QANTM Intellectual Property Limited ACN 612 441 326 and Controlled Entities

Financial report for Half Year ended 31 December 2019

Appendix 4D

Name of Entity: QANTM Intellectual Property Limited ACN 612 441 326	
Current period:	**Half Year ended 31 December 2019**
Previous corresponding period:	Half Year ended 31 December 2018

Results for announcement to the market

	31 Dec 2019 $'000	31 Dec 2018 $'000	Change %
Revenue from ordinary activities	57,569	55,301	4.1
Statutory Profit/(loss) from ordinary activities after tax	4,388	4,583	(4.3)
Underlying net profit after tax from ordinary activities[1]	6,804	7,465	(8.9)
Distributions – current period (cents): 1H20 interim dividend (declared)	3.3	3.5	
Franked amount per share (cents)	3.3	3.5	
Interim dividend sourced from conduit foreign income	-	-	
Record date for determining entitlement to the interim dividend	27 February 2020		
		30 June 2019	
Net tangible asset value per share (cents)	(0.0)	0.01	

This information should be read in conjunction with the Consolidated Financial Report of QANTM Intellectual Property Limited for the Half Year ended 31 December 2019, and any public announcements made in the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

[1] Underlying net profit after tax ("Underlying NPAT") is reported to provide shareholders with additional information to enhance their understanding of the performance of QANTM Intellectual Property Limited. Underlying NPAT has been determined by adding back significant, non-recurring items including contingent earn-out payments for the AFIP business acquisition in Malaysia, which are required under Accounting Standards to be accounted for as remuneration, and business acquisition costs. It also adjusts for the impact of new accounting standard AASB16: leases – refer notes 1 c), 5, 6 and 8 for the period ended 31 December 2019.

Details of entities over which control has been gained or lost during the period:

Control gained:	None
Control lost:	None

Details of any associates and joint venture entities required to be disclosed:

Nil

Audit Status

This report is based on the Consolidated Financial Report of QANTM Intellectual Property Limited for the Half Year ended 31 December 2019, which has been reviewed by Deloitte Touche Tohmatsu.

Other Significant Information and Commentary on Results

Additional Appendix 4D disclosure requirements can be found in the Directors' Report and the 31 December 2019 Half Year Financial Report.

For all other information required by Appendix 4D, including a results commentary, please refer to the following documents:

- Directors' Report
- Reviewed Half Year Financial Report
- Results Presentation

QANTM Intellectual Property Limited and Controlled Entities

ACN: 612 441 326

CONSOLIDATED FINANCIAL REPORT

For the Half Year ended 31 December 2019

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for the Half Year ended 31 December 2019

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DIRECTORS' REPORT

for the Half Year ended 31 December 2019

The directors of QANTM Intellectual Property Limited ('the Company' or 'QANTM') present the half year financial report of the Company and its controlled entities ('the Group' or 'QANTM Group') for the Half Year ended 31 December 2019.

PRINCIPAL ACTIVITIES

QANTM is the owner of a group of leading intellectual property (IP) services businesses operating under three key brands:

Davies Collison Cave, comprising:

- Davies Collison Cave Pty Ltd ('DCC') (an incorporated patent and trade mark attorney business operating in Australia and New Zealand);
- Davies Collison Cave Law Pty Ltd ('DCC Law') (an incorporated legal practice operating in Australia);
- Davies Collison Cave Asia Pte Ltd ('DCC Asia') (a specialist patent and trade mark attorney business operating in Singapore);

FPA Patent Attorneys, comprising:

- FPA Patent Attorneys Pty Ltd ('FPA') (an incorporated patent attorney business operating in Australia and New Zealand);
- FPA Patent Attorneys Asia Pte Ltd ('FPA Asia') (a specialist patent attorney business operating in Singapore);

Advanz Fidelis IP Sdn Bhd ('AFIP') (a leading Malaysian specialist intellectual property business); and

QANTM is also the majority owner of **ipervescence Pty Ltd**, an intellectual property strategy and innovation advisory business, which also provides intellectual property resourcing solutions including locums.

