

QANTM Intellectual Property Limited ACN 612 441 326 and Controlled Entities

Financial report for Half Year ended 31 December 2021

Appendix 4D

Name of Entity: QANTM Intellectual Property Limited ACN 612 441 326		
Current period:	Half Year ended 31 December 2021	
Previous corresponding period:	Half Year ended 31 December 2020	

Results for announcement to the market

	31 Dec 2021 \$'000	31 Dec 2020 \$'000	Change %
Revenue from ordinary activities	62,688	58,550	7.0%
Statutory Profit from ordinary activities after tax	3,408	5,984	(43)%
Distributions – current period (cents): 1H21 interim dividend (declared)	3.0	4.0	
Franked amount per share (cents)	3.0	4.0	
Record date for determining entitlement to the interim dividend		3 March 2022	
Net tangible asset value per share (cents)	(0.0)	(0.0)	

This information should be read in conjunction with the Consolidated Financial Report of QANTM Intellectual Property Limited for the year ended 30 June 2021, and any public announcements made in the period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

Entities over which control has been gained or lost during the period:

Control gained: Sortify.tm Limited (New Zealand Company Number 6293732) and its wholly owned subsidiary, Trademark Planet Ltd (New Zealand Company Number 8125586)

Audit Status

This report is based on the Consolidated Financial Report of QANTM Intellectual Property Limited ('the Company' or 'QANTM') for the Half Year ended 31 December 2021, 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 2021 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 2021

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for the Half Year ended 31 December 2021

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DIRECTORS' REPORT

for the Half Year ended 31 December 2021

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 2021

PRINCIPAL ACTIVITIES

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

Davies Collison Cave, including:

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

FPA Patent Attorneys, including:

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

Advanz Fidelis IP Sdn Bhd - an incorporated intellectual property prosecution and advisory practice operating in Malaysia (AFIP); and

Cotters Patent and Trade Mark Attorneys - an incorporated patent and trade mark attorney business operating in Australia (Cotters).

Sortify.tm – an incorporated trademark registration and automation business operating in Australia, New Zealand and the United Kingdom operating under the brands Trademarks Online, Trademark Planet and DIY trademarks.

QANTM generates revenue by providing services in relation to the creation, protection, commercialisation, enforcement and management of IP. In addition, QANTM generates revenue outside the IP application process, with clients engaging the QANTM businesses to provide strategic IP advice regarding their IP portfolio or that of their competitors. Such strategic advice assists clients in identifying potential opportunities for IP protection. DCC Law provides IP legal and litigation services, and corporate and commercial legal advice on mergers and acquisitions, governance and compliance, business structures and restructuring, capital raising, joint ventures, finance and asset protection. Sortify.tm provides trade mark registration and automation services operating direct to consumer trademark registration services and legal practice automation.

QANTM has a diverse client base ranging from start-up ventures and SMEs to Fortune 500 multinational corporations, public sector research institutions and universities. The majority of QANTM's clients are located in the US, Europe, Japan and Australia and can be broadly divided into three groups:

- local clients, which include Australian, New Zealand, Singapore and Malaysia based corporates, public sector research institutions, universities, and private individuals; and
- international clients, which include:
 - foreign corporates that engage directly with QANTM, including Fortune 500 companies and other foreign multinational corporations; and
 - international clients referred to QANTM by IP practices based overseas (Foreign Associates).

QANTM businesses have relationships with a broad range of Foreign Associates internationally. These Foreign Associates engage the QANTM businesses to act on behalf of international clients where that client wishes to obtain IP protection in Australia, New Zealand, Singapore or Malaysia (often as part of the 'national phase entry' of applications made pursuant to the international Patent Cooperation Treaty (**PCT**)). Similarly, QANTM businesses will engage a Foreign Associate to act on behalf of a QANTM client in Australia, New Zealand, Singapore or Malaysia that wishes to obtain IP protection in the Foreign Associate's jurisdiction.

DIRECTORS' REPORT

for the Half Year ended 31 December 2021

This reciprocity between QANTM businesses and their networks of Foreign Associates is important in generating incoming referrals of international clients and revenue for the businesses.

