)
Gross profit		**9,995**	**30,525**
Other income	4	2,804	255
Loss on reassessment of contingent consideration liability		-	98
Salaries and employee benefits expenses		(13,855)	(15,834)
Depreciation expenses		(3,593)	(3,547)
Amortisation expenses		(1,992)	(1,770)
Other expenses		(6,289)	(6,416)
Finance costs		(2,345)	(2,342)
Transaction costs		(1,260)	(427)
Restructuring costs		(2,107)	(365)
(Loss) / profit before tax		**(18,642)**	**179**
Income tax benefit		666	1,430
(Loss) / profit after tax from continuing operations		**(17,976)**	**1,609**
DISCONTINUED OPERATION			
Loss from discontinued operation, net of tax	13	(1,129)	(2,174)
Loss after tax for the period		**(19,105)**	**(565)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to the profit or loss in subsequent periods (net of tax):			
Currency translation differences		(101)	-
Changes in fair value of cash flow hedges, net of tax		4	(319)
Items that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Net gains on equity instruments designated at fair value through other comprehensive income		-	33
Other comprehensive loss for the period, net of tax		**(97)**	**(286)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(19,202)**	**(850)**
(Loss) / profit for the period attributable to:			
Members of the parent		(19,114)	(607)
Non-controlling interests		9	43
		(19,105)	**(564)**
Total comprehensive loss attributable to:			
Members of the parent		(19,211)	(893)
Non-controlling interests		9	43
		(19,202)	**(850)**

	30-Jun-20 cents per share	30-Jun-19 cents per share
(Loss) / profit per share from continuing operations		
Basic (loss) / earnings per share	(14.72)	1.34
Diluted (loss) / earnings per share	(14.72)	1.34
Loss per share attributable to members of the parent		
Basic loss per share	(15.65)	(0.51)
Diluted loss per share	(15.65)	(0.51)

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	30-Jun-20 $'000	31-Dec-19 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		3,418	8,949
Trade and other receivables	8	5,373	13,910
Prepayments of domain name registry charges		8,198	7,810
Lease receivables	9	3,115	2,064
Current tax refund		1,260	375
Other assets		3,273	2,928
		24,637	**36,036**
Assets held for sale	13	-	38,674
Total Current Assets		**24,637**	**74,710**
Non-Current Assets			
Plant and equipment		6,403	8,198
Right-of-use assets	9	10,025	16,554
Intangible assets	10	76,557	77,804
Prepayments of domain name registry charges		688	678
Lease receivables	9	3,587	1,830
Deferred tax assets		16	-
Financial assets	12	1,409	1,375
Other assets		483	560
Total Non-Current Assets		**99,168**	**106,999**
TOTAL ASSETS		**123,805**	**181,709**
LIABILITIES			
Current Liabilities			
Trade and other payables		13,750	8,692
Income received in advance		22,725	22,792
Provisions		1,706	1,585
Derivative financial instruments	12	554	510
Interest bearing loans and borrowings	11, 12	42,234	61,929
Other financial liabilities	13	-	5,549
Current lease liabilities	9	6,548	6,160
		87,517	**107,217**
Liabilities directly associated with assets held for sale	13	-	15,931
Total Current Liabilities		**87,517**	**123,148**
Non-Current Liabilities			
Income received in advance		11,465	11,297
Provisions		2,943	3,187
Deferred tax liabilities		-	226
Lease liabilities	9	10,214	12,970
Total Non-Current Liabilities		**24,622**	**27,680**
TOTAL LIABILITIES		**112,139**	**150,828**
NET ASSETS		**11,666**	**30,881**
EQUITY			
Contributed equity		91,179	91,179
Foreign currency translation reserve		(634)	(533)
Share based payments reserve		180	193
Other reserves		(274)	(278)
Retained earnings		(78,920)	(59,806)
Equity attributable to members of the parent		**11,531**	**30,755**
Non-controlling interests		135	126
TOTAL EQUITY		**11,666**	**30,881**

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2020

	Note	FOREIGN CURRENCY RESERVE $'000	SHARE BASED PAYMENTS RESERVE $'000	OTHER RESERVES $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON-CONTROLLING INTERESTS $'000	TOTAL $'000
As at 1 January 2020		**(533)**	**193**	**(278)**	**91,179**	**(59,806)**	**30,755**	**126**	**30,881**
(Loss) / profit for the period		-	-	-	-	(19,114)	(19,114)	9	(19,105)
Other comprehensive income		(101)	-	4	-	-	(97)	-	(97)
Total comprehensive income for the period		**(101)**	**-**	**4**	**-**	**(19,114)**	**(19,211)**	**9**	**(19,202)**
Transactions with owners in their capacity as owners:									
Writeback of share based payments reserve		-	(13)	-	-	-	(13)	-	(13)
As at 30 June 2020		**(634)**	**180**	**(274)**	**91,179**	**(78,920)**	**11,531**	**135**	**11,666**

	Note	FOREIGN CURRENCY RESERVE $'000	SHARE BASED PAYMENTS RESERVE $'000	OTHER RESERVES $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON-CONTROLLING INTERESTS $'000	TOTAL $'000
As at 1 January 2019		**(552)**	**1,136**	**9**	**85,724**	**76,053**	**162,370**	**126**	**162,496**
Impact of change in accounting policy		-	-	-	-	911	911	-	911
As at 1 January 2019 (restated)		**(552)**	**1,136**	**9**	**85,724**	**76,964**	**163,281**	**126**	**163,407**
(Loss) / profit for the period		-	-	-	-	(607)	(607)	43	(564)
Other comprehensive income		-	-	(286)	-	-	(286)	-	(286)
Total comprehensive income for the period		**-**	**-**	**(286)**	**-**	**(607)**	**(893)**	**43**	**(850)**
Transactions with owners in their capacity as owners:									
Share based payment/(writeback)		-	(137)	-	-	-	(137)	-	(137)
Issue of shares for long term incentive plan		-	(472)	-	472	-	-	-	-
Issue of shares for Infoready earn out liability settlement		-	-	-	4,000	-	4,000	-	4,000
Dividend reinvestment plan		-	-	-	983	-	983	-	983
Dividend associated with InfoReady earn out		-	-	-	-	(109)	(109)	-	(109)
Equity dividends		-	-	-	-	(5,359)	(5,359)	(80)	(5,439)
As at 30 June 2019		**(552)**	**527**	**(277)**	**91,179**	**70,889**	**161,766**	**89**	**161,855**

