Half-year Financial Report
Incorporating Appendix 4D

Xenith IP Group Limited and its controlled entities.

For the period ended 31 December 2016, under Listing Rule 4.2.

ABN 88 607 873 209

RESULTS FOR ANNOUNCEMENT TO THE MARKET

APPENDIX 4D FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	31 Dec 2016 A$'000	31 Dec 2015 A$'000	Change
Revenues from ordinary activities	19,184	15,925	20.5%
Statutory Profit from ordinary activities after tax attributable to the owners of Xenith IP Group Limited	1,494	3,700	(59.6%)
Statutory Profit for the half-year attributable to the owners of Xenith IP Group Limited	1,494	3,700	(59.6%)
Underlying pro-forma net profit after tax *	3,037	3,195	(5.0%)
Underlying pro-forma Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") *	4,870	4,916	(0.9%)

*** Refer to reconciliation of statutory to underlying pro forma results in the Directors' report**

Interim Dividends	Amount per Share	Franked Amount per share
Ordinary Share	**1.6 cents**	**1.6 cents**

The record date for determining the entitlement to the dividend is 20 March 2017.

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DIRECTORS' REPORT

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 (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report:

- Sibylle Krieger
- Susan Forrester
- Andrew Harrison
- Stuart Smith
- Russell Davies

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.

Review of operations

The Group reported a consolidated statutory net profit after tax of $1,494,000 for half year ended 31 December 2016 (31 December 2015: $3,700,000), $2,206,000 or 59.6% below the prior corresponding period. The current period results include the significant cost of the transformational growth strategy implemented during the period, in addition to the full period impact of the restructure of the cost base which took effect on 1 October 2015, ahead of the initial public offering ("IPO") of the Company's shares on the ASX on 19 November 2015.

The Group reported revenue from ordinary activities of $19,184,000, $3,259,000 or 20.5% above prior corresponding period and attributable to:

- An increase in revenue of $386,000 in the Shelston IP business; and
- $2,873,000 of revenue arising from the Watermark Group ("Watermark") acquired on 2 November 2016 (including $519,000 of foreign associates' fees on-charged to clients).

Significant movement in expense items include:

- An increase in agent fees and disbursements of $519,000 or 26% arising from the inclusion of Watermark from 2 November 2016.
- An increase in employee benefits expense of $3,320,000 or 55%.
  - The current period includes $1,521,000 of Watermark employee benefits expense.
  - The current period includes an additional $979,000 of Principal remuneration. In the prior period the principals (ex Partners) participated in a profit sharing arrangement up to the date of corporatisation on 1 October 2015 when they transitioned to a salary arrangement.
  - The current period includes an additional $388,000 of share based payments expense arising on the one off issue of retention rights at the time of IPO.
  - The Company incurred additional compensation expense of $459,000 or 6.7%. The Company's transformational acquisitions during the period have resulted in a significantly larger and more complex business. The Company has invested in appropriate corporate resources to better manage this transformation ahead of the integration project and realisation of the synergy benefits.
- A reduction in occupancy expense of $174,000 or 14%. The prior period included the one off expense arising on the restructure of the Shelston office lease space, offset by an increase in rental expense attributable to the acquired Watermark business.
- $1,725,000 of one off costs associated with the transformational acquisitions of Watermark and the Griffith Hack Group ("Griffith Hack") included in the current period.
- $1,434,000 of one off costs associated with the IPO included in the prior period.
- An increase in the tax expense in the current period of $770,000. The current period effective tax rate of 33% compares to the prior period rate of negative 1%. The prior period includes the one-off tax benefit arising from the inclusion of tax exempt income relating to the profit generated from the partnership before the restructure date.

Operating performance (underlying)

The prior period earnings of the Group have been disclosed below on a pro-forma basis by adjusting the statutory earnings by notional cost amounts that arise on the assumption that the restructure of the business on 1 October 2015 took effect from the beginning of the period. These include:

- Incremental notional cost of being a listed entity;
- Incremental notional salary costs, including leave entitlements and on costs, of the principals of the business. Prior to the restructure the principals were not paid a salary but instead participated in a profit share arrangement; and
- Incremental notional cost of the debt/equity structure of the business post the restructure of the group.

The current and prior period earnings of the Group have been adjusted for the following non-recurring items:

- One-off transaction costs associated with the acquisition of Watermark and Griffith Hack ;
- Share based payments expense relating to the one-off issue of equity instruments at the date of the IPO;
- One-off transaction costs, including stamp duty, associated with the IPO and restructure; and
- One-off net cost associated with the surrender of floor space under lease.

