Xenith IP Group Limited

Interim Financial Report

Incorporating Appendix 4D

For the half-year ended 31 December 2018

ABN 88 607 873 209

RESULTS FOR ANNOUNCEMENT TO THE MARKET

APPENDIX 4D FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	31 Dec 2018 $'000	31 Dec 2017[1] (restated) $'000	Change
Revenues from ordinary activities	**60,236**	63,023	(4%)
Profit from ordinary activities after tax attributable to members	**1,677**	1,560	8%
Net profit for the half-year attributable to members	**1,677**	1,560	8%
Underlying Net Profit after Tax ("NPAT") [2]	**2,801**	2,564	9%
Underlying Net Profit after Tax before Amortisation of acquired intangibles ("NPATA") [2]	**4,331**	4,094	6%
Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") [2]	**8,169**	7,405	10%

[1] *The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The comparative period for the half year ended 31 December 2017 has been restated under the revised accounting policy.*

[2] *Underlying NPAT, NPATA and EBITDA are non-IFRS measures that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of significant acquisition, integration and IPO related expenses. Refer to the reconciliation of statutory to underlying results in the Directors' report.*

Dividends	**Amount per share**	**Franked Amount per share**
Interim dividend for the half-year ended 31 December 2018	**3.25 cents**	**3.25 cents**

The record date for determining the entitlement to the dividend is 22 March 2019.

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Directors' Report
For the half-year ended 31 December 2018

The Directors present their report, together with the financial statements on the consolidated entity (referred to hereafter as the "Group") consisting of Xenith IP Group Limited (the "Company" or "parent entity") and the entities it controlled during the half-year ended 31 December 2018. The prior comparative period is the half-year ended 31 December 2017.

Directors

The following persons served as Directors of the Company during or since the end of the financial half-year:

- Sibylle Krieger
- Susan Forrester
- Andrew Harrison resigned 24 September 2018
- Robert Alexander appointed 24 September 2018
- Stuart Smith
- Craig Dower
- Kathryn Spargo

Principal activities

The Group's core business is to provide a comprehensive range of intellectual property ("IP") services including identification, registration, management, commercialisation and enforcement of IP rights for a broad spectrum of clients in Australia, New Zealand and the rest of the world, with the aim of contributing to their success.

State of affairs

There was no significant change in the state of affairs during the current reporting period, other than proceedings in relation to the planned merger with QANTM Intellectual Property Limited ("QIP") as announced to the market on 27 November 2018.

Review of operations

From the Company's inception in October 2015, the vision has been to create the pre-eminent specialist provider of IP and complementary services in the Asia Pacific region. This ambition will be achieved through organic growth and strategically targeted aggregation of the region's leading IP services businesses and professionals, to extend not only the Company's scale of operations, but also its geographical reach and scope of complementary services across the innovation landscape.

The proposed merger with QIP underpins XIP's growth strategy by providing substantially increased scale, opportunities to leverage the benefits of the company's integration and transformation programmes across a much larger operational base, and opportunities to leverage and expand upon QIP's existing presence in Asia.

The Group comprises the following brands:

- Shelston IP;
- Watermark (acquired in November 2016);
- Griffith Hack (acquired in February 2017); and
- Glasshouse Advisory (launched in May 2017).

Each brand works collaboratively with clients to address their individual needs to capture maximum value from their IP and intangible assets, while also providing clients with access to the full range of professional skills and specialist services available across the Group. This includes particularly a broad suite of complementary services within Glasshouse Advisory.

In addition to a concerted focus on the proposed merger with QIP, a significant focus through the end of last financial year and into FY19 has been on further integration of the existing business units to improve efficiencies and deliver savings across human resources, finance, technology, operations and corporate services. The Group has recently launched an extensive online training platform, which gives all staff direct and personalised access to a comprehensive suite of training and professional development resources, structured courses, presentation videos, audiobooks, written materials and other resources.

A Business Transformation Office ("BTO") has also been established to lead the transformation process. The BTO will manage enterprise-wide projects that impact the entire business enabling the Group to continue to transform, digitise and modernise much of what we do, while delivering the tangible synergies that have been foreshadowed. Some of these major projects are temporarily on hold, pending the outcome of the proposed merger with QIP. If and when successfully completed, this merger will provide the opportunity to implement transformational changes across a much larger operational base, with consequential increases in resultant synergies, as foreshadowed in connection with the merger announcement.

In December 2018, the entire Shelston IP team relocated to a modern, open-plan, and highly collaborative workspace. The move was an opportunity for the Group to pilot more up-to-date floor plans and the use of contemporary technologies to substantially change how our people work. The team also took this opportunity to update its brand image and online presence. A core of the Xenith corporate team also relocated to a dedicated area within these new premises, resulting in a significant consolidation in operational footprint with consequential cost savings. This relocation project and the associated technological changes inevitably involved some disruption to the core business of Shelston IP in the first half of FY19. However, the team is now well settled in the new premises.

