APPENDIX 4D
Half-year Financial Report
Half-year ended 31 December 2018

Name of Entity: QANTM Intellectual Property Limited ACN 612 441 326	
Current period:	**Half-year ended 31 December 2018**
Previous corresponding period:	Half-year ended 31 December 2017

Results for announcement to the market

	31 Dec 2018 $'000	31 Dec 2017 $'000	Change %
Revenue from ordinary activities	55,301	49,212	12
Statutory Profit/(loss) from ordinary activities after tax	4,583	3,624	26
Underlying net profit after tax from ordinary activities[1]	7,465	5,518	35
Distributions – current period (cents): 1H19 interim dividend (declared)	3.5	2.8	25
Franked amount per share (cents)	3.5	2.8	
Interim dividend sourced from conduit foreign income	-	-	-
Record date for determining entitlement to the interim dividend		28 February 2019	
	31 Dec 2018	**30 Jun 2018**	**Change**
Net tangible asset value per share (cents)	(0.01)	0.03	(133%)

This information should be read in conjunction with the Consolidated Financial Report of QANTM Intellectual Property Limited for the half-year ended 31 December 2018, 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 business acquisition costs and redundancy costs and contingent payments for business acquisition that were accounted for as remuneration.

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

Control gained:	Advanz Fidelis IP Sdn Bhd (*Malaysia Corporate Identity Number 1242306-U*)
	2 July 2018
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 2018, 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 2018 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 2018

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for the half-year ended 31 December 2018

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DIRECTORS' REPORT

for the half-year ended 31 December 2018

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 2018.

PRINCIPAL ACTIVITIES

QANTM operates six well-known and established intellectual property services businesses:

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

These businesses operate independently under three key brands (Davies Collison Cave, FPA Patent Attorneys and Advanz Fidelis IP) 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, Auckland, 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 has a spread of clients in Malaysia and Asia, Europe and the United States. AFIP's practice consists of 18 professionals providing clients with a range of intellectual property services.

Apart from the acquisition of AFIP, 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
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 restructuring and business acquisition costs and non-recurring employee incentive payments. Refer page 4 for a reconciliation of statutory Net Profit after Tax ('NPAT') to underlying NPAT.

Principal operational and business activities during the 6 months to 31 December 2018 included:

- a continued focus on business development and marketing activities to enhance future revenue generation;
- the acquisition of Malaysian IP firm, Advanz Fidelis IP Sdn Bhd (AFIP), which was completed on 2 July 2018;
- the addition of a corporate legal team to DCC, with effect from 1 July 2018, to offer a wider range of services, including corporate and private client advisory services, merger and acquisition and tax and property advisory services;
- promotion of 23 professional staff across the Group in July 2018, of which 65% were women;
- continued contribution to the Employee Share Trust as an incentive and retention arrangement for new principals; and
- incremental implementation of productivity and efficiency initiatives including a common financial reporting system.

Significantly, on 27 November 2018, QANTM and Xenith IP Group Ltd announced their intention, subject to shareholder and regulatory approvals, to merge by way of a scheme of arrangement under section 411 of the Corporations Act (the 'Scheme of Arrangement'). The proposed merger, if approved, will create a leading provider of IP origination services in Australia. The merged Group will offer a broad base of highly complementary patent, trade mark, legal and strategic innovation advisory services. In particular, it will provide the opportunity to build upon QANTM's existing presence in Asia with Xenith's growing operations and opportunities in the region. A strengthened balance sheet will also support the pursuit of acquisitions and other growth opportunities in Asia. Increased scale will also enable the merged Group to realise benefits of streamlined corporate management and shared back-office services, and to invest in common, world-class technology platforms.