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	Non-Executive Director
Mr Craig Dower	Managing Director and Chief Executive Officer
Ms Sonia Petering	Non-Executive Director

DIRECTORS' REPORT

for the Half Year ended 31 December 2021

Operational and financial review

Key strategic, business and operational activities during the six months to 31 December 2021 included:

- a continued focus on organisational and business development (including technology modernisation).
- during the half year, QANTM acquired Sortify.tm Ltd, a leading trade mark registration and automation business based in New Zealand. The current business operates primarily in Australia and New Zealand (where it is one of the leading trademark filers in each country) and has recently entered the UK market with well progressed plans to expand into South East Asian markets.
- implementation of a new HR platform and Transition of IT support to a tier-1 global service provider.
- further engagement on a number of merger and acquisition opportunities.

BUSINESS CONDITIONS

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

- An 11.9 per cent increase in Group patent applications, with Australian applications (56 per cent of the Group total) up 6.0 per cent on the prior period. This increase compares with an overall market increase (excluding innovation patents) of 9.4 per cent. QANTM's overall market share of 14.7 per cent, while lower than the prior corresponding period (15.2 per cent) and the immediately preceding half (16.4 per cent), improved in the second quarter to 15.9 per cent
- Asian patents (16 per cent of the Group total) increased by 35 per cent, with applications by our Malaysian business increasing 53 per cent. Singapore patent applications showed a very strong 44 per cent increase, as the DCC and FPA presence continues to gain traction. The DCC sales office in the United States is contributing to new Asia and Rest of the World business
- Rest of World patent applications (25 per cent of the Group total) were up 17.2 per cent. Trade mark applications for the Group increased by 49 per cent, reflecting an excellent performance by DCC trade mark business and the acquisition of the Sortify business for the first time
- Australian trade mark filings (60 per cent of the Group total) increased by 62 per cent
- New Zealand trade mark filings (18 per cent of the Group total), more than doubled through the acquisition of Sortify
- DCC retains the largest market share for trade mark filings in Australia and the acquisition of Sortify has established an excellent position in New Zealand and the basis for the expansion of advisory and prosecution services
- Legal and litigation services revenue contribution was 15.6% lower relative to a strong prior period, reflecting the timing of advisory and case load work. DCC Law experienced an increase in revenue generation in the 1H21 compared to the immediately preceding half, up 4.7%

FINANCIAL RESULTS

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 payments relating to restructuring and transformation costs. Refer to page 4 for a reconciliation of statutory Net Profit after Tax ('NPAT') to underlying NPAT.

DIRECTORS' REPORT

for the Half Year ended 31 December 2021

Key features of the underlying half year financial results included:

- Service Charges of \$48.9m (1H21: \$46.6m), comprising the following main components:
 - Patent Service Charges up 4.8% to \$33.5m (1H21: \$31.9m)
 - Trade Marks Service Charges up 20.7% to \$9.5m (1H21: \$7.9m)
 - Legal Service Charges 15.6% lower at \$5.7 million (1H21: \$6.8m)
- Total revenue (Service Charges and Associate Charges) increased 7% to \$62.7 million (1H21: \$58.6m)
- Total net revenue of \$50.6m (1H21 \$48.3m), which includes other income of \$1m, and is after recoverable expenses from Associate Charges of \$13.1m
- Underlying operating expenses of \$37.8m, an increase of \$3.0m (1H21: \$34.8m). Operating expenses include a number of one-off strategic investments in our technology modernisation program, increased marketing expenses, as well as some further investments in people that are being made for the future growth and efficiency of the business
- Underlying EBITDA was \$12.8m (1H21: \$13.5m). EBITDA includes FX gains of \$0.1m (1H21: FX loss 1.0m)
- Statutory net profit after tax of \$3.4m (1H21: \$6.0m). Statutory profit includes amortisation of intangibles from acquisitions
- Underlying net profit after tax of \$6.5m (1H21: \$7.1m). The appendix provides a reconciliation from statutory to underlying NPAT
- Operating cash flow was lower at \$7.3m (1H21: \$9.0m) with increased transformation program expenditure in the half
- Net debt as at 31 December 2021 was \$23.1m, compared to \$17.2m as at 31 December 2020 and \$16.2m as at 30 June 2021. Net Debt to Underlying EBITDA was 0.90 at 31 December 2021 (30 June 2021 0.62). As at 31 December 2021, cash and equivalents of \$8.4m were held on the balance sheet (31 December 2020: \$6.9m).