The IP patent process pipeline across the Australian industry showed some contraction in Q1 of FY19, and similar dynamics were observed within Xenith. However, for both the industry and for Xenith, a marked strengthening in overall patent process pipeline volumes was observed in Q2 of FY19. The result in combination was a relative softness in patent process pipeline volumes in the first half of FY19, but with momentum building steadily through the half year - aside from characteristic softness in December – with momentum continuing into January 2019.

Financial Review

Financial performance

The table below summarises the results of the Group for the half year ended 31 December 2018 ("HY19") against the prior comparative period of the half year ended 31 December 2017 ("HY18") (restated for the adoption of AASB 9 *Financial Instruments ("AASB 9")*):

	Statutory			Underlying		
	HY19 $'000	**HY18 $'000**	**Var %**	**HY19 $'000**	**HY18 $'000**	**Var %**
Service fees	**42,325**	44,419	(5%)	**42,325**	44,419	(5%)
Net disbursement recoveries	**26**	36	(28%)	**26**	36	(28%)
Employee benefits	**(25,533)**	(27,803)	8%	**(25,070)**	(27,022)	7%
Occupancy costs	**(3,904)**	(3,789)	(3%)	**(3,904)**	(3,764)	(4%)
Other expenses and income	**(6,350)**	(6,591)	4%	**(5,208)**	(6,264)	17%
EBITDA[1]	**6,564**	6,272	5%	**8,169**	7,405	10%
Depreciation, amortisation	**(3,364)**	(3,199)	(5%)	**(3,364)**	(3,166)	(6%)
Net interest	**(569)**	(641)	11%	**(569)**	(534)	(7%)
Tax expense	**(954)**	(872)	(9%)	**(1,435)**	(1,141)	(26%)
Net profit after tax (NPAT)	**1,677**	1,560	8%	**2,801**	2,564	9%
NPATA	**3,207**	3,090	4%	**4,331**	4,094	6%
	HY19	**HY18**	**%**	**HY19**	**HY18**	**%**
Earnings per share (cents)	**1.89**	1.77	7%	**3.16**	2.91	9%

[1] *EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation.*

For the six months to 31 December 2018, the Group reported an increase in statutory NPAT on the comparative period of $117,000 or 8% and on an underlying basis of $237,000 or 9%.

Results for the prior comparative period have been restated for the adoption of AASB 9, which decreased NPAT for HY18 by $307,000 from the $1,867,000 previously reported.

Service fee revenue decreased by $2,094,000 or 5% on the prior comparative period which largely results from a soft start to the year for the Shelston IP and Glasshouse Advisory businesses. The decline in service fee revenue was favourably impacted by a softening of the AUD against the USD and EUR exchange rates by $1,287,000, on a constant currency basis service fee revenue was $41,038,000 (HY18: $44,419,000).

On a statutory basis employee benefits expense decreased by $2,270,000 or 8% on the prior comparative period. Adjusting for one-off restructure expenses, employee benefits expense on an underlying basis decreased by $1,952,000 or 7%. The favourable decrease is predominantly driven by the restructures undertaken in the Griffith Hack and Shelston IP businesses toward the end of last financial year.

Other expenses decreased by $241,000 or 4% on a statutory basis and $1,056,000 or 17% on an underlying basis. The reduction is attributable to ongoing integration and rationalisation along with movement in the provision for future credit costs as a result of the favourable change in the trade receivables profile. On a statutory basis the savings were partially offset by the increased consultancy costs in relation to the proposed merger.

Expenses in relation to the proposed merger with QIP have been excluded from underlying. The intended merger is expected to increase the scale of the combined businesses enabling the Group to realise further cost saving initiatives across areas such as online research licensing, equipment leases, compliance costs etc as a result of integration.

Statutory and underlying EBITDA improved by 5% and 10% respectively, largely driven by a significant improvement in the Griffith Hack business.

Reconciliation of statutory to underlying performance

The table below reconciles statutory to underlying EBITDA and NPAT. Underlying EBITDA and NPAT are non-AIFRS measures that are presented to provide an understanding of the underlying performance of the Group. They exclude the impact of significant non-recurring items such as merger and acquisition, integration and IPO related expenses.