Consolidated Statement of Cash Flows

For the half year ended 30 June 2020

	Notes	Six months ended 30-Jun-20 $'000	30-Jun-19 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		35,696	96,680
Receipt of government grants	4	222	-
Payments to suppliers and employees		(42,774)	(86,095)
Interest received		122	19
Interest paid		(1,655)	(1,728)
Bank charges and credit card merchant fees paid		(520)	(682)
Income tax paid		(630)	(3,268)
Payments for transaction costs (other)(1)		(1,057)	(241)
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES		**(10,595)**	**4,686**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of plant and equipment and intangible assets		(776)	(1,875)
Lease payments received		1,110	980
Payment of financial liability for InfoReady earn out	13	(5,979)	(2,001)
Return of capital from Tiger Pistol		-	506
Payments for transaction costs (sale of Enterprise)	13	(3,950)	-
Proceeds from disposal of the Enterprise business	13	36,284	-
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		**26,688**	**(2,390)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	11	2,625	5,000
Repayment of borrowings	11, 12	(22,108)	-
Payment of dividend on ordinary shares		-	(4,378)
Payment of dividend to InfoReady vendors		-	(109)
Payment of dividend to non-controlling interests		-	(80)
Payment of lease liabilities		(2,103)	(3,350)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(21,586)**	**(2,917)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,493)**	**(621)**
Net foreign exchange differences		(38)	-
Cash and cash equivalents at beginning of period		8,949	8,279
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3,418**	**7,658**

(1) Transaction costs associated with the potential sale of the Company and the strategic review have been re-presented as part of operating activities in accordance with Australian Accounting Standards. The re-presentation does not change actual cash flows during the period or to the prior comparative period.

The above statement of cash flows includes cash flows from both continuing and discontinued operations. Refer to note 13 for the cash flows relating to discontinued operations.

Notes to the Condensed Consolidated Financial Statements

1. Corporate information

The interim condensed consolidated financial statements of Webcentral Group Limited ('the Company' or 'Webcentral') (formerly Arq Group Limited) and its subsidiaries (collectively, 'the Group') for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 28 August 2020.

Webcentral Group Limited is a limited company, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX).

The Company is a for-profit entity. The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with AASB 134 *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2019.

It is recommended that the half year financial report of Webcentral for the half year ended 30 June 2020 be considered together with any public announcements made by Webcentral and its controlled entities during the half year ended 30 June 2020, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020.

The Group applied for the first time in 2020, amendments to AASB 16 *Leases*, which provides entities a practical expedient to not account for rent concessions occurring as a direct consequence of the COVID-19 pandemic as lease modifications, provided certain conditions are met. Although the amendments are effective for annual reporting periods beginning on or after 1 June 2020, earlier application is permitted. Therefore, the Group has elected to early apply the amendments as it has received some rental concessions during the period in the form of changes in lease payments as a direct consequence of the COVID-19 pandemic. Refer to note 9 for further information.

Several other amendments and interpretations also applied to the Group for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

2. Basis of preparation (continued)

Going concern

The Webcentral Group requires the ongoing support of its existing financiers, and its existing debt facilities, to continue as a going concern.

The Group's existing debt facilities were originally entered into in June 2018 to replace the previous debt facilities available to the Group. In response to certain actual financial covenant breaches (in the quarter ended 30 September 2019) and certain anticipated (but later realised) financial covenant breaches (in the quarter ended 31 December 2019), Webcentral and the Group's existing financiers amended the terms of the existing debt facilities on 23 December 2019. The revised existing debt facilities provided the Group with access to committed funding of up to $61,200,000 and uncommitted funding of up to $7,500,000. The existing financiers imposed certain conditions on the Group as part of amending the existing debt facilities, including (among other things):

- inserting a review event, to be tested on 31 January 2020, relating to the amount outstanding to the Group's existing financiers on that date ("31 January Review Event"); and
- requiring Webcentral, and the majority of its subsidiaries, to grant all-assets security in favour of the Group's existing financiers to secure the entire amount outstanding under the existing debt facilities.

The amendments to the existing debt facilities enabled Webcentral to draw $2,500,000 in December 2019, and a further $2,500,000 in February 2020, to assist with funding working capital requirements.

Webcentral subsequently paid down $22,108,000 of the total drawn debt using proceeds received from the sale of the Enterprise business in March 2020.

There are currently no monetary or non-monetary defaults subsisting under the Group's existing debt facilities. However, the 31 January Review Event is currently subsisting. Accordingly, the Group's existing financiers have the right to cancel, and demand repayment of, the existing debt facilities upon providing Webcentral with 60 days' written notice.

On 13 July 2020, the Company announced that it had entered a scheme implementation deed with Web.com Group, Inc. ("Web.com"), under which Web.com proposes to acquire all of the shares in Webcentral, by way of a scheme of arrangement ("Scheme"). If the Scheme is approved and implemented, the Company's shareholders will receive $0.10 in cash per Webcentral share ("Scheme Consideration"). Web.com will refinance the Group's existing debt facilities and ensure the full repayment of existing drawn-down debt. Refer to note 14 for further details.