These businesses operate independently to provide a comprehensive suite of services across the intellectual property value chain.

Davies Collison Cave: DCC is one of the largest patent and trade mark attorney businesses in Australia, with a long-established history dating back to 1877. DCC's two major service areas are patents and trade marks. The firm operates from three primary offices in Melbourne, Sydney, and Brisbane, with offices also in Adelaide, Canberra, Geelong, Wellington, Newcastle and Hobart. DCC Asia has operated as a separate patent and trade mark attorney business in Singapore since 2015, and there is cross-referral of work between DCC and DCC Asia.

DCC Law conducts a legal practice in Australia for both local and international clients, encompassing intellectual property litigation, advice and commercialisation services; general IP related commercial law advice relating to trade secrets, e-commerce, labelling, IP portfolio, anti-counterfeiting programs and trade practices compliance; technology, media and telecommunications (TMT) advice; privacy and data protection advice; and corporate, commercial and tax advice.

FPA Patent Attorneys: FPA is a specialist patent attorney practice with offices in Sydney and Melbourne, with its origins in forerunner firms dating back to 1890. The company offers a range of strategic patent and design services. A related company, FPA Asia was established in September 2018 to operate as a specialist patent attorney business in Singapore.

Advanz Fidelis IP: AFIP was established in 2000 and operates in Malaysia. The company was acquired by QANTM on 2 July 2018, as part of its strategy to expand the Group's intellectual property client base and revenue generation potential in Asia. AFIP's two major service areas are patents and trade marks.

ipervescence Pty Ltd commenced operation in July 2019, and offers tailored IP consulting services focused on the strategic value and risks associated with IP to support sustained business success, as well as flexible IP resourcing solutions delivered in new and innovative ways, tailored to client needs.

Apart from the commencement of operation of ipervescence, there were no other significant changes in the Group's principal activities during the financial half year.

DIRECTORS

The names and particulars of the directors in office at any time during the financial half year up to the date of this report are:

Name	Office
Mr Richard England	Non-Executive Chairman
Mr Leon Allen	Managing Director (ceased to be a director with effect from 13 January 2020)
Ms Abigail Cheadle	Non-Executive Director
Mr Cameron Judson	Non-Executive Director
Ms Sonia Petering	Non-Executive Director

Operational and financial review

The underlying results of the QANTM Group are provided which are adjusted for various items not considered of a recurring nature, including business acquisition costs and non-recurring employee payments relating to business acquisitions and retention. They are also adjusted for the impact of the new accounting standard AASB16 Leases. Refer page 5 for a reconciliation of statutory Net Profit after Tax ('NPAT') to underlying NPAT.

On 1 October 2019, the Company announced the appointment of Craig Dower as the Company's new chief executive officer, commencing on 13 January 2020. Craig will also be appointed as managing director during the course of the year. Leon Allen was the managing director and chief executive officer during the half-year, but ceased in that role on 13 January 2020, and will be appointed a non-executive director of the company later in the 2020 calendar year.

Principal operational and business activities during the six months to 31 December 2019 included:

- a continued focus on business development and marketing activities to enhance revenue generation;
- the commencement of operations in July 2019 of ipervescence Pty Ltd, an intellectual property consultancy start-up, majority owned by QANTM, providing IP strategy and locum services;
- the appointment and commencement of Kylie Sprott as Chief Transformation Officer. Kylie has more than 25 years of experience working across a variety of industries including IT, financial services, engineering, environmental services and legal services, with specialist skills in business strategy, human resources, mergers and acquisitions, digital strategy, culture and change management;
- the promotion of 13 professional staff across the Group, of which 54% were women. These promotions follow 21 professional promotions in the 2019 financial year;
- commencement of the re-alignment of vendor principal remuneration, three years after the initial public offering, to reflect market relativities; and
- retention payments to vendor principals to ensure continued retention for a period of at least two years.