	31 December 2018		31 December 2017	
	EBITDA	**NPAT**	EBITDA (restated)	NPAT (restated)
	$'000	**$'000**	$'000	$'000
Statutory	**6,564**	**1,677**	6,272	1,560
Add back non-recurring items:				
Merger and acquisition related expenses	**985**	**690**	132	92
Unwinding of interest on contingent consideration	**-**	**-**	-	108
Integration related expenses	**-**	**-**	257	203
Restructure expenses	**500**	**350**	369	258
IPO related expenses	**120**	**84**	375	343
Underlying	**8,169**	**2,801**	7,405	2,564

In calculating underlying NPAT the current period earnings of the Group have been adjusted for the following non-recurring amounts:

- $985,000 ($690,000 net of tax) of merger and acquisition related expenses in relation to the proposed merger with Qantm Intellectual Property Limited ("QIP") and costs associated with the Asian growth strategy (31 December 2017: $92,000 net of tax);
- $500,000 ($350,000 net of tax) of restructure expenses which includes redundancies and associated costs in both the Shelston IP and Glasshouse Advisory businesses (31 December 2017: $258,000 net of tax); and
- $120,000 ($84,000 net of tax) of IPO related expenses being predominantly the share-based payments expense relating to the one-off issue of equity instruments at the date of the IPO (31 December 2017: $343,000 net of tax).

Financial position

The table below sets out the summarised statement of financial position as at 31 December 2018 against comparatives as at 30 June 2018:

	31 Dec 18 $'000	30 Jun 18 $'000	Var $'000	%
Cash and cash equivalents	**3,753**	2,760	993	36%
Trade receivables and WIP	**30,154**	32,270	(2,116)	(7%)
Income tax prepayment	**1,718**	258	1,460	566%
Other current assets	**4,584**	2,213	2,371	107%
Non-current assets	**143,678**	143,534	144	0%
Trade and other payables	**(7,933)**	(7,863)	(70)	(1%)
Other current liabilities	**(10,808)**	(11,588)	780	7%
Borrowings	**(18,853)**	(15,785)	(3,068)	(19%)
Deferred tax liability	**(15,598)**	(14,686)	(912)	(6%)
Other non-current liabilities	**(7,954)**	(5,778)	(2,176)	(38%)
Net assets	**122,741**	125,335	(2,594)	(2%)
Net debt	**(15,100)**	(13,025)	(2,075)	(16%)

Net debt (borrowings less cash and cash equivalents) increased by $2,075,000 or 16%. Majority of the increase is in relation to the timing of capital expenditure on the new Shelston IP office fit-out, which is largely offset by a lease incentive receivable from the landlord due in March 2019.

Trade receivables and contract assets are down 7%, mainly due to collection of two large significantly aged debtor balances that were outstanding as at 30 June 2018.

The 107% increase in other current assets is mainly due to the $2,080,000 receivable from the landlord relating to outstanding lease incentive arising on the new Shelston IP lease.

Non-current assets increased by $144,000, with property, plant and equipment increasing $2,338,000 mainly due to Shelston IP's new office fit-out, partially offset by a decrease of intangible assets by $2,171,000 due to amortisation in the half year.

The $2,176,000 increase in other non-current liabilities is mainly due to the deferred lease incentive arising on the new Shelston IP lease.

Dividends

On 29 September 2018, the Group paid a dividend of $3,992,000 (4.5 cents per share) being the fully franked final dividend declared in relation to the year ended 30 June 2018.

In respect of the half-year ended 31 December 2018, a fully franked interim dividend of 3.25 cents per share has been declared and will be paid on 29 March 2019.

Events after the end of the reporting period

Dividends declared

An interim dividend was declared as detailed in the previous section.

Merger

Additional milestones were met in relation to the merger announced to the market on 27 November 2018, where the Group has entered into a Scheme Implementation Deed with Qantm Intellectual Property Limited (ASX:QIP). Subject to XIP shareholder approval and a number of usual conditions precedent for a scrip merger, XIP shareholders will receive 1.22 QIP shares for each XIP share held. Since 31 December 2018, the following items were completed:

- Formal approval sought by QIP, with support from XIP, from the Australian Competition and Consumer Commission;
- Initial Federal Court approval to convene the Scheme Meeting; and
- As per the 20 February 2019 announcement on the Australian Securities Exchange ("ASX"), the Scheme Booklet has been lodged with the Australian Securities and Investments Commission ("ASIC").

Resignation and appointment

As announced to the market on 17 January 2019, Lesley Kennedy tendered her resignation as Chief Financial Officer and Company Secretary. On 4 February 2019, Sarah Prince was announced as the new Company Secretary.

Changes in significant shareholding

As noted in the announcement to the market on 13 February 2019, IPH Limited (ASX:IPH) acquired 19.99% of the shares in the Company from institutional shareholders.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9 and forms part of this report.

Rounding

In accordance with ASIC Legislative Instrument 2016/191 (Rounding in Financial/Directors' Reports) amounts in the financial report are rounded off to the nearest thousand dollars unless otherwise indicated.

This report is approved in accordance with a resolution of Directors.

On behalf of the Directors

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Craig Dower
Chief Executive Officer and Managing Director

27 February 2019
Sydney

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Auditor's Independence Declaration

To the Directors of Xenith IP Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Xenith IP Group Limited for the half-year ended 31 December 2018. I declare that, 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 audit; and

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

LWorsley.