Under the existing debt facilities, Webcentral is prohibited from making distributions to Webcentral shareholders without the prior written consent of its existing financiers. On 6 February 2020, the existing financiers advised Webcentral that until such time as the 31 January Review Event has been remedied to their satisfaction, or waived by them in writing, no further distributions may be made. As noted above, the 31 January Review Event is currently subsisting. If the Scheme does not become effective, it is expected to be very challenging for Webcentral to agree a solution with its existing financiers under which distributions to Webcentral shareholders would be permitted.

The total amount drawn under the existing debt facilities matures on 2 July 2021 (excluding an amount of $2,500,000 which matures on 30 November 2020).

The existing financiers have provided support to Webcentral throughout its strategic review process, allowing Webcentral time to explore potential solutions to its declining performance, high net leverage ratio and pending debt maturity. For example:

- the Company sought, and received from its existing financiers, an extension on the repayment of $2,500,000 originally due on 31 March 2020, until 31 August 2020 – this date was later extended to 30 November 2020;
- the Company sought, and received from its existing financiers, waivers for actual and anticipated financial covenant breaches for the quarters ended 30 September 2019, 31 December 2019, 31 March 2020 and 30 June 2020; and
- although the 31 January Review Event is subsisting, and the existing financiers therefore have the right to cancel, and demand repayment of, the Group's existing debt facilities upon providing Webcentral with 60 days' written notice, the existing financiers have repeatedly chosen to reserve their rights in this regard.

2. Basis of preparation (continued)

Notwithstanding their previous support, there can be no assurance that the Group's existing financiers will remain supportive of Webcentral if the Scheme does not become effective.

If the Scheme does not become effective, Webcentral will need to reach an agreement with its existing financiers regarding the future of the Group's existing debt facilities. In light of the repeated financial covenant breaches and the subsisting 31 January Review Event, this may be challenging. Notably, however, given that the 31 January Review Event requires the existing financiers to give 60 days' written notice to cancel the existing debt facilities, the existing debt facilities cannot be withdrawn prior to the anticipated implementation date of the Scheme (being 12 October 2020) using this cancellation right.

If an agreement cannot be reached with the Group's existing financiers, it is expected to be challenging for Webcentral to find an alternative refinancing solution on terms that are commercially reasonable or at all, particularly in light of the challenges that have arisen as a result of the COVID-19 pandemic, its decreasing cash receipts, committed costs, high net leverage ratio and failure to satisfy its financial covenants in four consecutive reporting periods. As noted above, $2,500,000 of the amount outstanding under the existing debt facilities matures on 30 November 2020 which, absent the Scheme, Webcentral currently has no clear path to repaying.

Additionally, even if the existing financiers continue to provide the existing debt facilities to Webcentral, absent the Scheme, Webcentral may require additional funding. Accordingly, absent such additional funding, there is a real risk that Webcentral may have insufficient liquidity to meet its debts as and when they fall due.

Accordingly, absent the Scheme, the Webcentral Directors may need to consider the appointment of a voluntary administrator on the basis that Webcentral may be insolvent or likely to become insolvent in the near future.

Even prior to implementation of the Scheme, Webcentral expects to require additional short-term funding and the ongoing support of its existing financiers to continue to provide the existing debt facilities and any required additional funding to be able to continue as a going concern.

Importantly, as noted above, Web.com will ensure the full and final repayment of the entire existing debt facilities.

Given the likelihood of the sale of the Group occurring by the implementation date of the Scheme, the Directors are satisfied there are reasonable grounds to conclude the Company and Group can continue as a going concern. The financial statements and notes have been prepared on a going concern basis at 30 June 2020 and do not include adjustments, if any, relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

Based on current interactions with its existing financiers and with Web.com, as well as forecasted cash flows, the Directors are satisfied there are reasonable grounds to conclude the Company can continue as a going concern.

3. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

		Six months ended	
		30-Jun-20	30-Jun-19
	Notes	$'000	$'000
CONTINUING OPERATIONS			
Types of goods of service			
Registration revenue		11,901	17,264
Solutions, hosting & services		18,798	29,401
Reversal of revenue due to settlement of customer dispute	8	(9,096)	-
Total revenue from contracts with customers		**21,603**	**46,665**
Timing of revenue recognition			
Goods and services transferred at a point in time		143	291
Services transferred over time		21,460	46,374
Total revenue from contracts with customers		**21,603**	**46,665**

The Group's revenues are primarily generated from its Australian customers, with less than 5% of the Group's revenues generated from its customers in New Zealand.

Included in revenue from contracts with customers in the prior period comparative (six months ended 30 June 2019) are revenues of $8,098,000 attributed to the Group's former SMB Indirect Reseller business, which was sold on 31 July 2019.

As described in note 8 to the financial statements, the Group has reversed the entire balance of trade receivables that was subject to a customer dispute that has now been settled. The gross amount of the receivables reversed was $10,006,000, inclusive of GST. The changes in circumstances leading to the settlement, as described in note 8, results in a reassessment of the consideration for those disputed services, from fixed to variable consideration. As a result of the reassessment, the variable consideration becomes highly constrained to the point that no consideration would be receivable from the performance of those disputed services. Therefore, the impact of the settlement is a reversal of revenue of the GST-exclusive portion, being $9,096,000. No revenue was recognised in relation to those disputed services provided during the period. In accordance with Australian Accounting Standards, the reversal of revenue is required to be recognised entirely during the current reporting period as the change in circumstance (i.e. the settlement of the Customer Dispute) only occurred during the current reporting period.

4. Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments have been identified based on the information provided to the chief operating decision makers, being the CEO.

Following the sale and disposal of the Enterprise business on 2 March 2020 and its presentation as a discontinued operation during the half year ended 30 June 2020, the Group's continuing operations as presented in the Statement of Comprehensive Income represent only one operating segment, being the SMB business.