BUSINESS CONDITIONS

Business conditions in the half-year were primarily marked by the following features:

- the Group's Australian patent applications grew by 16.6% from pcp levels which well exceeded the overall market growth of 4.0%. As a result, the Group estimates that its patent market share increased from 12.8% to 14.0%. This continued an encouraging trend, evident during the second half of the prior year, and is a positive indicator for the potential flow through of future period prosecution and advisory work;
- the Group's patent application filings across increased 25% on pcp (or 83% when AFIP is included);
- trade mark revenue continued to grow, with DCC regaining the position as the largest filer trade mark applications in Australia; and
- a record 6 months revenue result for the legal and litigation business, including a contribution from the new corporate law business in line with expectations.

FINANCIAL RESULTS

Key features of the half-year financial results included:

- Total revenue was $55.3 million for the half-year, a 12.4% increase (1H18: $49.2 million). Total Revenue comprised:
  - Service Charges revenue of $43.0 million, which represented a 13.2% increase (1H18: $38.0 million);
  - Associate Charges revenue of $12.3 million, which represented a 9.8% increase (1H18: $11.2 million). Recoverable expenses, mainly related to Associate Charges, were $11.3 million, compared with $10.5 million in 1H18; and
  - an initial contribution from AFIP of revenue of $1.1million.

Total Net Revenue (total revenue and other income, excluding FX, less recoverable expenses) was $45.1 million, a 13.6% increase (1H18: $39.7 million).

The main features of Service Charges revenue included:

- higher patents revenue of $28.3 million (1H18: $26.3 million), across all patent revenue streams;
- the trade mark business continued to grow with increased revenue of $7.8 million (1H18: $6.8 million);
- legal and litigation revenues increased to $6.9 million (1H18: $4.9 million); and
- the impact of a favourable foreign exchange rate environment.

Other Income was $1.1 million (1H18: $1.0 million), while a gain on foreign exchange of $0.5 million was recorded (1H18: $33k).

Underlying operating expenses for the half-year were $33.4 million (1H18: $30.3 million). Factors contributing to the increase in expenses included the acquisition of AFIP; an increase in business development expenditure, including overseas travel; the recruitment of three new lateral teams and the operation of the employee share trust (EST), which was established in the second half of FY18. The increase in expenditure more than offset the impact of the savings that resulted from the restructuring program at the end of H1 FY18.

Business acquisition costs of $1.2 million were incurred during the period ,relating to M&A transaction activity.

The number of employees in the group increased to 335, up from 299 as at 31 December 2017. Twenty-three of the increase relates to the acquisition of AFIP.

Total Expenses (inclusive of Operating Expenses and Recoverable Expenses from Associate Charges) were $47.6 million, a 9.9% increase from the 1H18 level of $43.3 million.

Underlying EBITDA after FX was $12.2 million (1H18 $9.4 million) representing a 30% increase.

Underlying EBITDA margin for the half-year was 28.3% (on service charge revenue) compared to 24.8% in 1H18, an increase of 14%.

Statutory net profit before tax was $7.7 million (1H18: $5.5 million).

Underlying net profit after tax was $7.5 million (1H18: $5.5 million).

Statutory net profit after tax was $4.6 million (1H18: $3.6 million), a 28% increase.

Operating cash flow of $3.3 million (1H18: $8.3 million) was $5.0 million lower primarily due to $5.1 million of income tax payments made in the half (1H18: nil).

Net debt as at 31 December 2018 was $16.1 million, an increase from both June 2018 and December 2017, due mainly to the payment for the acquisition of AFIP, additional tax payments and business acquisition costs, plus contributions to the EST. Gearing at 31 December 2018 was 18.6%, up from 10.6% at June 2018 and from 9.1% at December 2017.