BUSINESS PERFORMANCE

Key features of the Company's business performance in the half year included:

- the Group's total patent applications grew by 9.8% from prior corresponding period ('pcp') levels, while Australian patent applications grew by 2.7% from pcp levels, which exceeded the overall Australian market performance of -1.2%. As a result, the Group estimates that its Australian patent market share increased from 14.0% to 14.2%. This continued an encouraging trend and represents the fourth six monthly increase in both Australian and Group total patent applications. This trend is a positive indicator for future prosecution and advisory work;
- the Group's patent application filings in Asia increased 42.8% from the pcp, a positive trend reflecting the contribution from AFIP and the Asian presence of DCC and FPA;
- QANTM's total Group trademark filings increased by 4.9%, while QANTM's Australian trade mark filing market share increased by 0.8% from pcp levels. QANTM's trade mark service charges declined by 2.6% from pcp, while DCC retained its number one Australian market ranking; and
- relative to a record revenue result in the first half of 2019 for the legal and litigation business, a lower level of case load work in the first half of 2020 resulted in a 8.7% decline in revenue from the pcp.

FINANCIAL RESULTS

Key features of the underlying half year financial results included:

- Total revenue was $57.6 million for the half year, a 4.2% increase (1H19: $55.3 million). Total revenue comprised:
  - Service Charges revenue of $44.8 million, which represented a 4.2% increase (1H19: $43.0 million);
  - Associate Charges revenue of $12.8 million, which represented a 4.1% increase (1H19: $12.3 million). Recoverable expenses, mainly related to Associate Charges, were $12.1 million (1H19: $11.3 million).

Total net revenue (total revenue and other income, excluding FX, less recoverable expenses) was $46.6 million, a 3.3% increase (1H19: $45.1 million).

The main features of Service Charges revenue included:

- higher patents revenue of $30.9 million (1H19: $28.3 million), across all patent revenue streams;
- trade mark revenue of $7.6 million (1H19: $7.8 million); and
- legal and litigation revenue of $6.3 million (1H19: $6.9 million).

Other Income was $1.1 million (1H19: $1.1 million), while a gain on foreign exchange of $0.2 million was recorded (1H19: $0.5 million).

Underlying operating expenses for the half year were $35.3 million (1H19: $33.4 million). The main factors contributing to the increase in operating expenses included higher compensation costs associated with staff salary increases, promotions, realignment of vendor principal remuneration to reflect market relativities, and a new short term incentive scheme.

The number of employees in the group as at 31 December 2019 was 337 (31 December 2018: 335 employees).

Total Expenses (inclusive of operating expenses and recoverable expenses from Associate Charges) were $47.4 million (1H19: $44.7 million).

Underlying EBITDA after FX was $11.5 million (1H19: $12.2 million) representing a 5.7% decrease. This excludes the AASB16 impact of $2.4 million increase to statutory EBITDA.

Underlying EBITDA margin for the half year was 25.7% (on Service Charges revenue) compared to 28.4% in 1H19.

Statutory net profit before tax was $7.1 million (1H19: $7.7 million).

Statutory net profit after tax was $4.4 million (1H19: $4.6 million).

Underlying net profit after tax was $6.8 million (1H19: $7.5 million). Refer table below for a reconciliation from statutory to underlying net profit.

Operating cash flow of $5.7 million (1H19: $3.3 million) was $2.4 million higher than the pcp, primarily due to lower income tax payments of $3.3 million (1H19: $5.1 million).

Net debt as at 31 December 2019 was $15.1 million, a decrease from 31 December 2018 of $16.1 million. Net debt at June 2019 was $11.1 million. Gearing (net debt/net debt + equity) at 31 December 2019 was 18.0%, down from 19% at 31 December 2018. Gearing at 30 June 2019 was 13.6%. Debt levels are generally higher in the first half of the financial year due to the payment of the final dividend and the annual contribution to the employee share trust.

The reconciliation table below reconciles statutory NPAT for the year to underlying NPAT.