5. Other income

		Six months ended	
		30-Jun-20	30-Jun-19
	Notes	$'000	$'000
CONTINUING OPERATIONS			
Dividend income		-	124
Interest income		122	112
Management fees - TPPW Reseller		1,250	-
Management fees - Enterprise		1,146	-
Government grants		222	-
Sundry income		64	19
Total other income		**2,804**	**255**

(a) Government grants

On 30 March 2020, the Federal Government of the Commonwealth of Australia announced the JobKeeper payment scheme (JobKeeper) for eligible business and employees. Legislation supporting JobKeeper was enacted by an Act of Parliament on 9 April 2020, amended 23 April 2020 and 1 May 2020. The purpose of JobKeeper is to allow eligible employers to maintain paying their employees' salary and wages during the COVID-19 pandemic, through subsidising the eligible employer $1,500 per eligible employee per fortnight.

Certain subsidiaries of the Group have applied to participate in JobKeeper and 38 eligible employees employed by the Group at 1 March 2020 were identified, in accordance with guidance issued by the Australian Taxation Office (ATO). Conditions attached to the receipt of the JobKeeper payments were met during the period, including the requirements that:

- The employees continued to be employed by those subsidiaries of the Group over the relevant fortnightly periods associated with the JobKeeper payments;
- The employees were paid at least $1,500 per fortnight; and
- The eligible entities met the decline in turnover threshold tests with respect to the March 2020 (and comparative) period.

In line with the requirements of AASB 120 *Government Grants*, JobKeeper payments received by the Group have been recognised as part of other income in the consolidated Statement of Comprehensive Income.

(b) Management fees

Under the terms of the transitional services agreements for both the sale of the TPP Wholesale Reseller business in the prior year (31 July 2019), and for the sale of Arq Group Enterprise Pty Ltd (representing the assets and liabilities associated with the Enterprise business), transitional services continue to be provided between the Group and each of those businesses.

The Group is currently managing the smooth transition of the Enterprise business following its divestment, ensuring the key service deliverables in the transitional services agreement entered into in connection with the sale are met whilst minimising impact to customers. The transitional services agreement entered into in connection with the sale of the TPP Wholesale Reseller business continues to be in force and governs, among other things, the Group's ongoing receipt of service fees associated with the separation of the business.

6. Dividends

	Notes	Six months ended 30-Jun-20 $'000	30-Jun-19 $'000
Dividends declared and paid during the period			
4.5 cents per share final dividend for year ended 31 December 2018 - fully franked		-	5,359
Dividend for the Infoready earn-out		-	109
Total dividends declared and paid during the period		-	**5,468**

No dividends were declared and not paid, nor any dividends proposed and not paid, during the six month period ended 30 June 2020.

7. Earnings per share

	Notes	Six months ended 30-Jun-20 cents	30-Jun-19 cents
From continuing operations			
Basic loss per share		(14.72)	1.34
Diluted loss per share		(14.72)	1.34
Attributable to members of the parent			
Basic loss per share		(15.65)	(0.51)
Diluted loss per share		(15.65)	(0.51)

	Notes	$'000	$'000
Reconciliation of earnings used in calculating earnings per share			
(Loss) / profit for the period from continuing operations		(17,976)	1,609
Loss for the period from discontinued operation		(1,129)	(2,174)
Less profit attributed to non-controlling interests		(9)	(43)
Loss for the period attributable to members of the parent		**(19,114)**	**(608)**

	Notes	No. of Shares	No. of Shares
Weighted average number of shares used in calculating earnings per share			
Number for basic earnings per share - ordinary shares		122,131,124	119,622,854
Number for diluted earnings per share - ordinary shares		122,131,124	119,622,854

Basic earnings/(loss) per share is calculated as profit/(loss) for the year attributable to members of the parent, divided by the weighted average number of ordinary shares. Diluted earnings/(loss) per share is calculated as profit/(loss) for the year attributable to members of the parent, divided by the weighted average number of ordinary shares and the dilutive potential ordinary shares.

Performance rights granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. Where an operating loss is incurred, performance rights are not dilutive. These performance rights have not been included in the determination of basic earnings per share.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

8. Trade and other receivables

	Notes	30-Jun-20 $'000	31-Dec-19 $'000
Trade receivables		4,547	4,834
Allowance for expected credit losses (ECLs)		(1,402)	(1,840)
Trade receivables subject to customer dispute		-	10,006
Other receivables		2,228	910
Total trade and other receivables		**5,373**	**13,910**

Other receivables principally relate to the Group's subleasing activities, as well as activities related to transitional services agreements for certain of the Group's former businesses (refer to note 5). Prior comparative period trade receivables have been re-presented to reflect the balance of trade receivables associated with the Customer Dispute separate to other trade receivables.

Key judgements and estimates – Customer Dispute

The Group's annual report for the year ended 31 December 2019 (published on the ASX on 30 March 2020 when Webcentral was still called Arq Group Limited) disclosed a customer dispute pursuant to a contract for the provision of services by the Group to the customer in respect of which, as at 31 December 2019, a trade receivable balance of $10,006,000 was held ("Customer Dispute"). During the reporting period, the Group received notice of a cross claim from the customer.

Included in the scheme implementation deed that the Company entered with Web.com on 13 July 2020 were conditions precedent. The conditions precedent to the Scheme include the settlement (or the final determination by a court of competent jurisdiction, with all avenues of appeal having been exhausted) of the Customer Dispute on terms and conditions acceptable to Web.com acting reasonably.

Given the uncertainty that such litigation creates, Web.com was only willing to proceed with the Scheme subject to the inclusion of a condition requiring the settlement or final determination of the Customer Dispute on terms and conditions acceptable to Web.com, acting reasonably.