L M Worsley
Partner – Audit & Assurance

Sydney, 27 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2018

	Notes	31 Dec 2018 $'000	31 Dec 2017 (restated) $'000
Revenue	7	**60,236**	63,023
Other income		**15**	29
Employee benefits expense		**(25,533)**	(27,803)
Recoverable disbursements expense		**(17,885)**	(18,568)
Occupancy expense		**(3,904)**	(3,789)
Depreciation and amortisation expense		**(3,364)**	(3,199)
Impairment gains to financial assets	8	**341**	168
IT and communication expense		**(1,130)**	(1,279)
Consultancy fees		**(1,473)**	(700)
Travel expense		**(856)**	(690)
Advertising and marketing expense		**(226)**	(252)
Other expenses		**(3,075)**	(3,797)
Net foreign exchange gain / (loss)		**66**	(57)
Finance costs		**(581)**	(654)
Profit before tax		**2,631**	2,432
Income tax expense		**(954)**	(872)
Profit for the period attributable to the owners of the Group		**1,677**	1,560
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the period attributable to the owners of the Group		**1,677**	1,560

Earnings per share attributable to the equity holders of Xenith IP Group Limited		**Cents**	Cents
Basic earnings per share	11	**1.89**	1.77
Diluted earnings per share	11	**1.88**	1.76

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	31 Dec 2018 $'000	30 Jun 2018 (restated) $'000
Current assets			
Cash and cash equivalents		**3,753**	2,760
Trade and other receivables	8	**25,922**	28,394
Contract assets		**6,543**	4,139
Income tax receivable		**1,718**	258
Other current assets		**2,273**	1,950
Total current assets		**40,209**	37,501
Non-current assets			
Property, plant and equipment		**8,329**	5,991
Intangible assets	9	**135,197**	137,368
Other non-current assets		**152**	175
Total non-current assets		**143,678**	143,534
Total assets		**183,887**	181,035
Current liabilities			
Trade and other payables		**7,933**	7,863
Provisions		**7,545**	8,205
Derivative financial liabilities		**286**	390
Contract liabilities		**1,707**	1,934
Other current liabilities		**1,270**	1,059
Total current liabilities		**18,741**	19,451
Non-current liabilities			
Borrowings		**18,853**	15,785
Deferred tax liability		**15,598**	14,686
Provisions		**1,721**	1,506
Other non-current liabilities		**6,233**	4,272
Total non-current liabilities		**42,405**	36,249
Total liabilities		**61,146**	55,700
Net assets		**122,741**	125,335
Equity			
Issued capital		**144,520**	144,520
Reserves		**87**	861
Accumulated loss		**(21,866)**	(20,046)
Total equity		**122,741**	125,335

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2018

	Issued capital $'000	Share based payments $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2017:				
Previously reported	141,405	929	504	142,838
Restatement (refer note 3)	-	-	(494)	(494)
Restated balance as at 1 July 2017	141,405	929	10	142,344
Items of comprehensive income:				
Net profit for the period:				
Previously reported	-	-	1,867	1,867
Restatement (refer note 3)	-	-	(307)	(307)
Other comprehensive income	-	-	-	-
Total comprehensive income (restated)	-	-	1,560	1,560
Transactions with owners in their capacity as owners:				
Shares issued, net of issue costs	2,527	-	-	2,527
Exercise of share rights	588	(590)	-	(2)
Share-based payment expense	-	324	-	324
Dividends paid	-	-	(3,009)	(3,009)
Balance at 31 December 2017 (restated)	144,520	663	(1,439)	143,744
Balance at 1 July 2018	**144,520**	**861**	**(20,046)**	**125,335**
Items of comprehensive income:				
Net profit for the period	**-**	**-**	**1,677**	**1,677**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**1,677**	**1,677**
Transactions with owners in their capacity as owners:				
Shares acquired on-market	**(436)**	**-**	**-**	**(436)**
Issue of shares on settlement of retention rights	**436**	**(436)**	**-**	**-**
Share-based payment expense for the period	**-**	**157**	**-**	**157**
Transfer excess share based payment reserve	**-**	**(495)**	**495**	**-**
Dividends paid	**-**	**-**	**(3,992)**	**(3,992)**
Balance at 31 December 2018	**144,520**	**87**	**(21,866)**	**122,741**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows
For the half-year ended 31 December 2018

	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities		
Receipts from customers	**64,323**	66,742
Payments to suppliers and employees	**(56,718)**	(58,724)
	7,605	8,018
Interest received	**12**	12
Income tax paid	**(1,502)**	(5,412)
Net cash provided by operating activities	**6,115**	2,618
Cash flows from investing activities		
Payments for property, plant and equipment	**(3,014)**	(923)
Payments for intangible assets	**(167)**	(200)
Payments for the acquisition of controlled entities, net of cash acquired and transaction costs	**-**	(2,740)
Net cash used in investing activities	**(3,181)**	(3,863)
Cash flows from financing activities		
Payment for shares acquired on-market	**(436)**	-
Payment of share issue costs	**-**	(16)
Repayment of borrowings	**(2,500)**	(7,250)
Proceeds from borrowings	**5,500**	11,500
Dividends paid	**(3,992)**	(3,009)
Finance costs paid	**(513)**	(478)
Net cash (used in) / provided by financing activities	**(1,941)**	747
Net increase / (decrease) in cash and cash equivalents	**993**	(498)
Cash and cash equivalents at the beginning of the period	**2,760**	3,646
Effects of exchange rate changes on cash and cash equivalents	**-**	(110)
Cash and cash equivalents at the end of the year	**3,753**	3,038