	Half Year ended	
	31-Dec-19	31-Dec-18
	$'000	$'000
Statutory NPAT	**4,388**	**4,583**
add: interest	870	498
add: depreciation and amortisation	3,379	1,129
add: tax	2,733	3,069
EBITDA – QANTM Group	**11,370**	**9,279**
add: remuneration related to business acquisition	1,209	1,670
add: new business establishment costs	299	-
less: lease payments[1]	(2,372)	-
add: retention payments	288	-
add: business acquisition costs	681	1,212
Underlying EBITDA – QANTM Group	**11,475**	**12,161**
less: depreciation and amortisation	(3,379)	(1,129)
less: interest	(870)	(498)
add: AASB16 amortisation and interest[1]	2,537	-
less: tax	(2,959)	(3,069)
Underlying NPAT - QANTM Group	**6,804**	**7,465**

DIVIDENDS

For the Half Year ended 31 December 2019, the directors resolved to pay a fully franked interim dividend of 3.3 cents per share (2019 interim dividend of 3.5 cents per share, fully franked). The record date for the dividend is 27 February 2020. The dividend represents 88% of NPAT before amortisation (NPATA).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under 307C of the Corporations Act 2001 is included on page 7 of the half year financial report.

ROUNDING OFF OF AMOUNTS

QANTM Intellectual Property Limited is a company of the kind referred to in ASIC Corporations (Rounding in the Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the accompanying half year financial report have been rounded to the nearest thousand dollars, except where otherwise indicated.

[1]The new accounting standard AASB16 had the effect of increasing EBITDA by $2,372k (the lease payments) by replacing occupancy expense with amortisation and finance charges of $2,537k.

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Board of Directors,

Richard England

Chairman

Sydney
20 February 2020

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The Board of Directors
QANTM Intellectual Property Limited
Level 15, 1 Nicholson Street
MELBOURNE VIC 3000

20 February 2020

Dear Board Members

QANTM Intellectual Property Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of QANTM Intellectual Property Limited.

As lead audit partner for the review of the financial statements of QANTM Intellectual Property Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountant

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Review Report to the members of QANTM Intellectual Property Limited

We have reviewed the accompanying half-year financial report of QANTM Intellectual Property Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2019 and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

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 consolidated entity's financial position as at 31 December 2019 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 QANTM Intellectual Property 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of QANTM Intellectual Property Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 QANTM Intellectual Property 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 2019 and of its performance for the half-year ended on that date; and

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

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 20 February 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Half Year ended 31 December 2019

	Note	Half Year ended 31-Dec-19 $'000	31-Dec-18 $'000
Service charges		**44,770**	42,968
Associate charges		**12,799**	12,333
Total revenue		**57,569**	55,301
Other Income		**1,306**	1,598
Employee benefits expenses			
- ordinary		**(26,626)**	(24,124)
- related to business acquisition		**(1,209)**	(1,670)
Recoverable expenses		**(12,099)**	(11,328)
Occupancy expenses	5	**(1,093)**	(3,392)
Business acquisition expenses		**(681)**	(1,212)
Other expenses		**(5,797)**	(5,894)
Earnings before finance costs, income tax, depreciation and amortisation		**11,370**	9,279
Depreciation and amortisation		**(3,379)**	(1,129)
Profit before finance costs and income tax		**7,991**	8,150
Net finance costs		**(870)**	(498)
Profit before income tax		**7,121**	7,652
Income tax expense		**(2,733)**	(3,069)
NET PROFIT FOR THE PERIOD		**4,388**	4,583
Other comprehensive income, net of income tax		**-**	-
Total comprehensive income for the period		**4,388**	4,583
Earnings per share		**cents per share**	**cents per share**
Basic (cents per share)		**3.30**	3.45
Diluted (cents per share)		**3.30**	3.45

The accompanying notes on pages 14 to 20 form part of this Half Year financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the Half Year ended 31 December 2019