While the Company continued to believe that there were strong prospects of its claim succeeding and of the cross-claim being dismissed, in reaching their recommendation in favour of the Scheme, the Directors of the Company had regard to various factors. These include: the significant costs involved in litigation and the quantum of the cross-claim (approximately $28,800,000 plus interest) (notwithstanding Webcentral's views on its prospects), the potential business and management distraction of a lengthy litigation process, the outstanding debt of the Group, the repeated breaches of covenants in the Group's existing debt facilities, and Web.com's commitment to repay the Group's existing debt facilities in full upon implementation of the Scheme. There is no other clear path to repayment of the existing debt facilities, creating an uncertain future for the Group in the absence of the Scheme.

The scheme of arrangement proposed by Web.com emerged from the strategic review as a superior offer for the Company's shareholders, balancing the maximisation of shareholder value with transaction certainty. To this end, the Company made several attempts to settle the Customer Dispute.

As announced on 20 August 2020, this resulted in Webcentral Pty Ltd, being the member of the Group that is party to the Customer Dispute, entering into a release and settlement agreement ("Settlement Agreement") pursuant to which the Customer Dispute has been settled. Web.com confirmed to the Company in writing that the terms and conditions of the Settlement Agreement were acceptable to Web.com and that, accordingly, the condition precedent to the Scheme relating to the Customer Dispute has been satisfied.

The terms of the Settlement Agreement provide for the release by both parties of any and all claims they may have in relation to the subject matter of the Customer Dispute. Each party has agreed to settle its claims for nil payment to the other.

8. Trade and other receivables (continued)

Under the Settlement Agreement, the Group has agreed to provide the customer with certain services free of charge until 31 December 2020. The parties have agreed to use all reasonable endeavours to terminate those services by 31 December 2020, and that the Group's obligations in relation to those services shall in any event terminate on or before 31 March 2021.

Following both parties settling their respective claim and cross-claim at nil, the trade receivable balance held in respect of the amounts claimed by Webcentral Pty Ltd under the Customer Dispute has been reversed to nil. The reversal is accounted as a reduction in revenue during the period – refer to note 3 of the financial statements for further details.

Key judgements and estimates – impact of COVID-19

The Group observes that at 30 June 2020, the Group's allowance for ECLs as a proportion of its trade receivables is higher than at 31 December 2019. This is because the Group's trade receivables at 31 December 2019 included the amount of $10,006,000 in respect of the Customer Dispute. Excluding this balance from the comparative, the Group notes that its allowance for ECLs as a proportion of its trade receivables is traditionally high, reflecting the Group's greater credit risk exposure as most of the Group's customers are small/medium businesses and individuals (i.e. high volume, low dollar value).

Given the continued economic uncertainties as a result of the ongoing COVID-19 pandemic, and its impact on the ability of the Group's customers to trade, the Group has examined the recoverability and credit risk of its trade receivables. Key factors relevant to the Group's reassessment of credit risk include the impact of COVID-19 on the Group's customers' ability to repay its debts owing to the Group in a timely manner. Based on the results of the Group's exercise, the Group determined that the allowance at 30 June 2020 adequately covers the additional credit risk exposure brought by the COVID-19 pandemic.

9. Leases

(a) Sub-leases with Arq Group Enterprise Pty Ltd

Following the sale of the Enterprise business on 2 March 2020, the Group entered in sub-leasing arrangements with Arq Group Enterprise Pty Ltd (being the former Group subsidiary disposed of in the Enterprise sale) for part of the Group's office premise space. The term of the sub-leasing arrangements varies with each arrangement, with expiration dates ranging from 2022 to 2026.

As a result of the sub-leasing arrangements, the Group concurrently de-recognised $4,438,000 of right-of-use (ROU) lease assets and recognised $4,579,000 of lease receivables, resulting in a net gain of $141,000 recognised in profit and loss.

(b) COVID-19 lease payment concessions

During the reporting period, the Group negotiated an acceleration of lease incentives with its landlords associated with the Group's office premises due to the ongoing COVID-19 pandemic, resulting in no base rents payable for the impacted months and have the character of deferring the Group's lease payments to future periods. The amount of lease payment deferrals obtained during the period was $689,000.

The Group has applied the practical expedient in AASB 16 to not assess whether the lease payment deferrals represent a modification to the lease agreement. As such, these lease payment deferrals have resulted in a minor adjustment of $10,000 to the Group's ROU lease assets and liabilities as the overall remaining cash flows from the Group's lease arrangements has not changed, given that the amount of lease payment deferrals received during the period will be recovered by the Group's landlords over the remaining lease term.

(c) Lease modifications

During the period, certain tenants of the Group have formally notified the Group of their intention to exit part of the Group's office premise spaces in Melbourne. For one of the tenants, the Group expects to receive up to the amount of the bank guarantee provided to the landlord to cover any remaining debts outstanding from the tenant. For the other tenant, the Group expects to receive up to the balance of issued invoices outstanding from the tenant (up to the date of lease termination). As a result, the Group has written off the present value of its lease receivables related to these premises not covered by the bank guarantee or owed invoices. The net loss recognised in profit and loss was $409,000.

10. Impairment of goodwill

The Group performed its annual impairment test in December 2019 over the carrying value of goodwill. Under the impairment testing, the carrying amount of the SMB cash generating unit (CGU) is compared to its recoverable amount. The recoverable amount of the SMB CGU was determined based on a fair value less costs of disposal method. The key assumptions used to determine the recoverable amount were disclosed in the annual consolidated financial statements for the year ended 31 December 2019. As a result of the Group's annual impairment test, the Group recognised an impairment charge of $41,123,000 against the carrying value of goodwill in profit and loss for the year ended 31 December 2019.

The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 30 June 2020, the Group considered that the following events and circumstances indicated a potential further impairment of goodwill:

- The market capitalisation of the Group was below the book value of its equity;
- The economic uncertainties surrounding the COVID-19 pandemic has impacted the Group's future cash flows;
- The uncertainty as to the outcome of the strategic review. Subsequent to 30 June 2020, the strategic review culminated in the proposed Scheme with Web.com, valuing the equity of the Group at the Scheme Consideration of $0.10 per Webcentral share.

