



DARK BLUE SEA LIMITED
ACN 091 509 796

Company Announcement

Date: 18 December, 2008

2008/09 First Half Profit Guidance

Dark Blue Sea Ltd (ASX listing code DBS) today released 2008/09 first half profit guidance.

2008/09 Half Year Profit Guidance

Dark Blue Sea does not release forward earnings projections to the Australian Stock Exchange. Under the continuous disclosure obligations of the ASX Listing Rules, the Company is required to advise the ASX when the directors believe the reported earnings for the current period are likely to deviate materially from the reported earnings of the previous period.

Based on unaudited management accounts to the end of November 2008, expected trading for the month December 2008, and the estimated accounting treatment of intangible assets (discussed below), most scenarios that the Company has modelled now indicate that Dark Blue Sea's reported net profit before tax for the first half of 2008/09 financial year will be between A\$500,000 and A\$700,000 (compared to A\$2.7 million reported for the first half of 2007/08 financial year).

The Company generates a significant proportion of its revenue from the direct navigation component of the US online advertising industry. Market conditions have been and remain challenging in this space. Despite the weakness in sentiment related to the current economic climate in the United States, retail secondary market domain sales have generally remained buoyant over recent months, although sales levels in the December quarter are likely to finish below the levels recorded in the September quarter.

The weak Australian dollar versus the US dollar has provided a positive offset but has been insufficient to maintain earnings at the level reported in the previous corresponding period. Extensive commentary on these drivers of financial performance was provided in the September 2008 Quarterly performance update released to the ASX on November 5, 2008.

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Current Financial Position

As at the end of November, the Company had cash at bank of approximately A\$2.6 million. As advised in the September 2008 Quarterly KPI release, the Company prepaid approximately US\$1.2 million of domain name registrations prior to the .com registry price increase. This cash is expected to progressively flow back into cash at bank over the coming months as the Company has no significant registration related expenses until late in the first quarter of 2009.

The Company has debt facilities (US\$4 million and A\$1 million) in place and are currently undrawn. These facilities were recently renewed.

Wholesale Secondary Market for Domain Names

Whilst the retail secondary market for domain names has been relatively buoyant, the wholesale (or professional domain name owners) market is showing some weakness. This is partly driven by ongoing weakness in direct navigation advertising revenues and partly driven by motivated selling by some professional domain name owners that have used leverage to finance their domain name portfolio.

There are some very large transactions by motivated sellers currently working their way through the wholesale market. The Company views such sales as a good opportunity to buy domain names at attractive prices.

The Company has the cash available to consider such purchases and recently finalised a transaction to buy a portfolio for approximately A\$250,000. The Company is currently assessing additional purchases.

Accounting Treatment of Intangible Assets

Every reporting period, under IFRS accounting standards, the Company needs to assess whether the intangible assets that are held on the Company's balance sheet are impaired and if so to make a provision which is charged against reported earnings.

Domain names, ownership thereof is one the Company's core activities, are intangible assets. In the context of the current financial environment, the potential impairment of intangible assets is an issue that all companies (but particularly for those in IT and media related industries) need to address.

Dark Blue Sea has two significant classes of intangible assets on its balance sheet. These are related to

- the goodwill upon acquisition of intellectual property as part of the reverse merger in 2002 (A\$458,340 as at June 30, 2008); and
- approximately 3,000 ("Secondary Market") domain names that the company has acquired in the secondary market (A\$1,853,277 as a June 30, 2008) as opposed to being acquired by way of primary registrations.

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The Company believes that the goodwill is not impaired but the Secondary Market domain names related intangible asset is likely to have some impairment charge.

In prior reporting periods, the potential impairment of the Secondary Market domain names has not been a significant issue as there has been considerable evidence that domain name prices have been increasing. In recent times, as highlighted by the secondary market transaction outlined above, there is now evidence that domain name prices have fallen.

The impairment test is based on an assessment of the current value of the domain name versus the holding value. If the current assessed value is below the carrying value (i.e. a “loser”), an impairment charge is taken. This impairment test needs to be done on a domain by domain basis with “losers” to take an impairment charge and “winners” unable to offset. Amongst the 3,000 Secondary Market domain names, the Company inevitably has some “losers” – hence the likelihood of impairment.

It should be noted that the carrying value of these Secondary Market domain names is typically the purchase price of the domain name converted to Australian dollars at the exchange rate on the date of acquisition. As most of value of the Company’s premium domain names are in US dollar denominated .com’s the recent significant fall in the Australian US exchange dollar provides a positive offset.

The Company is currently preparing an updated (domain by domain) valuation of all the 3,000 Secondary Market domain names. The work is preliminary and can only be finalised once the December month end Australia dollar rate has been established.

The Company’s internal modelling currently suggests an impairment of the premium domain names intangible asset of approximately A\$60,000 (which is included in the above guidance), representing approximately 3% of the intangible asset. It should be noted that there is limited precedent to work with on valuing domain names and the amount determined by management is reasonably sensitive to the model parameters and is subject to variation. The final impairment charge will be reviewed by the Company’s auditors.

About Dark Blue Sea

Dark Blue Sea is an online advertising intermediary or “internet traffic” broker servicing a global customer base from its office in Brisbane. Dark Blue Sea has developed and successfully manages a number of world-class commercial Internet properties including:

- Roar and PageSeeker, pay-per-click advertising portals;
- Fabulous, an ICANN accredited domain name registrar and domain name management system;
- Dark Blue, an online advertising affiliate network;
- Domain Distribution Network; and
- Domain Name Portfolio.

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Fabulous, Dark Blue and Roar / PageSeeker provide a fully integrated package for the generation, management and monetization of "internet traffic". "Internet traffic" is directly analogous to shopping centre floor traffic.

The ability to offer traffic sources and advertisers a platform consisting of an integrated domain name registrar, advertiser affiliate network and a pay-per-click advertising portal is a compelling value-added proposition that the Company believes is unique in the global marketplace.

Dark Blue Sea currently owns a portfolio of more than half a million internet domain names.

The vast majority of Dark Blue Sea's domain names are what are termed generic keyword domain names. These are domains such as www.booksellers.com that are constructed from generic keywords or phrases ("book sellers" in this case). Users find Dark Blue Sea's domain names by typing simply typing domain names such as www.booksellers.com into the address bar of their browser (e.g. Internet Explorer).

The "internet traffic" that is generated from Dark Blue Sea's portfolio of domain names can be sold to online advertisers. Advertisers can purchase the "internet traffic" from either Roar / PageSeeker or Dark Blue, the Company's online advertising properties. Dark Blue Sea also has commercial relationships with many other leading online advertiser networks that effectively also buy the "internet traffic" from Dark Blue Sea's domain name portfolio.

Fabulous was developed to help the Company manage its own domain name portfolio and to provide services to other domain name portfolio owners. The Company combines the internet traffic from its own and other portfolios to try to negotiate the best possible advertising deals.

Fabulous also provides domain name registration services. Fabulous is currently the 12th largest domain name registrar in the world.

Domain names are the real estate of the internet – it is the first step for any business wanting to establish a presence on the Internet. Domain names can trade in the secondary market. Through the Domain Distribution Network, small businesses and individuals can purchase secondary market domain names through their preferred retail registrar.

The Company believes it is well-positioned in a small but important niche of rapidly growing global US\$20 billion per annum online advertising market as well as the emerging domain name secondary market.

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Dark Blue Sea is listed on the Australian Stock Exchange (code: DBS) and has a Level 1 over-the-counter ADR program through the Bank of New York (code: DKBLY)

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