	Note	31-Dec-19 $'000	30-Jun-19 $'000
CURRENT ASSETS			
Cash and cash equivalents		**2,996**	1,181
Trade and other receivables		**30,357**	31,992
Other assets		**3,735**	1,489
TOTAL CURRENT ASSETS		**37,088**	34,662
NON-CURRENT ASSETS			
Property, plant and equipment		**2,039**	2,530
Right-of-use asset	6	**17,366**	-
Intangible assets	7	**69,084**	69,851
TOTAL NON-CURRENT ASSETS		**88,489**	72,381
TOTAL ASSETS		**125,577**	107,043
CURRENT LIABILITIES			
Trade and other payables		**7,564**	9,537
Provisions		**8,556**	8,038
Borrowings	9	**28**	133
Lease liability	8	**2,175**	-
Other financial liabilities		**-**	39
Current tax liabilities		**184**	2,340
TOTAL CURRENT LIABILITIES		**18,507**	20,087
NON-CURRENT LIABILITIES			
Provisions		**519**	3,073
Borrowings	9	**18,072**	12,187
Lease liability	8	**17,577**	-
Deferred tax balance		**2,319**	1,115
TOTAL NON-CURRENT LIABILITIES		**38,487**	16,375
TOTAL LIABILITIES		**56,994**	36,462
NET ASSETS		**68,583**	70,581
EQUITY			
Issued capital		**294,075**	294,075
Reserves		**(222,856)**	(222,856)
Accumulated losses		**(2,636)**	(638)
TOTAL EQUITY		**68,583**	70,581

The accompanying notes on pages 14 to 20 form part of this half year financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Half Year ended 31 December 2019

	Issued Capital	Reorg. Reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 July 2018	**293,798**	**(222,856)**	**244**	**(1,466)**	**69,720**
Profit for the period	-	-	-	4,583	4,583
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**4,583**	**4,583**
Employee share schemes	-	-	33	-	33
Dividends paid	-	-	-	(5,721)	(5,721)
Transfer from share based payment reserve on exercise of retention rights	277	-	(277)	-	-
Closing balance at 31 December 2018	**294,075**	**(222,856)**	**-**	**(2,604)**	**68,615**

	Issued Capital	Reorg. Reserve	Share Based Payment Reserve	Retained Earnings	Total Equity
	$'000	$'000	$'000	$'000	$'000
Opening balance at 1 July 2019	**294,075**	**(222,856)**	**-**	**(638)**	**70,581**
Profit for the period	-	-	-	4,388	4,388
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**4,388**	**4,388**
Employee share schemes	-	-	-	-	-
Dividends paid	-	-	-	(6,386)	(6,386)
Closing balance at 31 December 2019	**294,075**	**(222,856)**	**-**	**(2,636)**	**68,583**

The accompanying notes on pages 14 to 20 form part of this Half Year financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the Half Year ended 31 December 2019

	Half Year ended 31-Dec-19 $'000	31-Dec-18 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**63,084**	59,085
Payment to suppliers and employees	**(53,204)**	(50,089)
Interest and costs of finance paid	**(870)**	(498)
Income tax paid	**(3,282)**	(5,149)
Net cash provided by operating activities	**5,728**	3,349
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	**(393)**	(293)
Payments for intangible assets	**(11)**	(914)
Payments for business acquisitions	**-**	(3,050)
Business acquisition related costs	**(681)**	(1,212)
Net cash used in investing activities	**(1,085)**	(5,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liability	**(2,372)**	-
Proceeds from bank borrowings	**6,923**	7,361
Repayment of bank borrowings	**(1,000)**	-
Dividends paid	**(6,386)**	(5,721)
Net cash (used in) / provided by finance activities	**(2,835)**	1,640
Net increase/(decrease) in cash and cash equivalents from continuing operations	**1,808**	(3,429)
Cash and cash equivalents at the beginning of the period	**1,181**	3,093
Effects of exchange rate changes on the balance of cash held in foreign currencies	**7**	46
Cash and cash equivalents at the end of the period	**2,996**	2,715

The accompanying notes on pages 14 to 20 form part of this half year financial report.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These general purpose interim financial statements for the Half Year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half year.

(b) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements except for those as described in Note 1 (c) below.

(c) Changes in Significant Accounting Policies

This note describes the nature and effect of the adoption of AASB 16: *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.**Leases**

The Group has elected to apply the modified retrospective approach to its lease contracts. For these leases, which were classified as operating leases under AASB 117 *Leases*, the Group has recognised right-of-use assets and lease liabilities as at the transition date (1 July 2019). In determining the fair value of the remaining lease payments at the date of transition, the Group used the incremental borrowing rate. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4%. Comparative information has not been restated.