As a result, management performed an impairment test as at 30 June 2020 for the SMB CGU, which represents the only remaining CGU of the Group following the sale of the Enterprise business on 2 March 2020. The recoverable amount of the SMB CGU was determined based on a fair value less costs of disposal method.

Key assumptions used in fair value less costs of disposal ('FVLCD') calculations

Fair value was derived from the Scheme Consideration of $0.10 per share in the Company offered by Web.com (refer to note 14). The Scheme Consideration values the Company's equity at approximately $12,200,000, which is net of transaction costs. The Company has used this information as the primary indicator of fair value less costs of disposal of the SMB CGU in the absence of a superior proposal, as the value of the Company's equity implied by the Scheme Consideration will represent the net amounts directly received by the Company's shareholders upon implementation of the Scheme. As such, these fair value measurements would be categorised within the Level 3 fair value hierarchy.

Results of impairment test and sensitivity to changes in key assumptions

Based on the fair value less costs of disposal derived from the Scheme Consideration of approximately $12,200,000 being higher than the Group's net assets at 30 June 2020, being $11,668,000, according the recoverable value exceeds the carrying value of net assets associated with the SMB CGU and therefore, the Group has not recognised any impairment against the carrying value of goodwill.

The key assumption driving the recoverable value is the value of the Scheme Consideration. Should the Company receive a superior proposal, this is only expected to increase the value of the Company's equity above the current Scheme Consideration. Therefore, the Group does not consider that it is reasonable that there will be changes in the key assumption that decrease the Group's recoverable value, as this would not be considered as a superior proposal to the current Scheme Consideration.

Key judgement and estimates

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the CGU, using fair value less costs of disposal (FVLCD), to which the goodwill and intangibles with indefinite useful lives are allocated. The Group considers that the Scheme Consideration approximates fair value as it represents an agreed price between willing market participants under current market conditions.

11. Interest bearing loans and borrowings

	Notes	30-Jun-20 $'000	31-Dec-19 $'000
Current			
Interest-bearing loan		42,234	61,929
Total interest-bearing loans and borrowings		**42,234**	**61,929**

The Webcentral Group requires the ongoing support of its existing financiers, and its existing debt facilities, to continue as a going concern.

The Group's existing debt facilities were originally entered into in June 2018 to replace the previous debt facilities available to the Group. In response to certain actual financial covenant breaches (in the quarter ended 30 September 2019) and certain anticipated (but later realised) financial covenant breaches (in the quarter ended 31 December 2019), Webcentral and the Group's existing financiers amended the terms of the existing debt facilities on 23 December 2019. The revised existing debt facilities provided the Group with access to committed funding of up to $61,200,000 and uncommitted funding of up to $7,500,000. The existing financiers imposed certain conditions on the Group as part of amending the existing debt facilities, including (among other things):

- inserting a review event, to be tested on 31 January 2020, relating to the amount outstanding to the existing financiers on that date ("31 January Review Event"); and
- requiring Webcentral, and the majority of its subsidiaries, to grant all-assets security in favour of the existing financiers to secure the entire amount outstanding under the existing debt facilities.

The amendments to the existing debt facilities enabled Webcentral to draw $2,500,000 in December 2019, and a further $2,500,000 in February 2020, to assist with funding working capital requirements.

Webcentral subsequently paid down $22,108,000 of the total drawn debt using proceeds received from the sale of the Enterprise business in March 2020.

There are currently no monetary or non-monetary defaults subsisting under the Group's existing debt facilities. However, the 31 January Review Event is currently subsisting. Accordingly, the Group's existing financiers have the right to cancel, and demand repayment of, the existing debt facilities upon providing Webcentral with 60 days' written notice.

Under the existing debt facilities, Webcentral is prohibited from making distributions to Webcentral shareholders without the prior written consent of its existing financiers. On 6 February 2020, the existing financiers advised Webcentral that until such time as the 31 January Review Event has been remedied to their satisfaction, or waived by them in writing, no further distributions may be made. As noted above, the 31 January Review Event is currently subsisting. If the Scheme does not become effective, it is expected to be very challenging for Webcentral to agree a solution with its existing financiers under which distributions to Webcentral shareholders would be permitted.

The total amount drawn under the existing debt facilities matures on 2 July 2021 (excluding an amount of $2,500,000 which matures on 30 November 2020).

The existing financiers have provided support to Webcentral throughout its strategic review process, allowing Webcentral time to explore potential solutions to its declining performance, high net leverage ratio and pending debt maturity. For example:

- the Company sought, and received from the existing financiers, an extension on the repayment of $2,500,000 originally due on 31 March 2020, until 31 August 2020 – this date was later extended to 30 November 2020;
- the Company sought, and received from the existing financiers, waivers for actual and anticipated financial covenant breaches for the quarters ended 30 September 2019, 31 December 2019, 31 March 2020 and 30 June 2020; and
- although the 31 January Review Event is subsisting, and the existing financiers therefore have the right to cancel, and demand repayment of, the existing debt facilities upon providing Webcentral with 60 days' written notice, the existing financiers have repeatedly chosen to reserve their rights in this regard.

Notwithstanding their previous support, there can be no assurance that the Group's existing financiers will remain supportive of Webcentral if the Scheme does not become effective.

11. Interest bearing loans and borrowings (continued)

If the Scheme does not become effective, Webcentral will need to reach an agreement with the existing financiers regarding the future of the Group's existing debt facilities. In light of the repeated financial covenant breaches and the subsisting 31 January Review Event, this may be challenging. Notably, however, given that the 31 January Review Event requires the existing financiers to give 60 days' written notice to cancel the existing debt facilities, the existing debt facilities cannot be withdrawn prior to the anticipated implementation date of the Scheme (being 12 October 2020) using this cancellation right.