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

1. General information

Xenith IP Group Limited ("Company") is a for-profit listed public company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The condensed consolidated financial report of the Company for the half-year ended 31 December 2018 ("the interim financial report") comprises the Company and its controlled entities ("Group"). Xenith IP Group Limited is the ultimate parent entity in the Group.

The Group's core business is to provide a comprehensive range of Intellectual Property ("IP") services including identification, registration, management, commercialisation and enforcement of IP rights for a broad spectrum of clients in Australia, New Zealand and the rest of the world, with the aim of contributing to their success.

The financial statements were authorised for issue in accordance with a resolution of Directors, on 27 February 2019.

2. Basis of preparation

This general purpose interim financial report has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual financial report.

It is recommended that the interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 and is considered together with any public announcements made by the Company during the six months ended 31 December 2018, and thereafter, in accordance with the continuous disclosure obligations of the ASX listing rules.

The financial statements are presented in Australian dollars, which is Xenith IP Group Limited's functional and presentation currency.

3. Adoption of new and revised Accounting Standards

There were new Standards and Interpretations issued by the AASB that are relevant to the Group's operations that are effective for the current reporting period:

AASB 15 Revenue from contracts with Customers

AASB 15 Revenue from Contracts with Customers and the related 'Clarifications to AASB 15 Revenue from Contracts with Customers' (hereinafter referred to as "AASB 15") replaced *AASB 118 Revenue*, *AASB 111 Construction Contracts*, and several revenue-related Interpretations.

The Group has undertaken a detailed review of the new pronouncements and concluded that there was no effect on the measurement of the Group's revenue. Revenue had previously been recognised as work was performed, which is consistent with the new standard's principle of delivery of "performance obligations". Since "Work in progress" (now referred to as Contract assets) is created specifically for individual clients, and does not have an alternate use, it represents delivery of performance obligations under the new standard, and as such, revenue continues to be recognised at the point in time the work is performed.

3. Adoption of new and revised Accounting Standards (continued)

AASB 15 Revenue from contracts with Customers (continued)

In addition to presenting the revised accounting policy for the recognition of revenue in terms of reference to AASB 15, certain additional disclosures arising from the adoption of the new standard include:

- disaggregation of revenue from contracts with customers in a manner consistent with how management presents and discusses its revenue or business outside of the financial statements, how revenue is presented to chief operating decision makers, and how management chooses to analyse its business internally.
- presentation of balances related to the contracts with clients such as:
    - Contract liabilities - balances received from clients ahead of the performance obligations having been satisfied (previously disclosed as "Customer payments on account, and included within "Other liabilities"), referred to in these accounts as "contract liabilities" on the face of the Statement of Financial Position; and
    - Contract assets - balances related to the completion of contracted performance obligations yet to be invoiced to the client, previously referred to as "Work in Progress" are now presented as "contract assets".

The classifications and terminologies have been updated in the Statement of Financial Position as required by *AASB 101 Presentation of Financial Statements*, with the contract liabilities balance as at 30 June 2018 being reclassified from "other current liabilities" to a separate line item.

AASB 9 Financial Instruments ("AASB 9")

AASB 9 replaces *AASB 139 Financial Instruments: Recognition and Measurement* ("AASB 139"), and became effective for the Group from 1 July 2018. AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

Upon adoption of AASB 9, the Group elected not to apply the transitional relief allowed under the standard and has therefore chosen to restate prior comparative periods.

AASB 9 also contains new requirements on the application of hedge accounting. These new requirements do not impact the Group's financial statements since it has opted to continue to account for its forward exchange contracts as *fair value through profit or loss* financial instruments.

The adoption of AASB 9 has impacted the following areas:

- the classification and measurement of the Group's financial assets - Management holds most financial assets to hold and collect the associated cash flows.
- the impairment of financial assets applying the expected credit loss model - This affects the Group's trade receivables. For contract assets arising from AASB 15 and trade receivables, the Group applies a simplified model of recognising lifetime expected credit losses as these items do not have a significant financing component.

3. Adoption of new and revised Accounting Standards (continued)

AASB 9 Financial Instruments (continued)

The provision for impairment of receivable balances and the related deferred tax balances were revisited at each accounting date.