The following table shows the operating lease commitments disclosed in applying AASB 117 *Leases* at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application of the lease liabilities recognised in the condensed consolidated statement of financial position at the date of initial application:

	$'000
Gross operating lease commitments at 30 June 2019	28,377
Less lease incentives at 30 June 2019	(2,473)
Less short-term and low value assets	(30)
Less the effect of discounting the above amounts	(4,358)
Add finance lease liabilities recognised under AASB 117 on 30 June 2019	248
Lease liabilities recognised at 1 July 2019	21,764

At inception of a contract, the Group assesses if the contract contains a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Leases (continued)

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated amortisation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Leases (continued)

The Group applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy (as outlined in the financial report for the annual reporting period.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, AASB 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(c) Critical Accounting Estimates and Judgements

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2019. The only exception is the judgement required for lease term and option to extend under AASB 16.

Lease term and option to extend under AASB 16

The lease term is defined as the non-cancellable period of a lease together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and also periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The decision on whether or not the options to extend are reasonably going to be exercised is a key management judgement that the Group will make. The Group determines the likeliness to exercise on a lease-by-lease basis, looking at various factors such as which assets are strategic and which are key to the future strategy of the Group.

NOTE 2: DIVIDENDS

In respect of the Half Year ended 31 December 2019, the directors resolved to pay a fully franked interim dividend of 3.3 cents per share (2H18: 3.5 cents).

NOTE 3: SEGMENT INFORMATION

(a) Basis for segmentation

AASB 8 requires operating segments to be identified based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group operates in two geographic locations, which are its reportable segments. The Group has identified its operating segments based on geographical locations being Australia and Asia.

	AUSTRALIA		ASIA		TOTAL	
Half Year ended	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Service charges	**41,539**	40,562	**3,231**	2,406	**44,770**	42,968
Associate charges	**12,021**	11,772	**778**	561	**12,799**	12,333
Total Revenue	**53,560**	52,334	**4,009**	2,967	**57,569**	55,301
Other Income	**1,248**	1,537	**58**	61	**1,306**	1,598
Less Recoverable Expenses	**(11,279)**	(10,784)	**(820)**	(544)	**(12,099)**	(11,328)
Net Revenue	**43,529**	43,087	**3,247**	2,484	**46,776**	45,571
Less Overheads	**(32,872)**	(31,454)	**(2,429)**	(1,956)	**(35,301)**	(33,410)
Earnings Before Interest, Tax, Depreciation and Amortisation	**10,657**	11,633	**818**	528	**11,475**	12,161
Depreciation	**(405)**	(404)	**(94)**	(56)	**(499)**	(460)
Amortisation	**(770)**	(576)	**(8)**	(93)	**(778)**	(669)
Segment profit before finance costs and income tax	**9,482**	10,653	**716**	379	**10,198**	11,032
Adjustments to reconcile to statutory profit						
Lease Payments	**2,108**	-	**264**	-	**2,372**	-
AASB16 Amortisation	**(1,855)**	-	**(247)**	-	**(2,102)**	-
Remuneration related to business acquisition	**-**	-	**(1,209)**	(1,670)	**(1,209)**	(1,670)
Business acquisition costs	**(681)**	(1,212)	**-**	-	**(681)**	(1,212)
New business establishment costs	**(299)**	-	**-**	-	**(299)**	-
Retention payments	**(288)**	-	**-**	-	**(288)**	-
Statutory profit before finance costs and income tax	**8,467**	9,441	**(476)**	(1,291)	**7,991**	8,150
Finance costs					**(870)**	(498)
Profit / (Loss) for the period before income tax					**7,121**	7,652

(b) Major customers

No single customer contributed 10% or more of the Group's revenue during either the Half Year ended 31 December 2019 or the 2018/2019 Financial Year.

NOTE 4: DISAGGREGATED REVENUE

Disaggregated revenue

The Group has disaggregated revenue into various categories in the following table. The revenue is disaggregated by geographical market, service lines and timing of revenue recognition. This is consistent with the revenue information that is disclosed for each reportable segment under AASB 8 (see Note 3).