If an agreement cannot be reached with the Group's existing financiers, it is expected to be challenging for Webcentral to find an alternative refinancing solution on terms that are commercially reasonable or at all, particularly in light of the challenges that have arisen as a result of the COVID-19 pandemic, its decreasing cash receipts, committed costs, high net leverage ratio and failure to satisfy its financial covenants in four consecutive reporting periods. As noted above, $2,500,000 of the amount outstanding under the existing debt facilities matures on 30 November 2020 which, absent the Scheme, Webcentral currently has no clear path to repaying.

Additionally, even if the existing financiers continue to provide the existing debt facilities to Webcentral, absent the Scheme, Webcentral may require additional funding. Accordingly, absent such additional funding, there is a real risk that Webcentral may have insufficient liquidity to meet its debts as and when they fall due.

Accordingly, absent the Scheme, the Webcentral Directors may need to consider the appointment of a voluntary administrator on the basis that Webcentral may be insolvent or likely to become insolvent in the near future.

Even prior to implementation of the Scheme, Webcentral expects to require additional short-term funding and the ongoing support of the existing financiers to continue to provide the existing debt facilities and any required additional funding to be able to continue as a going concern.

Importantly, as noted above, Web.com will ensure the full and final repayment of the entire existing debt facilities.

12. Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair-value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within their fair-value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities as at 30 June 2020:

				Fair value measurement using		
			TOTAL	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Note	Date of valuation	$'000	$'000	$'000	$'000
Assets / (liabilities) measured at fair value						
Derivative financial instruments						
Interest rate swap		30-Jun-20	**(554)**	-	(554)	-
Financial assets						
Investment in Tiger Pistol shares		30-Jun-20	**1,409**	-	-	1,409
Other financial liabilities						
Interest-bearing loan		30-Jun-20	**(42,234)**	-	(42,234)	-

There have been no transfers between Level 1, 2 and 3 during the period.

13. Disposals and discontinued operations

On 24 September 2019, Webcentral announced to the ASX that it had appointed Macquarie Capital (Australia) Limited to undertake a strategic review, exploring all avenues for maximising shareholder value. Those avenues included, but were not limited to, the sale of one or more of the Enterprise or SMB business divisions, as well as other various capital management changes.

The announcement of the strategic review generated a number of further inbound approaches from parties interested in acquiring either the Enterprise division or the SMB division, prompting Webcentral to test the market for the sale of these businesses and initiate a structured due diligence process in October 2019. Several parties were granted additional business information and limited access to management before being invited to submit non-binding indicative offers. Webcentral received numerous offers from various potential bidders from around the globe with all offers received for either the Enterprise division or SMB division. Select parties were provided with access to a data room and invited to submit offers to acquire one or other of the business units.

(a) Sale of Arq Group Enterprise Pty Limited

On 11 February 2020, the Company announced that it had entered into a binding agreement to sell Arq Group Enterprise Pty Limited to an entity owned by a consortium comprising Quadrant Private Equity and certain members of the Enterprise leadership team for $35,000,000 (less a final payment of $5,979,000 due to the vendors of InfoReady Pty Limited, which was acquired by the Company in 2016) on a cash free, debt free basis. The net assets of Arq Group Enterprise Pty Limited represents the Group's former Enterprise business. The sale included the rights to the Arq brand. The sale completed on 2 March 2020 and the net proceeds were used to reduce the amounts drawn under the Group's existing debt facilities. A transitional services agreement was also entered into in connection with the sale, and the parties continue to work together to manage the smooth transition of the Enterprise business following its divestment.

Due to the significance of the operations, and financial contribution, of the Enterprise business to the Group, the results associated with the Enterprise business during the half year ended 30 June 2020, up until the date of disposal (2 March 2020), has been presented as a discontinued operation.

The net loss on disposal of Arq Group Enterprise Pty Ltd was $1,565,000 recognised in profit and loss and presented in the Statement of Comprehensive Income as part of discontinued operations.

The major classes of assets and liabilities of Arq Group Enterprise Pty Ltd (comprising the Enterprise business) that was disposed on 2 March 2020 are as follows:

	Notes	$'000
Assets		
Trade and other receivables		10,052
Accrued revenue		4,668
Prepayments and other current assets		621
Plant and equipment		490
Intangible assets		2,889
Goodwill on acquisition		20,469
Deferred tax asset		1,008
Total assets disposed		**40,196**
Liabilities		
Trade and other payables		(3,519)
Income received in advance		(1,033)
Provisions		(2,977)
Total liabilities directly associated with assets disposed		**(7,528)**
Net assets disposed		**32,668**

13. Disposals and discontinued operations (continued)

The results of the discontinued operations during the period (up until the date of disposal) and for the comparative period is presented below:

	Notes	Six months ended 30-Jun-20 $'000	30-Jun-19 $'000
Revenue from contracts with customers		12,781	44,233
Cost of sales		(7,407)	(26,620)
Gross profit		**5,373**	**17,612**
Other operating expenses		(4,388)	(16,864)
Earnings before interest, tax, depreciation and amortisation		**985**	**748**
Depreciation and amortisation expense		(306)	(2,354)
Interest expense		(50)	(190)
Profit / (loss) before tax from discontinued operations		**629**	**(1,795)**
Tax expense		(193)	(379)
Profit / (loss) after tax of discontinued operations		**436**	**(2,174)**
Gain/(loss) on sale of the Enterprise business		(1,565)	-
Attributable tax expense		-	-
Post-tax loss on the sale of discontinued operations		**(1,565)**	**-**
Loss for the period from discontinued operations		**(1,129)**	**(2,174)**

The net cash flows generated from the sale of Arq Group Enterprise Pty Ltd are as follows:

	Notes	$'000
Proceeds from disposal of net assets (investing activities)		36,284
Less: settlement of InfoReady earn-out liability (financing activities)		(5,979)
Less: repayment of borrowings (financing activities)	11	(22,108)
Less: payment of transaction costs (incl. GST) (investing activities)		(3,950)
Net cash inflow		**4,246**

The net cash flows generated by the discontinued operations are as follows:

	Notes	Six months ended 30-Jun-20 $'000	30-Jun-19 $'000
Net cash (outflows) / inflows from operating activities		(882)	3,756
Net cash inflows from investing activities		-	307
Net cash flows		**(882)**	**4,063**

Subsequent to the half year ended 30 June 2020, the completion accounts for the sale of Arq Group Enterprise Pty Limited were finalised. This finalisation resulted in an aggregate amount of $1,558,000 becoming payable by the Company to the purchasing consortium. The parties agreed that, given the Company's cash flow position, rather than the Company making an immediate payment in full, the Company will make monthly payments to the consortium of $260,000 between July 2020 and December 2020 (inclusive) in respect of that amount.