The impact on the Statement of Profit or Loss and other Comprehensive Income, resulting from the restatement of the financial statements for the half year ended 31 December 2017 is as follows:

	AASB 139 $'000	Reclass $'000	Adjustment $'000	AASB 9 $'000
Impairment reversal / (charge) to financial assets	(3,191)	(168)	(438)	(3,797)
Other expenses	-	168	-	168
Income tax expense	(1,003)	-	131	(872)
Profit for the period attributable to shareholders	**1,867**	**-**	**(307)**	**1,560**

The impact on the Statement of Financial Position as at 30 June 2018, resulting from the restatement is as follows:

	AASB 139 $'000	Adjustment $'000	AASB 9 $'000
Trade and other receivables	28,671	(277)	28,394
Other current assets	9,107	-	9,107
Non-current assets	143,534	-	143,534
Current liabilities	(19,451)	-	(19,451)
Net deferred tax liability	(14,768)	82	(14,686)
Other non-current liabilities	(21,563)	-	(21,563)
Net assets	125,530	(195)	125,335
Issued capital and Reserves	145,381	-	145,381
Accumulated losses	(19,851)	(195)	(20,046)
Total equity	125,530	(195)	125,335

The impact on the Statement of Financial Position as at 31 December 2017, resulting from the restatement is as follows:

	AASB 139 $'000	Adjustment $'000	AASB 9 $'000
Trade and other receivables	24,847	(1,144)	23,703
Other current assets	13,318		13,318
Non-current assets	166,911		166,911
Current liabilities	(19,195)		(19,195)
Net deferred tax liability	(15,500)	343	(15,157)
Other non-current liabilities	(25,836)	-	(25,836)
Net assets	144,545	(801)	143,744
Issued capital and Reserves	145,183	-	145,183
Accumulated losses	(638)	(801)	(1,439)
Total equity	144,545	(801)	143,744

Opening retained earnings as at 1 July 2017 was also restated for a $706,000 increase in the provision, less an adjustment to deferred tax of $212,000. The net movement is a $494,000 decrease in retained earnings.

4. Significant Accounting Judgements, Estimates and Assumptions

The significant accounting judgements, estimates and assumptions adopted in the interim financial report are materially consistent with those applied in the preparation of the Group's annual financial report for the year ended 30 June 2018, except for those related to the revenue recognition and the provision for impairment of receivables which have been updated as a result of the adoption of AASB 9 and AASB 15, as discussed in Note 3. The revised policies are as follows:

Revenue recognition

Revenue from a contract to provide services is recognised when the services have been provided to the customer. The five steps to the recognition of revenue are as follows:

- Establishing a contract with the client;
- Identifying the performance obligations within the contract;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising the revenue as the performance obligations are performed.

Contracts with customers are typically a combination of time, fixed priced elements (scale) and recovery of expenses (recoverable disbursements).

Time based revenue represents the value of recoverable hours that have been worked delivering the contracted services to the client. The hours are measured at the contracted rate, adjusted for any discount given, or expected to be given. Performance obligations are delivered at the point in time the work is undertaken.

Scale based revenue is recognised when the contracted service has been completed. It is recognised at the value specified in the contract. Performance obligations are delivered at the point in time the work is undertaken.

Recoverable disbursements are recognised as the disbursement expense is recorded, to the extent that the expense can be recovered under the terms of the contract. Performance obligations are delivered at the point in time the work is undertaken.

Provision for future credit losses

The provision for future credit losses is based on the simplified approach which uses a lifetime expected credit loss allowance for all trade receivables on hand. The expected credit losses have been determined by applying credit loss matrices based on historic actual losses, disaggregated by age of debt and business unit. This remains an area of significant estimation and as such, actual recovery rates may differ.

5. Segment information

The information reported to the Board of Directors (being the Chief Operating Decision Maker ("CODM")) for the purposes of resource allocation and assessment of segment performance, is separate financial information on each operating segment, being Glasshouse Advisory, Griffith Hack, Shelston IP and Watermark. In accordance with AASB 8, for financial statements presentation purposes, the latter three individual operating segments have been aggregated into a single reportable segment considering the following factors:

- These operating segments have similar economic characteristics;
- The nature of the services offered is similar;
- The type of customer for these services is similar;
- The long term gross profit margins are similar; and
- The regulatory environment is similar.

Glasshouse Advisory represents less than ten per cent of all significant matrices, and as such, it too is not considered a separable reporting segment.

As a result of the above, the Directors have determined there is one reportable segment, being the provision of services related to the protection, management, commercialisation and enforcement of intellectual property rights.

6. Significant events and transactions

Events and transactions, with a significant impact on the financial position and performance of the entity since the end of the last annual reporting period are as follows:

Transaction costs incurred

As announced to the market on 27 November 2018, the Group intends, subject to shareholder and other regulatory approval, to merge with Qantm Intellectual Property Limited ("QIP"). During the period, $909,000 of costs have been incurred in connection with this, which has had a material impact on the results for the period. Furthermore, $862,000 of these costs were unpaid at 31 December 2018, and are included in Trade and other payables as at 31 December 2018.