	31 Dec 2016 $'000	31 Dec 2015 $'000
Statutory Net Profit After Tax ("NPAT")	**1,494**	3,700
add: tax	**735**	(35)
add: net interest expense	**89**	86
add: depreciation and amortisation	**348**	338
Statutory Earnings Before Interest Tax Depreciation and Amortisation ("EBITDA")	**2,666**	4,089
Less Pro-forma adjustments relating to prior period		
notional remuneration adjustment	**-**	(979)
notional public company cost adjustment	**-**	(250)
Pro-forma EBITDA	**2,666**	2,860
Add back non-recurring items		
Acquisition related expense	**1,725**	-
IPO related retention rights	**479**	91
IPO employee incentives	**-**	127
IPO and restructure expense	**-**	1,434
Net lease surrender costs	**-**	404
Underlying EBITDA	**4,870**	4,916
less: underlying pro-forma depreciation	**(348)**	(230)
less: underlying pro-forma net interest expense	**(89)**	(122)
less: underlying pro-forma tax	**(1,396)**	(1,369)
Underlying NPAT	**3,037**	3,195

Operating performance (underlying)

The Group recorded an underlying EBITDA of $4,870,000 for half year ended 31 December 2016 which is $46,000 or 1% below the prior period underlying EBITDA of $4,916,000.

Whilst the existing Shelston IP business reported an increase in revenue of $386,000 or 2.4% over the prior period, this was offset by:

- An increase in compensation expense of $459,000 or 6.7%. The Company's transformational acquisitions during the period have resulted in a significantly larger and more complex business. The Company has invested in appropriate corporate resources to better manage this transformation ahead of the integration project and realisation of the synergy benefits;
- An increase in occupancy costs of $181,000 arising from the marginal increase in corporate office presence in Sydney; and
- A reduction in foreign currency gains during the current period of $262,000 compared to the prior period.

Watermark, acquired on 2 November 2016, contributed $324,000 in underlying EBITDA. This result includes the seasonally low month of December and does not incorporate the impact of the rationalisation of the business implemented in February 2017.

Significant changes in the state of affairs

The Company acquired Watermark during the half year ended 31 December 2016 and Griffith Hack after the reporting date (refer to 'Events after the end of the reporting period' below). The increase in scale from the two acquisitions positions the Company to benefit from a range of strategic and financial opportunities and will complement its existing geographic footprint, diversify and significantly enlarge its client profile, and increase the scope of its service offering.

To fund these acquisitions the Company undertook the following activities:

- A share placement and share purchase plan raising $7,947,000, net of transaction costs,
- An Accelerated Non-renounceable Entitlement Offer ("ANREO") raising $65,952,000 in cash, net of transaction costs; and
- Increased bank loan facilities from $10,000,000 to $50,000,000.

Watermark acquisition

On 2 November 2016, the Group acquired 100% of the ordinary shares in Watermark Intellectual Property Pty Ltd, Watermark Intellectual Property Lawyers Pty Ltd, Watermark Advisory Services Pty Ltd and Watermark Australasia Pty Ltd ("Watermark") for a total purchase consideration of $19,420,000, including $3,467,000 of deferred contingent consideration.

The purchase consideration was met through the issue of 2,285,459 shares in the Company and $8,548,000 of cash. The shares are held under an escrow agreement which prevents the shares from being traded for a period of 2 years from completion.

The acquisition was funded through a placement on 29 August 2016 of 2,064,634 shares at $3.35 per share raising a total amount of $6,731,000 in share capital (net of share issue costs). Additionally on the 20 September 2016 the Company raised $1,216,000 under a share purchase plan.

The deferred consideration is contingent upon the post acquisition EBITDA of the acquired business up to 30 June 2017, annualised ('Annualised EBITDA') and will be calculated based on the formula of 8 times each dollar of Annualised EBITDA earned above $2,000,000 in the FY 17 post completion period, up to a maximum deferred consideration of $5,600,000. The deferred contingent consideration will be funded 50% by way of a share placement to the Watermark vendors based on a share price of $3.5004 per share with the shares issued subject to voluntary escrow until the same date as the shares issued as part of the up-front consideration, and 50% in cash.

The acquired business contributed revenues of $2,873,000 and a net profit after tax of $213,000 to the Group for the period from 2 November 2016 to 31 December 2016.

Events after the end of the reporting period

Griffith Hack acquisition

On 2 February 2017 the Group completed the acquisition of Griffith Hack for an upfront purchase consideration of approximately $140,077,000 and an additional earn-out consideration of up to $18,431,000.