The finalisation of the completion accounts is an adjusting event to the transaction consideration at 30 June 2020 and accordingly, the Group recognised a $1,565,000 net loss (inclusive of movements in working capital balances up to the date of disposal) on the disposal of the net assets of Arq Group Enterprise Pty Ltd (including the Arq brand).

14. Events subsequent to reporting date

Scheme of arrangement

On 13 July 2020, the Company announced that it had entered a scheme implementation deed with Web.com Group, Inc. ("Web.com"), under which Web.com proposes to acquire all of the shares in the Company, by way of a scheme of arrangement ("Scheme"). Web.com is a company established in Delaware in the United States of America. Headquartered in Jacksonville, Florida, Web.com has operations in North America, South America, the UK, Australia and South East Asia. Web.com is indirectly wholly owned by the Siris Capital Funds (and five investors that indirectly own less than 5% of Web.com on a fully diluted basis). The Siris Capital Funds are managed and/or advised by Siris Capital Group, LLC and its affiliates (together, "Siris Capital"). Siris Capital is a private equity firm based in the United States of America.

If the Scheme is approved and implemented, the Company's shareholders will receive $0.10 in cash per Webcentral share ("Scheme Consideration"). The Scheme Consideration implies an equity value for Webcentral of approximately $12,200,000[5] and an enterprise value ("EV") for Webcentral of approximately $57,800,000.[6]

Web.com will refinance the Company's existing debt facilities and ensure the full and final repayment of existing drawn-down debt. The implementation of the Scheme represents the completion of the Company's strategic review process.

On 21 August 2020, the Supreme Court of New South Wales made orders approving the convening of a meeting of Webcentral shareholders to consider and vote on the Scheme ("Scheme Meeting"). A copy of the Scheme Booklet, which includes the independent expert's report and notice of Scheme Meeting, is attached the Company's ASX announcements dated 24 August 2020. The Scheme Meeting will be held at 9.00am (Sydney time) on Tuesday, 29 September 2020.

The Scheme is subject to limited conditions, including approval of the Company's shareholders, the Court and the Australian Foreign Investment Review Board. The Scheme is not subject to financing or completion of due diligence and Web.com has received confirmation from the Australian Competition and Consumer Commission that it will not oppose the Scheme. If the Scheme becomes effective, Web.com will acquire all of the shares in the Company for the Scheme Consideration. The Company will be delisted from the ASX and will become a wholly owned subsidiary of Web.com.

Other events subsequent to reporting date

On 30 July 2020, the completion accounts for the sale of the Group's former Enterprise business were finalised, details of which have been described in note 13 to the financial statements.

On 16 August 2020, Mr Larry Bloch retired as a director of the Board.

On 20 August 2020, Webcentral Pty Ltd, being the Webcentral Group member party to the Customer Dispute, entered into a release and settlement agreement ("Settlement Agreement") pursuant to which the Customer Dispute has been settled, details of which have been described in note 8 to the financial statements.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the six-month period ended 30 June 2020 and the date of this report that has materially affected or may materially affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

[5] Based on there being 122,131,124 Webcentral shares on issue.
[6] EV calculated based on equity value implied by the Scheme Consideration plus anticipated net debt (excluding bank guarantees, merchant facility, a direct debit facility and credit card debt) of approximately $45,600,000 on the implementation date of the Scheme.

Directors' Declaration

The Directors' Declaration is required by the *Corporations Act* 2001. The Directors of Webcentral Group Limited have made a resolution that declared:

1. In the opinion of the Directors:

   a. The interim condensed consolidated financial report of Webcentral Group Limited for the half year ended 30 June 2020 is in accordance with the *Corporations Act* 2001, including that:

      i. the financial report complies with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations* 2001;

      ii. the financial report gives a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half year ended on that date; and

   b. there are reasonable grounds to believe that Webcentral Group Limited will be able to pay its debts as and when they become due and payable.

For and on behalf of the Board

Mr. Andrew Reitzer

Chair

Sydney

28 August 2020

Auditor's Independence Declaration

Building a better working world

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Auditor's Independence Declaration to the Directors of Webcentral Group Limited (formerly Arq Group Limited)

As lead auditor for the review of the half-year financial report of Webcentral Group Limited for the half-year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Webcentral Group Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

David Petersen
Partner
28 August 2020

Independent Auditor's Review Report

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Independent Auditor's Review Report to the Members of Webcentral Group Limited (formerly Arq Group Limited)

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Webcentral Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter – Material Uncertainty Related to Going Concern

As at 30 June 2020, the Group's current liabilities exceeded its current assets by $62.88 million including bank debt of $42.23 million. We draw attention to the Basis of Preparation on pages 20 and 21 to the half-year financial report, which indicates the Group is reliant on the support of its existing financiers until such time as the Group can execute the scheme of arrangement for the sale of the Group to Web.com Group Inc. in order to continue as a going concern. These events or conditions, along with the other matters outlined in the Basis or Preparation, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the entity not continue as a going concern. Our opinion is not modified in respect of this matter.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Independent Auditor's Review Report (continued)

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Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
28 August 2020