Contingent liability

In addition to the costs already incurred, the Group is committed to pay a further $1,200,000 to its financial advisor if and at the point the merger becomes unconditional. This represents a contingent liability that existed at 31 December 2018. Other consultants are engaged on a fee for service basis.

7. Revenue

	31 Dec 2018 $'000	31 Dec 2017 $'000
Service fee	**42,325**	44,419
Recoverable disbursements	**17,911**	18,604
	60,236	63,023
Service fee revenue disaggregated by service line:		
Patents	**28,309**	29,272
Trademarks	**6,757**	6,791
Legal services	**3,766**	4,164
Other	**3,493**	4,192
	42,325	44,419

The Group has not disaggregated its revenue by operating segments as there remains only one reportable segment. All revenue is generated in Australia. Furthermore, all revenue is recognised at a point in time, when the contracted performance obligations have taken place.

8. Trade and other receivables

	31 Dec 2018 $'000	30 Jun 2018 (restated) $'000
Trade receivables, gross	**24,671**	29,532
Provision for future credit losses	**(1,060)**	(1,401)
	23,611	28,131
Commissions receivable	**177**	185
Deferred lease incentive receivable from landlord	**2,080**	-
Other receivables	**54**	78
	25,922	28,394

Provision for future credit losses

The analysis of trade receivables ageing by due date and respective provision for future credit losses recorded is as follows:

	31 Dec 2018		30 Jun 2018	
	Gross receivables $'000	Of which provided $'000	Gross receivables $'000	Of which provided (restated) $'000
Not yet due	**8,057**	**(45)**	14,150	(144)
Less than one month past due	**6,124**	**(26)**	5,383	(49)
One to two months past due	**4,041**	**(52)**	3,169	(52)
Two to three months past due	**1,772**	**(38)**	1,670	(51)
Three to four months past due	**1,395**	**(46)**	1,289	(41)
Four to five months past due	**623**	**(45)**	508	(47)
More than five months past due	**2,659**	**(808)**	3,363	(1,017)
	24,671	**(1,060)**	29,532	(1,401)

9. Intangible assets

	Goodwill $'000	Brand names $'000	Customer relationships $'000	Computer software $'000	Total $'000
Cost	80,606	9,121	70,447	4,071	164,245
Accumulated amortisation and impairment	(20,539)	-	(5,427)	(911)	(26,877)
At 30 June 2018	60,067	9,121	65,020	3,160	137,368
At 1 July 2018	**60,067**	**9,121**	**65,020**	**3,160**	**137,368**
Additions	**-**	**20**	**-**	**147**	**167**
Amortisation expense	**-**	**(1)**	**(1,868)**	**(469)**	**(2,338)**
Impairment losses	**-**		**-**	**-**	**-**
At 31 December 2018	**60,067**	**9,140**	**63,152**	**2,838**	**135,197**
Cost	**80,606**	**9,141**	**70,447**	**4,218**	**164,412**
Accumulated amortisation and impairment	**(20,539)**	**(1)**	**(7,295)**	**(1,380)**	**(29,215)**
At 31 December 2018	**60,067**	**9,140**	**63,152**	**2,838**	**135,197**

10. Impairment assessment

The group performs an impairment assessment annually, or more frequently if an impairment indicator exists.

Indefinite useful life assets, as allocated to Cash Generating Units (CGUs) are as follows:

	Shelston IP $'000	Watermark $'000	Griffith Hack $'000	Glasshouse $'000	Total $'000
Goodwill	9,930	10,808	39,329	-	60,067
Brand names	-	1,480	7,641	-	9,121
At 1 July and 31 December 2018	**9,930**	**12,288**	**46,970**	**-**	**69,188**

The recoverable amount of each CGU was determined based on a value-in-use calculation covering a detailed five-year forecast, followed by an extrapolation of expected cash flows for the CGUs' remaining useful lives, incorporating the following key assumptions:

Assumption	Basis	Value
Pre-tax discount rate	Risk adjusted rate appropriate for the CGU	14.5%
Revenue growth during forecast period	Long-term historic growth trends	3.0%
Long-term USD exchange rate	Market consensus	0.77
Cost increases during forecast period	Central bank inflation targets	2.5%
Terminal growth rate	Conservative reflection of the long-term average	2.5%

The recoverable amount, being the value-in-use as determined based on the discounted cash flow model, supported the carrying value of the assets of the CGUs using the above assumptions.

Synergies have only been included in the forecast future cash flows to the extent they have been realised.

The recoverable amount of Griffith Hack exceeds its net book value by $19.2m as at 31 December 2018. The recoverable amount of Griffith Hack will equal the carrying amount, if any of the following key assumptions changed:

- Revenue growth rate of 3% per annum during the 5-year forecast period reduces to 1.47%; or
- Pre-tax discount rate of 14.5% increases to 16.8%.