The upfront purchase consideration was met through the issue of 21,638,744 shares in the Company to the vendors of Griffith Hack, valued at $2.61 per share being the closing share price on 2 February 2017, and the payment of approximately $83,600,000 in cash, subject to the normal working capital adjustments. The cash component was funded by a combination of cash (refer ANREO above) and drawdown on the debt facilities.

The earn-out consideration will be met through the issue of up to 2,847,200 shares in the Company to the vendors of Griffith Hack, valued at $2.61 per share being the closing share price on 2 February 2017, and the payment of up to $11,000,000 in cash.

The shares issued to the Griffith Hack vendors will be held under an escrow agreement which prevents the shares from being traded for a period of 2 years from completion date.

Increased bank facilities

Effective 2 February 2017 the Group increased its available facilities under the restated senior facility agreement executed on 25 November 2016 (the "Agreement") with Australia and New Zealand Banking Group Limited ("ANZ") increasing the facility from $10,000,000 to $50,000,000. The facilities under the Agreement comprise:

- A cash advance facility with a limit of $30,000,000; and
- An interchangeable facility allowing for cash advances and bank guarantees with a limit of $20,000,000.

On 2 February 2017, $20,000,000 of the cash advance facility was drawn down to meet the purchase consideration of the Griffith Hack acquisition.

The agreement is subject to compliance with specific financial covenants and has a term of three years from 2 February 2017.

Dividends

On 23 February 2017, the Directors resolved to pay an interim dividend of 1.6 cents per share in relation to the six months ended 31 December 2016. The 21,638,744 shares issued on 2 February 2017 to the vendors of Griffith Hack do not carry the right to participate in the interim dividend however these shares will be entitled to future dividends.

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 7 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 made in accordance with a resolution of directors.

On behalf of the directors

Stuart Smith
Managing Director

23 February 2017
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 audit of Xenith IP Group Limited for the period ended 31 December 2016, 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

C F Farley
Partner - Audit & Assurance

Sydney, 23 February 2017

Consolidated statement of profit or loss and other comprehensive income
For the half year ended 31 December 2016

	Notes	**31 Dec 2016 $'000**	31 Dec 2015 $'000
Revenue	5	**19,184**	15,925
Other income	6	**84**	226
Expenses			
Disbursement expense		**(2,495)**	(1,976)
Employee benefits expense		**(9,335)**	(6,015)
Depreciation and amortisation expense		**(348)**	(338)
Advertising and marketing expense		**(312)**	(294)
Computer expense		**(290)**	(210)
Consultancy fees		**(146)**	(117)
Occupancy expense		**(1,112)**	(1,286)
Travel expense		**(118)**	(50)
Acquisition, restructure and IPO expense		**(1,725)**	(1,423)
Finance costs		**(161)**	(86)
Net foreign exchange gain		**128**	320
Other expenses		**(1,125)**	(1,011)
Profit before tax		**2,229**	3,665
Income tax (expense)/benefit		**(735)**	35
Profit for the year attributable to the owners of the Group		**1,494**	3,700
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year attributable to the owners of the Group		**1,494**	3,700
		Cents	Cents
Earnings per share attributable to the equity holders of Xenith IP Group Limited			
Basic earnings per share	19	**3.57**	19.60
Diluted earnings per share	19	**3.52**	19.42

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

Consolidated statement of financial position
As at 31 December 2016

	Notes	31 Dec 2016 $'000	30 Jun 2016 $'000
Current assets			
Cash and cash equivalents	7	**66,692**	4,911
Trade and other receivables	8	**11,913**	8,340
Work in progress	9	**1,715**	290
Other current assets	10	**1,013**	278
Total current assets		**81,333**	13,819
Non-current assets			
Property, plant and equipment	11	**2,554**	911
Intangible assets	12	**18,561**	8
Deferred tax assets		**3,093**	1,355
Other non-current assets		**16**	27
Total non-current assets		**24,224**	2,301
Total assets		**105,557**	16,120
Current liabilities			
Trade and other payables	13	**4,686**	2,438
Provisions	14	**3,666**	-
Income tax payable		**1,581**	1,318
Employee benefits		**4,289**	1,951
Derivative financial instruments		**100**	77
Other current liabilities		**407**	236
Total current liabilities		**14,729**	6,020
Non-current liabilities			
Borrowings	15	**-**	4,000
Deferred tax liability		**3,144**	332
Employee benefits		**249**	301
Provisions		**2,147**	982
Total non-current liabilities		**5,540**	5,615
Total liabilities		**20,269**	11,635
Net assets		**85,288**	4,485
Equity			
Issued capital	16	**85,579**	3,883
Reserves	17	**(2,415)**	(2,496)
Retained earnings	18	**2,124**	3,098
Total equity		**85,288**	4,485