	Half Year ended	
	31-Dec-19	**31-Dec-18**
	$'000	**$'000**
Geographical markets		
Australia	**53,560**	52,336
Asia	**4,009**	2,965
	57,569	55,301
Service Lines		
Service Charges	**44,770**	42,968
Associate Charges	**12,799**	12,333
	57,569	55,301
Timing of revenue recognition		
At a point in time	**32,560**	29,797
Over time	**25,009**	25,504
	57,569	55,301

NOTE 5: OCCUPANCY EXPENSE

Occupancy expense	**(1,093)**	(3,392)

The movement in occupancy expense can be attributed to the adoption of AASB 16 *Leases.* The residual balance at 31 December 2019 represents variable occupancy expenses such as lease outgoings, cleaning, parking and licence fees.

NOTE 6: RIGHT OF USE ASSET

	31-Dec-19
	$'000
Right-of-use assets	
Leased building	**19,468**
Accumulated amortisation	**(2,102)**
	17,366
Movement in carrying amounts:	
Leased buildings:	
Recognised on initial application of AASB 16 (previously classified as operating leases under AASB 117)	**19,468**
Amortisation expense for the half year ended	**(2,102)**
Net carrying amount	**17,366**

The Group leases several buildings. The average lease term is 6 years, with a remaining average lease term of 4 years. The Group has not entered into any new leases post 30 June 2019.

The Group does not have any leases which contain variable lease payments.

NOTE 6: RIGHT OF USE ASSET (continued)

	31-Dec-19
	$'000
AASB 16 related amounts recognised in the statement of profit or loss	
Amortisation charge related to right-of-use assets	**(2,102)**
Interest expense on lease liabilities (under finance cost)	**(435)**
Short-term leases expense	**-**
Low-value asset leases expense	**30**
Total half yearly cash outflows for leases	**2,372**

NOTE 7: INTANGIBLE ASSETS

	31-Dec-19	30-Jun-19
	$'000	$'000
Goodwill		
Balance at beginning of period	**45,836**	45,836
Accumulated impairment losses	**-**	-
Net carrying value of goodwill	**45,836**	45,836
Brand names		
Balance at beginning of period	**3,518**	2,700
Acquisitions through business combinations	**-**	818
Accumulated impairment losses	**-**	-
Net carrying value of brand names	**3,518**	3,518
Client Relationships		
Balance at beginning of period	**22,101**	19,300
Acquisitions through business combinations	**-**	2,801
Accumulated amortisation bought forward	**(2,933)**	(1,797)
Amortisation charge for the period	**(574)**	(1,136)
Net carrying value of client relationships	**18,594**	19,168
Software		
Balance at beginning of period	**1,603**	311
Additions at cost	**11**	1,131
Acquisitions through business combinations	**-**	161
Accumulated amortisation bought forward	**(274)**	(56)
Amortisation charge for the period	**(204)**	(218)
Net carrying value of software	**1,136**	1,329
Total Intangibles	**69,084**	69,851

NOTE 8: LEASE LIABILITY

	31-Dec-19
	$'000
Maturity analysis:	
Year 1	**2,541**
Year 2	**5,051**
Year 3	**4,570**
Year 4	**3,426**
Year 5	**2,361**
Onwards	**3,884**
	21,833
Less: unearned interest	**(2,081)**
	19,752
Analysed as:	
Current	**2,175**
Non-current	**17,577**
	19,752

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

NOTE 9: BORROWINGS

The facilities have a maturity date of 31 January 2021.

NOTE 10: CONTINGENT LIABILITIES

	31-Dec-19 $'000	30-Jun-19 $'000
Estimates of material amounts of contingent liabilities, not provided for in the financial report:		
Bank guarantees in respect of property leases	**2,494**	2,494

NOTE 11: EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial periods.

DIRECTORS' DECLARATION

for the Half Year ended 31 December 2019

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001,* including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001.*

On behalf of the Directors

Richard England, Director and Chairman

Abigail Cheadle, Director