No reasonable change in key assumptions would result in the carrying value exceeding the recoverable value for any of the other CGUs.

11. Earnings per share

	31 Dec 2018 $'000	31 Dec 2017 (restated) $'000
Profit for the period attributable to the owners of the Group	**1,677**	1,560

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**88,717,931**	88,201,221
Adjustments for calculation of diluted earnings per share		
- Performance rights	**593,240**	62,509
- Share rights	**-**	378,669
Weighted average number of ordinary shares used in calculating diluted earnings per share	**89,311,171**	88,642,399

	Cents	Cents
Basic earnings per share	**1.89**	1.77
Diluted earnings per share	**1.88**	1.76

12. Events after the end of the reporting period

Dividends declared

In respect of the half-year ended 31 December 2018, a fully franked interim dividend of 3.25 cents per share has been declared and will be paid on 29 March 2019.

Merger

Additional milestones were met in relation to the merger announced to the market on 27 November 2018, where the Group has entered into a Scheme Implementation Deed with Qantm Intellectual Property Limited (ASX:QIP). Subject to XIP shareholder approval and a number of usual conditions precedent for a scrip merger, XIP shareholders will receive 1.22 QIP shares for each XIP share held. Since 31 December 2018, the following items were completed:

- Formal approval sought by QIP, with support from XIP, from the Australian Competition and Consumer Commission;
- Initial Federal Court approval to convene the Scheme Meeting; and
- As per the 20 February 2019 announcement on the Australian Securities Exchange ("ASX"), the Scheme Booklet has been lodged with the Australian Securities and Investments Commission ("ASIC").

Resignation and appointment

As announced to the market on 17 January 2019, Lesley Kennedy tendered her resignation as CFO and Company Secretary. On 4 February 2019, Sarah Prince was announced as the new Company Secretary.

Changes in significant shareholding

As noted in the announcement to the market on 13 February 2019, IPH Limited (ASX:IPH) acquired 19.99% of the shares in the Company from institutional shareholders.

13. Accounting Policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 30 June 2018, except as discussed in note 3.

Directors' Declaration
For the half-year ended 31 December 2018

In the opinion of the Directors of Xenith IP Group Limited:

(a) The consolidated financial statements and notes of Xenith IP Group Limited are in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of its financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
   ii. complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting*; and

(b) There are reasonable grounds to believe that Xenith IP Group Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a Resolution of the Board of Directors.

Craig Dower
Chief Executive Officer and Managing Director
Sydney, 27 February 2019

Grant Thornton

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Independent Auditor's Review Report

To the Members of Xenith IP Group Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Xenith IP Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes, 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 Xenith IP Group Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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, we have become aware of any matter that makes us 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 financial position as at 31 December 2018 and its 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 Xenith IP Group Limited, 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.*

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

LWorsley.

L M Worsley
Partner – Audit & Assurance

Sydney, 27 February 2019

For the "**Results for Announcement to the Market"** refer page 2 of the Interim Financial Report

NTA BACKING

	31 Dec 2018 Cents	30 Jun 2018 Cents
Net tangible asset backing per ordinary security[1,2]	**3.54**	2.99

[1] The net tangible assets has been calculated by deducting Intangible assets and deferred tax balances from the statutory net assets as presented in the Statement of Financial Position.

[2] As a result of adopting AASB 9 from 1 July 2018, the prior comparative period for net tangible assets per security as at 30 June 2018 has been restated from the position previously presented of 3.30.

CHANGE IN OWNERSHIP OF CONTROLLED ENTITIES

During the period ended 31 December 2018, Xenith IP Group Limited had no change in ownership of controlled entities.

DIVIDEND REINVESTMENT PLAN

The Xenith IP Dividend Reinvestment Plan has been approved by the Directors but has not yet been activated.

DETAILS OF JOINT VENTURE AND ASSOCIATE ENTITIES

During the period ended 31 December 2018, Xenith IP Group Limited had no ownership interest in Joint Ventures or associate entities.

Corporate Directory

DIRECTORS

Sibylle Krieger – Chair
Craig Dower – Chief Executive Officer and Managing Director
Stuart Smith – Chief Corporate Development Officer
Robert Alexander
Susan Forrester
Kathryn Spargo

COMPANY SECRETARY

Sarah Prince

REGISTERED OFFICE

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AUDITOR

Grant Thornton Audit Pty Limited
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SOLICITORS

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Barangaroo, NSW 2000

Hogan Lovells
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20 Martin Place
Sydney, NSW 2000

STOCK EXCHANGE LISTING

Xenith IP Group Limited shares are listed on the Australian Securities Exchange (ASX code: XIP)

WEBSITE

www.xenithip.com

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement was approved by the Board of Directors on the 29 August 2018 and can be found on www.xenithip.com in the Investor Relations section.