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

Consolidated statement of changes in equity
For the half year ended 31 December 2016

	Issued capital $'000	Partner loans $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015	1	4,583	(3,027)	1,033	2,590
Items of comprehensive income					
Net profit for the period	-	-	-	3,700	3,700
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	3,700	3,700
Transactions with owners in their capacity as owners					
Shares issued	3,882	-	-	-	3,882
Repayment of partner loans	-	(4,583)	-	-	(4,583)
Share-based payment expense	-	-	103	-	103
Distributions paid to former partners	-	-	-	(4,470)	(4,470)
Balance at 31 December 2015	3,883	-	(2,924)	263	1,222
Balance at 1 July 2016	**3,883**	**-**	**(2,496)**	**3,098**	**4,485**
Items of comprehensive income					
Net profit for the period	**-**	**-**	**-**	**1,494**	**1,494**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**-**	**-**	**1,494**	**1,494**
Transactions with owners in their capacity as owners					
Shares issued	**81,288**	**-**	**-**	**-**	**81,288**
Vesting of share rights	**408**	**-**	**(410)**	**-**	**(2)**
Share-based payment expense	**-**	**-**	**491**	**-**	**491**
Dividends paid	**-**	**-**	**-**	**(2,468)**	**(2,468)**
Balance at 31 December 2016	**85,579**	**-**	**(2,415)**	**2,124**	**85,288**

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

Consolidated statement of cash flows
For the half year ended 31 December 2016

	Note	31 Dec 2016 $'000	31 Dec 2015 $'000
Cash flows from operating activities			
Receipts from customers		**19,160**	16,063
Payments to suppliers and employees		**(15,084)**	(11,552)
		4,076	4,511
Interest received		**72**	1
Interest and other finance costs paid		**(83)**	(87)
Net cash provided by operating activities		**4,065**	4,425
Cash flows from investing activities			
Payments for property, plant and equipment		**(1,397)**	(298)
Payments for intangible assets		**-**	(3)
Payment for the acquisition of controlled entities	25	**(7,048)**	-
Net cash used in investing activities		**(8,445)**	(301)
Cash flows from financing activities			
Proceeds from issue of shares		**76,162**	3,882
Payment of share issue costs		**(2,985)**	-
Repayment of borrowings		**(4,524)**	-
Proceeds from borrowings		**-**	3,000
Dividends / distributions paid		**(2,468)**	(4,097)
Repayment of partnership loans		**-**	(4,583)
Net cash provided by/(used in) financing activities		**66,185**	(1,798)
Net increase in cash and cash equivalents		**61,805**	2,326
Cash and cash equivalents at the beginning of the year		**4,911**	1,403
Effects of exchange rate changes on cash and cash equivalents		**(24)**	-
Cash and cash equivalents at the end of the year		**66,692**	3,729

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

1. General information

Xenith IP Group Limited ("the Company") is a 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 six months ended 31 December 2016 ("the half-year financial report") comprises the Company and its controlled entities ("the Group"). Xenith IP Group Limited is the ultimate parent entity in the Group.

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 23 February 2017.

2. Basis of preparation

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

The half-year 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 half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2016 and is considered together with any public announcements made by the Company during the six months ended 31 December 2016, 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. Significant Accounting Judgements, Estimates and Assumptions

The significant accounting judgements, estimates and assumptions adopted in 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 2016. Additionally the acquisition of Watermark during the period has resulted in additional significant accounting judgements, estimates and assumptions as outlined in provision for deferred contingent consideration (refer note 14) and acquisition of Watermark (refer note 25).

4. Segment information

Following the acquisition of Watermark during the period, 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 in each operating segment, being Shelston IP and Watermark. In accordance with AASB 8, for financial statements presentation purposes, these individual operating segments have been aggregated into a single reportable segment taking into account the following factors:

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

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

5. Revenue

	31 Dec 2016 $'000	31 Dec 2015 $'000
Revenue from rendering of services	**18,888**	15,613
Commission revenue	**280**	276
Other revenue	**16**	36
	19,184	15,925

6. Other Income

	31 Dec 2016 $'000	31 Dec 2015 $'000
Net gain on disposal of property, plants and equipment	**-**	196
Interest income	**72**	-
Other income	**12**	30
	84	226