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

	Half-year ended	
	31-Dec-18 $'000	31-Dec-17 $'000
Statutory NPAT	**4,583**	**3,624**
add: interest	498	429
add: depreciation and amortisation	1,129	1,067
add: tax	3,069	1,854
EBITDA	**9,279**	**6,974**
add: employee incentive payments	-	584
add remuneration related to business acquisition	1,670	-
add: restructuring and business acquisition costs	1,212	1,871
Underlying EBITDA	**12,161**	**9,429**
less: depreciation and amortisation	(1,129)	(1,067)
less: interest	(498)	(429)
less: tax	(3,069)	(2,415)
Underlying NPAT	**7,465**	**5,518**

DIVIDENDS

For the half-year ended 31 December 2018, the directors resolved to pay a fully franked interim dividend of 3.5 cents per share (2017: 2.8 cents per share). The record date for the dividend is 28 February 2019. The dividend represents 90% 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 5 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.

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

Richard England

Chairman

Melbourne
22 February 2019

Deloitte Touche Tohmatsu
ABN 74 490 121 060

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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

22 February 2019

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 2018, 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

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

Tel: +61 3 9671 7000
Fax: +61 3 9671 7001
www.deloitte.com.au

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 2018 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 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 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 2018 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

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 22 February 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the half-year ended 31 December 2018

	Note	Half-year ended 31-Dec-18 $'000	31-Dec-17 $'000
Service charges		**42,968**	37,988
Associate charges		**12,333**	11,224
Total revenue		**55,301**	**49,212**
Other Income		**1,598**	1,044
Employee benefits expenses			
- ordinary		**(24,124)**	(22,346)
- related to business acquisition		**(1,670)**	-
Recoverable expenses		**(11,328)**	(10,519)
Occupancy expenses		**(3,392)**	(3,234)
Restructuring and business acquisition expenses		**(1,212)**	(1,871)
Other expenses		**(5,894)**	(5,312)
Earnings before finance costs, income tax, depreciation and amortisation		**9,279**	6,974
Depreciation and amortisation		**(1,129)**	(1,067)
Profit before finance costs and income tax		**8,150**	5,907
Net finance costs		**(498)**	(429)
Profit before income tax		**7,652**	5,478
Income tax expense		**(3,069)**	(1,854)
NET PROFIT FOR THE PERIOD		**4,583**	3,624
Other comprehensive income, net of income tax		**-**	-
Total comprehensive income for the period		**4,583**	3,624
Earnings per share		**cents per share**	**cents per share**
Basic (cents per share)		**3.45**	2.73
Diluted (cents per share)		**3.45**	2.72

The accompanying notes on pages 12 to 18 form part of this half-year financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Note	31-Dec-18 $'000	30-Jun-18 $'000
CURRENT ASSETS			
Cash and cash equivalents		**2,715**	3,093
Trade and other receivables		**31,828**	31,578
Other assets		**2,519**	1,239
TOTAL CURRENT ASSETS		**37,062**	35,910
NON-CURRENT ASSETS			
Property, plant and equipment		**2,635**	2,663
Intangible assets	5	**70,318**	66,294
Other assets		**18**	8
TOTAL NON-CURRENT ASSETS		**72,971**	68,965
TOTAL ASSETS		**110,033**	104,875
CURRENT LIABILITIES			
Trade and other payables		**7,281**	9,461
Provisions		**8,828**	6,402
Borrowings	6	**164**	226
Other financial liabilities		**187**	84
Current tax liabilities		**1,159**	3,182
TOTAL CURRENT LIABILITIES		**17,619**	19,355
NON-CURRENT LIABILITIES			
Provisions		**2,565**	2,800
Borrowings	6	**18,671**	11,249
Deferred tax balance		**2,563**	1,751
TOTAL NON-CURRENT LIABILITIES		**23,799**	15,800
TOTAL LIABILITIES		**41,418**	35,155
NET ASSETS		**68,615**	69,720
EQUITY			
Issued capital		**294,075**	293,798
Reserves		**(222,856)**	(222,612)
Accumulated losses		**(2,604)**	(1,466)
TOTAL EQUITY		**68,615**	69,720

The accompanying notes on pages 12 to 18 form part of this half-year financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2018