7. Cash and cash equivalents

	31 Dec 2016 $'000	30 Jun 2016 $'000
Cash at bank and on hand	**6,120**	4,911
Term deposit	**60,572**	-
	66,692	4,911

8. Trade and other receivables

	31 Dec 2016 $'000	30 Jun 2016 $'000
Trade receivables	**11,688**	7,606
Provision for doubtful debts	**(218)**	(160)
	11,470	7,446
Amounts due from previous partners	-	810
Other receivables	**215**	84
Goods and services tax receivable	**228**	-
	11,913	8,340

9. Work in progress

	31 Dec 2016 $'000	30 Jun 2016 $'000
Work in progress at cost	**2,063**	385
Less: provision for impairment	**(348)**	(95)
	1,715	290

10. Other current assets

	31 Dec 2016 $'000	30 Jun 2016 $'000
Prepayments	**901**	247
Prepaid facility fees	**81**	-
Deposits	**11**	11
Deferred expenses	**20**	20
	1,013	278

11. Property, Plant and Equipment

	Leasehold improvements $'000	Furniture & fittings $'000	Computer equipment $'000	Office equipment $'000	Total $'000
Balance at 1 July 2016	609	184	113	5	**911**
Additions	-	3	44	-	**47**
Acquisition of controlled entities	1,678	52	86	9	**1,825**
Depreciation	(163)	(25)	(40)	(1)	**(229)**
Balance at 31 December 2016	**2,124**	**214**	**203**	**13**	**2,554**
Balance at 1 July 2015	678	191	96	6	971
Additions	322	48	92	1	463
Disposals	(166)	-	-	-	(166)
Depreciation	(225)	(55)	(75)	(2)	(357)
Balance at 30 June 2016	609	184	113	5	911

12. Intangible assets

	Goodwill $'000	Brand names $'000	Customer relationships $'000	Computer software $'000	Total $'000
Balance at 1 July 2016	8	-	-	-	**8**
Acquisition of controlled entities	8,862	1,480	7,982	348	**18,672**
Amortisation expense	-	-	(102)	(17)	**(119)**
Balance at 31 December 2016	**8,870**	**1,480**	**7,880**	**331**	**18,561**
Balance at 1 July 2015	8	-	-	-	8
Amortisation expense	-	-	-	-	-
Balance at 30 June 2016	8	-	-	-	8

Significant accounting policy

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are measured at their fair value at the date of acquisition.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired controlled entity at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested annually for impairment or more frequently if events or changes of circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are recognised as an impairment expense and are not subsequently reversed.

Intangible assets acquired separately
Intangible assets that are acquired separately are initially recognised at cost. Where the intangible asset has a finite life the asset is carried at cost less accumulated amortisation and accumulated impairment losses.

Brand names
Brand names are the assessed value of the acquired entity's brand names, including trademarks, using the royalty relief method at acquisition date.

12. Intangible assets (continued)

Significant accounting policy (continued)

Customer relationships
Customer relationships are the assessed value of the acquired entity's customer relationships. In valuing the customer relationships consideration is given to the existing customer revenue stream and growth rates, profitability, and attrition rates of customers.

Amortisation is calculated on a straight line basis to write-off the net cost of each item of intangible asset over their expected useful lives using the amortisation rates as follows:

Goodwill	Not applicable - indefinite life
Brand names	Not applicable - indefinite life
Customer relationships	7% - 10%
Software	20% to 34%

An item of intangible asset is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses are recognised as the difference between the carrying amount and the disposal proceeds and are recognised in the statement of profit or loss.

13. Trade and other payables

	31 Dec 2016 $'000	30 Jun 2016 $'000
Trade payables	**1,808**	788
Goods and services tax payable	**-**	28
Acquisition related payable to vendors of Watermark	**411**	-
Other accruals	**2,467**	1,622
	4,686	2,438

14. Provisions - current

	31 Dec 2016 $'000	30 Jun 2016 $'000
Provision for deferred lease incentive	**121**	-
Provision for cash contingent consideration	**1,841**	-
Provision for equity contingent consideration	**1,704**	-
	3,666	-

	Deferred lease incentive $'000	Cash contingent consideration $'000	Equity Contingent consideration $'000
Movement in provisions			
Carrying amount at 1 July 2016	**-**	**-**	**-**
Recognised in business combination	**121**	**1,801**	**1,667**
Unwinding of discount	**-**	**40**	**37**
	121	**1,841**	**1,704**

14. Provisions – current (continued)

Significant accounting policy

Provision for cash contingent consideration

The Group recognised a contingent consideration liability relating to an estimated payment of $2,000,000 to the vendors of Watermark . The liability has been discounted using a pre-tax discount rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost. Any adjustment to the contingent consideration due to the finalisation or updated assessment of the annualised Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") will be recognised in the statement of profit or loss.

Provision for equity contingent consideration

Where the Company has entered into a contract to settle an obligation through a variable number of the Company's own equity instruments, a financial liability is recognised.

The Group recognised a contingent consideration liability relating to the issue to the vendors of Watermark of an estimated 571,363 shares at $3.24 per share, being the acquisition date fair value of the shares. The liability has been discounted using a pre-tax discount rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost. Any adjustment to the contingent consideration due to the finalisation or updated assessment of the EBITDA will be recognised in the statement of profit or loss. When the shares are issued to extinguish the financial liability a corresponding entry will be recognised in equity.

Refer to note 25 'Acquisition of controlled entities' for more details on the provision for cash and equity contingent considerations.

15. Borrowings

	31 Dec 2016 $'000	30 Jun 2016 $'000
Bank loan – non-current	**-**	4,000

Refer to 'note 26. Events after the end of the reporting period' for information relating to the change in the debt facilities effective 2 February 2017.

16. Issued capital

	31 Dec 2016 Shares	30 Jun 2016 Shares	31 Dec 2016 $'000	30 Jun 2016 $'000
Opening balance	**32,816,368**	-	**3,883**	-
Conversion of points	**-**	31,353,333	**-**	1
Shares issued at Initial Public Offering	**-**	1,444,318	**-**	3,882
Shares issued to employees	**-**	18,717	**-**	-
Share Placement	**2,064,634**	-	**6,731**	-
Share Purchase Plan	**369,855**	-	**1,216**	-
Shares issued to the vendors of Watermark	**2,285,459**	-	**7,389**	-
Vesting of share rights	**150,735**	-	**408**	-
Institutional Offer – ANREO*	**21,982,834**	-	**51,162**	-
Retail Offer – ANREO*	**6,353,670**	-	**14,790**	-
Closing balance	**66,023,555**	32,816,368	**85,579**	3,883

* ANREO – Accelerated Non-renounceable Entitlement Offer to fund the Griffith Hack Acquisition (refer note 26).

17. Reserves

	Share-based payment reserve	Partnership reorganisation reserve	Total
Opening balance at 1 July 2016	**531**	**(3,027)**	**(2,496)**
Share-based payments expense	**491**	**-**	**491**
Vesting of share rights	**(410)**	**-**	**(410)**
Closing balance at 31 December 2016	**612**	**(3,027)**	**(2,415)**

18. Retained earnings

	31 Dec 2016 $'000	30 Jun 2016 $'000
Opening balance	**3,098**	1,033
Net profit after income tax for the period	**1,494**	6,535
Distributions paid to former partners	**-**	(4,470)
Dividends paid to equity holders	**(2,468)**	-
Closing balance	**2,124**	3,098

19. Earnings per share

	31 Dec 2016 $'000	31 Dec 2015 $'000
Profit for the year attributable to the owners of the Group	**1,494**	3,700

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	**41,902,531**	18,877,599
Adjustments for calculation of diluted earnings per share		
- Performance rights	**22,840**	22,840
- Share rights	**482,353**	156,568
Weighted average number of ordinary shares used in calculating basic earnings per share	**42,407,724**	19,057,007

	Cents	Cents
Basic earnings per share*	**3.57**	19.60
Diluted earnings per share*	**3.52**	19.42

* The prior period basic earnings per share and diluted earnings per share have been retrospectively adjusted for the bonus element of the Accelerated Non-renounceable Entitlement Offer.

20. Dividends / distributions to former partners

Dividends are recognised as a liability at the time Directors resolve to declare the dividend.

Dividends declared during the period

	Date declared	Date paid	Dividend Per share cents	Total $'000
31 Dec 2016				
30 June 2016 Final dividend	30 Aug 2016	30 Sep 2016	7.0	2,468
31 Dec 2015				
Distribution to former partners	-	1 Oct 2015	Not applicable	4,470

On 23 February 2017, the Directors of the Company declared an interim fully franked dividend of 1.6 cents per share in respect of the half-year ended 31 December 2016, to be paid on 31 March 2017.

21. Contingent liabilities

The group has given bank guarantees as at 31 December 2016 of $1,767,015 (30 June 2016: $931,675).