	Capital Account/ Issued Capital $'000	Reorg. Reserve $'000	Share payment Reserve $'000	Retained Profits $'000	Total Equity $'000
Opening balance at 1 July 2017	293,798	(222,856)	126	(214)	70,854
Profit for the period	-	-	-	3,624	3,624
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	3,624	3,624
Employee share schemes	-	-	64	-	64
Dividends paid	-	-	-	(7,044)	(7,044)
Closing balance at 31 December 2017	293,798	(222,856)	190	(3,634)	67,498

	Capital Account / Issued Capital $'000	Reorg. Reserve $'000	Share payment Reserve $'000	Retained Profits $'000	Total Equity $'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 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**

The accompanying notes on pages 12 to 18 form part of this half-year financial report

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the half-year ended 31 December 2018

	Half-year ended 31-Dec-18 $'000	Half-year ended 31-Dec-17 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**59,085**	53,685
Payment to suppliers and employees	**(50,089)**	(44,951)
Interest and costs of finance paid	**(498)**	(457)
Income tax paid	**(5,149)**	-
Net cash provided by operating activities	**3,349**	8,277
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	**(293)**	(549)
Payments for intangible assets	**(914)**	(123)
Payments for business acquisitions	**(3,050)**	-
Business acquisition related costs	**(1,212)**	-
Net cash used in investing activities	**(5,469)**	(672)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	**7,361**	-
Repayment of bank borrowings	**-**	(3,990)
Dividends paid	**(5,721)**	(7,044)
Net cash (used in) / provided by finance activities	**1,640**	(11,034)
Net decrease in cash and cash equivalents from continuing operations	**(480)**	(3,429)
Cash and cash equivalents at the beginning of the period	**3,093**	8,340
Effects of exchange rate changes on the balance of cash held in foreign currencies	**102**	46
Cash and cash equivalents at the end of the period	**2,715**	4,957

The accompanying notes on pages 12 to 18 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 2018 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 2018, 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

AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments (2014)* became mandatorily effective on 1 July 2018. Accordingly, these standards apply for the first time to this set of financial statements. The nature and effect of changes arising from these standards are summarised in the section below.

i. Impact of adoption of AASB 15 Revenue from Contracts with Customers

Revenue from contracts with customers is recognised so as to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled, in exchange for those goods or services.

Revenue is recognised in accordance with the following five-step process:

1. Identifying the contract with the customer.
2. Identifying the performance obligations in the contract.
3. Determining the transaction price.
4. Allocating the transaction price to the performance obligations in the contract.
5. Recognising revenue as and when the performance obligations are satisfied

The Group has distinct revenue streams over the life of the Intellectual Property application process.

Each one of these services becomes a separate performance obligation and revenue is recognised as follows: Revenue received from the filing of patents or trade marks with IP Australia, examination, advisory, grant and maintenance/renewal and litigation services have performance obligations that are satisfied at a point in time. Fees received for examination responses, advisory and litigation services have performance obligations that are satisfied over time.

Revenue arising from services that relate to performance obligations satisfied over time are recognised on a progressive basis using the input method. The input method is used by assessing the time and costs incurred on an engagement.

The Group adoption of AASB 15 has not had a material effect on the Group.

(c) Changes in Significant Accounting Policies Continued

ii. Impact of adoption of AASB 9 *Financial Instruments*

New accounting policies for financial instruments applicable from 1 July 2018

Financial assets at amortised cost

Financial assets are classified and measured at amortised cost when both of the following criteria are met:

- the business model objective is to hold the financial asset to collect the cash flows; and
- the contractual cash flows consist solely of payments of principal and interest.

Trade and other receivables of less than 12 months are initially recognised at their transaction price less lifetime expected losses and subsequently measured at amortised cost.

Impairment of financial assets

For trade and other receivables classified as current, the simplified approach is used, which requires recognition of a loss allowance based on the lifetime expected credit losses. As a practical expedient, the Group uses a provision matrix based on historical information and adjusted for forward looking estimates in order to determine the lifetime expected credit losses.