22. Commitments

	31 Dec 2016 $'000	30 Jun 2016 $'000
Operating lease commitments		
Committed at reporting date but not recognised as liabilities		
Within one year	**2,583**	1,752
One to five years	**4,256**	2,470
Greater than five years	**1,302**	-
	8,141	4,222

23. Financial Instruments

Categories of financial instruments within the group are as follows:

	31 Dec 2016 $'000	30 Jun 2016 $'000
Financial Assets		
Cash and cash equivalents	**66,692**	4,911
Loans and receivables	**11,685**	8,340
	78,377	13,251
Financial Liabilities		
Derivative financial instruments	**100**	77
Trade and other payables	**4,604**	2,317
Provision for contingent cash consideration	**1,841**	-
Provision for contingent equity consideration	**1,704**	-
Borrowings	**-**	4,000
	8,249	6,394

24. Fair value measurement

Fair value hierarchy
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016				
Provision for cash contingent consideration	**-**	**-**	**1,841**	**1,841**
Provision for equity contingent consideration	**-**	**-**	**1,704**	**1,704**
Derivative financial instruments	**-**	**100**	**-**	**100**
Total	**-**	**100**	**3,545**	**3,645**
30 June 2016				
Derivative financial instruments	-	77	-	77

There were no transfers between levels during the financial year. The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Contingent consideration liabilities have been valued using a discounted cash flow model.

Description	Fair Value at 31 Dec 2016 $'000	Unobservable Inputs	Inputs	Relationship of Unobservable inputs to Fair value
Cash contingent consideration	1,841	Annualised EBITDA	$2,500,000	Increase in annualised EBITDA by $10,000 would increase the Fair Value ("FV") by $36,000
		Risk-adjusted discount rate	13.5%	Increase in discount rate by 1% would decrease the FV by $59,000
Equity contingent consideration	1,704	Annualised EBITDA	$2,500,000	Increase in annualised EBITDA by $10,000 would increase the FV by $33,000
		Risk-adjusted discount rate	13.5%	Increase in discount rate by 1% would decrease the FV by $54,000

25. Acquisition of controlled entities

Watermark

On 2 November 2016, the Group acquired 100% of the ordinary shares in Watermark Intellectual Property Pty Ltd, Watermark Intellectual Property Lawyers Pty Ltd, Watermark Advisory Services Pty Ltd and Watermark Australasia Pty Ltd ("Watermark") under the terms of a Share Sale and Purchase Agreement for a total purchase consideration of $19,420,000.

The Watermark business combination disclosed below has been accounted for on a provisional basis and will be finalised in the 30 June 2017 annual financial report.

The acquired business contributed revenues of $2,873,000 and a profit after tax of $213,000 to the Group for the period from 2 November 2016 to 31 December 2016. If the acquisition occurred on 1 July 2016, the full year contributions would have been revenues of $9,271,000 and profit after tax of $363,000.

Consideration transferred

	$'000
Cash	8,548
Equity instruments issued	7,405
Contingent cash consideration	1,800
Contingent equity consideration	1,667
Total purchase price	19,420

Equity instruments issued

$7,405,000 of the purchase consideration was settled by way of the issue of 2,285,459 ordinary shares in the Company to the vendors of Watermark. The shares issued have been recorded at the acquisition date fair value of $3.24 per share.

Contingent cash consideration

The Group agreed to pay the vendors of Watermark additional cash consideration of four times the amount by which the acquirees EBITDA for the eight months ended 30 June 2017, annualised, exceeds $2,000,000, up to a maximum EBITDA of $2,700,000. On acquisition, the Group assessed that Watermark annualised EBITDA would be approximately $2,500,000, which would result in an additional cash consideration payable of $2,000,000 to the vendors of Watermark. This assessment had not changed as at 31 December 2016. The contingent consideration has been discounted using a current pre-tax rate specific to the liability.

Equity contingent consideration

The Group agreed to issue the vendors of Watermark additional shares in the Company at $3.50 per share, equal to four times the amount by which the acquirees EBITDA for the eight months ended 30 June 2017, annualised exceeds $2,000,000 up to a maximum EBITDA of $2,700,000. On acquisition the Group assessed that Watermark annualised EBITDA would be approximately $2,500,000, which would result in an additional 571,363 shares to be issued to the vendors of Watermark. This assessment had not changed as at 31 December 2016. The Group has recognised a liability based on the issue of 571,363 shares at $3.24 per share, being the acquisition date fair value of the shares, and has discounted the liability using a current pre-tax rate specific to the liability.