Any change in expected credit losses between the previous reporting period and the current reporting period is recognised as an impairment gain or loss in profit or loss.

The Group adoption of AASB 9 has not had a material effect on the Group.

(d) 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 2018. The only exception is the estimate of the contingent consideration for the business combination which has been accounted for as remuneration over the period from acquisition date to expected payment date. The estimate of contingent consideration is dependent on the outcome of many variables that affect future profitability (see Note 4).

NOTE 2: DIVIDENDS

In respect of the half-year ended 31 December 2018, the directors resolved to pay a fully franked interim dividend of 3.5 cents per share (1H18: 2.8 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	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**	**2018 $'000**	**2017 $'000**
Service charges	**40,562**	36,344	**2,406**	1,644	**42,968**	37,988
Associate charges	**11,772**	11,051	**561**	173	**12,333**	11,224
Total Revenue	**52,334**	47,395	**2,967**	1,817	**55,301**	49,212
Other Income	**1,537**	1,042	**61**	2	**1,598**	1,044
Less Recoverable Expenses	**10,784**	10,338	**544**	181	**11,328**	10,519
Net Revenue	**43,087**	38,099	**2,484**	1,638	**45,571**	39,737
Less Overheads	**31,454**	28,810	**1,956**	1,498	**33,410**	30,308
Earnings Before Interest, Tax, Depreciation and Amortisation	**11,633**	9,289	**528**	140	**12,161**	9,429
Depreciation	**404**	505	**56**	55	460	560
Amortisation	**576**	507	**93**	-	669	507
Segment profit before finance costs and income tax	**10,653**	8,277	**379**	85	**11,032**	8,362
Adjustments to reconcile to statutory profit						
Restructuring and business acquisition costs	**(1,212)**	(1,871)	-	-	**(1,212)**	(1,871)
Employee incentive payments	**-**	(584)	-	-	**-**	(584)
Remuneration related to business acquisition[1]	**-**	-	**(1,670)**	-	**(1,670)**	-
Statutory profit before finance costs and income tax	**9,441**	5,822	**(1,291)**	85	**8,150**	5,907
Finance costs					**(498)**	(429)
Profit for the period before income tax					**7,652**	5,478

(b) Major customers

No single customer contributed 10% or more of the Group's revenue during either the half-year ended 31 December 2018 or 2017.

[1] Represents contingent consideration pursuant to a Sale and Purchase Agreement that is required to be recognised as remuneration under AASB 3.

NOTE 4: BUSINESS COMBINATION

Acquisition of Advanz Fidelis IP Sdn Bhd (AFIP)

On 2 July 2018, QANTM acquired the Malaysian intellectual property company, Advanz Fidelis IP Sdn Bhd ('AFIP') (formerly Advanz Fidelis Sdn Bhd). The acquisition involved an upfront cash payment of AUD 3.05 million. In addition, there are two contingent payments based on an earn-out methodology for the calendar year ended 31 December 2018 and 2019. Those payments are being accrued as remuneration over the relevant vesting periods, resulting in the recognition of an expense of $1.67 million in the half-year to 31 December 2018.

Details of the business combination are set out below:

	$'000
Purchase consideration transferred:	
Amount settled in cash	3,050
Total consideration transferred	**3,050**
Recognised amounts of identifiable net assets:	
Assets	
Property, plant and equipment	139
Intangibles	3,780
Total Assets	**3,919**
Liabilities	
Deferred Tax Liability	869
Total Liabilities	**869**
Total identifiable net assets at fair value	3,050
Goodwill	-
Analysis of cash flows on acquisition:	
Net cash acquired from subsidiary	-
Cash consideration	3,050
Payment to acquire business, net of cash acquired	**3,050**

The initial accounting for the acquisition of AFIP has only been provisionally determined at the end of the half-year 31 December 2018. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations (including the tax values of AFIP's assets that require a reset based on market value) had not been finalised and they have therefore only been provisionally determined based on the directors' best estimates.