25. Acquisition of controlled entities (continued)

Identifiable assets and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition:

	$'000
Cash and cash equivalents	1,089
Trade and other receivables	5,723
Work in progress	532
Other current assets	91
Property, plant and equipment	1,825
Intangible assets	9,810
Deferred tax asset	815
Deferred tax liability	(2,402)
Trade and other payables	(2,885)
Employee benefits provision	(2,188)
Provisions	(1,422)
Borrowings	(430)
Goodwill	8,862
	19,420

Cash used to acquire the business, net of cash acquired

	$'000
Acquisition-date fair value of total consideration	19,420
Less:	
Shares issued by company as part of the consideration	(7,405)
Contingent cash consideration recognised as part of the consideration	(1,800)
Contingent equity consideration recognised as part of the consideration	(1,667)
Completion working capital payment payable in 2017	(411)
Cash and cash equivalents acquired	(1,089)
Net cash used in acquiring controlled entities	**7,048**

26. Events after the end of the reporting period

Acquisition of Griffith Hack

On 2 February 2017 the Group completed the acquisition of Griffith Hack for an upfront purchase consideration of approximately $140,077,000 and an additional earn-out consideration of up to $18,431,000.

The upfront purchase consideration was met through the issue of 21,638,744 shares in the Company to vendors of Griffith Hack, valued at $2.61 per share being the closing share price on 2 February 2017, and the payment of approximately $83,600,000 in cash, subject to the normal working capital adjustments. The cash component was funded through a capital raising, amounting to $65,952,000 net of transaction costs, and a drawdown on the debt facilities.

The earn-out consideration will be met through the issue of up to 2,847,200 shares in the Company to the vendors of Griffith Hack, valued at $2.61 per share being the closing share price on 2 February 2017, and the payment of up to $11,000,000 in cash.

The shares issued to the Griffith Hack vendors will be held under an escrow agreement which prevents the shares from being traded for a period of 2 years from completion date.

Increased bank debt facility

Effective 2 February 2017 the Group increased its available facilities under the restated senior facility agreement executed on 25 November 2016 ("the Agreement") with Australia and New Zealand Banking Group Limited ("ANZ") increasing the facility from $10,000,000 to $50,000,000. The facilities under the Agreement comprise:

- A cash advance facility with a limit of $30,000,000; and
- An interchangeable facility allowing for cash advances and bank guarantees with a limit of $20,000,000.

On 2 February 2017, $20,000,000 of the cash advance facility was drawn down to meet the purchase consideration of the Griffith Hack acquisition.

The agreement is subject to compliance with specific financial covenants and has a term of three years from 2 February 2017.

Dividends declared

Refer to 'Note 20. Dividends / distributions to former partners' for the dividends declared after the end of the reporting period.

27. 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 2016.

Directors' Declaration

In accordance with a resolution of the Directors' of Xenith IP Group Limited ("the Company"), we state that:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

  i. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  ii. giving a true and fair view of the consolidated entities financial position as at 31 December 2016 and of its financial performance for the half-year ended on that date; 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.

On behalf of the Board:

Stuart Smith
Managing Director
Sydney, 23 February 2017

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Independent Auditor's Review Report
To the Members of Xenith IP Group Limited

We have reviewed the accompanying half-year financial report of Xenith IP Group Limited ("Company"), which comprises the consolidated statement of financial position as at 31 December 2016, 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, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Xenith IP Group Limited 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 controls 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.

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 the 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 Xenith IP Group Limited financial position as at 31 December 2016 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 complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Xenith IP Group Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

C F Farley
Partner - Audit & Assurance

Sydney, 23 February 2017

For the "**Results for Announcement to the Market"** refer page 2 of the Half-year Report

NTA BACKING

	31 Dec 2016 Cents	30 Jun 2016 Cents
Net tangible asset backing per ordinary security	**101.07**	13.64

CHANGE IN OWNERSHIP OF CONTROLLED ENTITIES

During the half year ended 31 December 2016, Xenith IP Group Limited acquired the 100% of the shares in following companies:

- Watermark Intellectual Property Pty Ltd;
- Watermark Intellectual Property Lawyers Pty Ltd;
- Watermark Advisory Services Pty Ltd; and
- Watermark Australasia Pty Ltd.

During the half year ended 31 December 2016, Xenith IP Group Limited incorporated the following wholly owned companies

- Watermark Holdings Pty Limited; and
- A.C.N. 615 849 726 Pty Ltd.

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 half year ended 31 December 2016, Xenith IP Group Limited had no ownership interest in Joint Ventures or associate entities.

Corporate Directory

DIRECTORS

Sibylle Krieger – Chair
Stuart Smith – Managing Director
Russell Davies
Andrew Harrison
Susan Forrester

COMPANY SECRETARY

Lesley Kennedy

REGISTERED OFFICE

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SOLICITORS

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STOCK EXCHANGE LISTING

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

WEBSITE

www.xenithip.com