Proposed merger with Xenith

On 27 November 2018 QANTM and Xenith IP Group Ltd ('Xenith') announced a proposed merger of equals, with QANTM shareholders to own 55% and Xenith shareholders 45% of the merged entity. Subject to the Xenith shareholder and regulatory approvals, and other conditions being satisfied, the proposed merger will be implemented through a scheme of arrangement under section 411 of the *Corporations Act 2001* (Cth). The explanatory Scheme Booklet lodged with the Australian Securities and Investments Commission on 19 February 2019 notes that the meeting at which Xenith shareholders will vote on whether to approve the scheme of arrangement will be held on 3 April 2019.

NOTE 5: INTANGIBLE ASSETS

	Note	31-Dec-18 $'000	30-Jun 18 $'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		**2,700**	2,700
Acquisitions through business combinations		**725**	-
Accumulated impairment losses		**-**	-
Net carrying value of brand names		**3,425**	2,700
Client Relationships			
Balance at beginning of period		**19,300**	19,300
Acquisitions through business combinations		**2,894**	-
Accumulated amortisation bought forward		**(1,797)**	(825)
Amortisation charge for the period		**(580)**	(972)
Net carrying value of client relationships		**19,817**	17,503
Software			
Balance at beginning of period		**311**	86
Additions at cost		**914**	225
Acquisitions through business combinations		**161**	-
Accumulated amortisation bought forward		**(56)**	(33)
Amortisation charge for the period		**(90)**	(23)
Net carrying value of software		**1,240**	255
Total Intangibles		**70,318**	**66,294**

NOTE 6: BORROWINGS

	Note	31-Dec-18 $'000	30-Jun 18 $'000
CURRENT			
Leases		**164**	226
Total current borrowings		**164**	226
NON-CURRENT			
Bank loans	6(a)	**18,500**	11,000
Leases		**171**	249
Total non-current borrowings		**18,671**	11,249
Total borrowings		**18,835**	11,475

(a) Summary of borrowing arrangements

The Company's banking facilities with ANZ consist of:

- $25 million revolving overdraft sub-facility and cash advance sub-facility (Facility A);
- $4.5 million asset finance facility (Facility B); and
- $30 million acquisition facility (Facility C).

Together, these facilities are referred to as the Banking Facilities.

The facilities have a maturity date of 31 July 2020. All facilities have a variable interest rate based on bank bill swap rate (BBSY) plus a margin calculated with reference to the net leverage ratio. In addition, line fees calculated based on the relevant facility limit are payable on Facility A and Facility C.

The facility agreement under which banking facilities have been made available contains financial covenants typical for facilities of this nature. The covenants which are tested quarterly (unless otherwise specified in the facility agreement), relate to the leverage ratio, fixed charge cover ratio, working capital ratio and debt/debt + equity ratio. The Company has operated within these covenants during the period.

NOTE 7: KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report. During the half-year the fixed annual remuneration (inclusive of superannuation) of Leon Allen, Managing Director, was increased from $254,416 to $650,000 per annum, effective 1 September 2018.

During the period the Chief Financial Officer participated in a Retention Plan arrangement. The terms of the Plan are related to current M&A transactions and remaining employed with QANTM for 6 months post successful completion of the transaction or 12 months from the date of the plan agreement. The amount payable represents 50% of current fixed annual remuneration.

There have been no other significant changes in the nature of such arrangements.

NOTE 8: CONTINGENT LIABILITIES

	31-Dec-18 $'000	30-Jun-18 $'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 9: 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

The directors declare that:

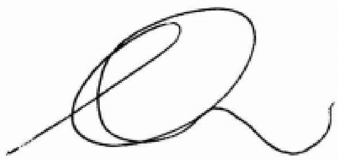
(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(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

Leon Allen, Director



Abigail Cheadle, Director