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

	Half Year Ended	
	31-Dec-21 \$'000	31-Dec-20 \$'000
Statutory NPAT	3,408	5,984
add: interest	1,129	745
add: depreciation and amortisation	4,297	3,721
add: tax	1,666	2,397
EBITDA	10,500	12,847
add: retention/restructuring payments	87	323
add: transformation costs	1,428	260
add: business acquisition costs	768	130
Underlying EBITDA	12,783	13,560
less: depreciation and amortisation	(3,082)	(3,121)
less: interest	(1,129)	(745)
less: tax	(2,121)	(2,572)
Underlying NPAT	6,452	7,122

DIRECTORS' REPORT

for the Half Year ended 31 December 2021

DIVIDENDS

For the Half Year ended 31 December 2021, the directors resolved to approve a fully franked interim dividend of 3.0 cents per share (FY21 interim dividend of 4.0 cents per share, fully franked), to be paid on 6 April 2022 to all eligible shareholders on the Company's share register as at the record date of 3 March 2022. The dividend represents 89% of adjusted Statutory NPAT before amortisation of intangibles.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under 307C of the *Corporations Act 2001* is included on page 6 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. 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

Chairman

Melbourne

24 February 2022

24 February 2022

The Board of Directors
QANTM Intellectual Property Limited
Level 15, Nicholson Street
Melbourne Victoria 3000

Dear Board Members,

Auditor's Independence Declaration to 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 half-year financial report of QANTM Intellectual Property Limited for the half-year ended 31 December 2021, 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 faithfully

DELOITTE TOUCHE TOHMATSU

Belinda Abbott
Partner
Chartered Accountants

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

Conclusion

We have reviewed the half-year financial report of QANTM Intellectual Property Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2021, 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 31 December 2021, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on page 19.

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 the Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of Group's financial position as at 31 December 2021 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities 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 Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 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*.

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.

DELOITTE TOUCHE TOHMATSU

Belinda Abbott

Partner

Chartered Accountants

Melbourne, 24 February 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Half Year ended 31 December 2021

	Note	Half Year ended	
		31-Dec-21 \$'000	31-Dec-20 \$'000
Service charges		48,897	46,596
Associate charges		13,791	11,954
Total revenue	5	62,688	58,550
Other Income		1,051	986
Employee benefits expenses		(31,263)	(28,464)
Recoverable expenses		(13,120)	(11,311)
Occupancy expenses		(1,079)	(1,043)
Business acquisition expenses		(768)	(130)
Technology expenses		(3,680)	(2,217)
Other expenses		(3,329)	(3,524)
Earnings before finance costs, income tax, depreciation and amortisation		10,500	12,847
Depreciation and amortisation		(4,297)	(3,721)
Profit before finance costs and income tax		6,203	9,126
Net finance costs		(1,129)	(745)
Profit before income tax		5,074	8,381
Income tax expense		(1,666)	(2,397)
Net profit for the period		3,408	5,984
Other comprehensive income / (loss), net of income tax			
Exchange differences on translating foreign operations		(214)	21
Total comprehensive income for the period		3,194	6,005
Net profit attributable to:			
Members of the parent entity		3,406	5,957
Non-controlling interests		2	27
		3,408	5,984
Total comprehensive income attributable to:			
Members of the parent entity		3,192	5,978
Non-controlling interests		2	27
		3,194	6,005
Earnings per share		cents per share	cents per share
Basic (cents per share)		2.50	4.37
Diluted (cents per share)		2.47	4.36

The accompanying notes on pages 13 to 18 form part of this half year financial report

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

	Note	31-Dec-21 \$'000	30-Jun-21 \$'000
CURRENT ASSETS			
Cash and cash equivalents		8,357	5,722
Trade and other receivables		35,637	37,235
Current tax asset		720	-
Other assets		1,216	1,925
TOTAL CURRENT ASSETS		45,930	44,882
NON-CURRENT ASSETS			
Property, plant and equipment		2,009	2,276
Right-of-use asset		10,795	13,218
Intangible assets	10	85,968	74,659
TOTAL NON-CURRENT ASSETS		98,772	90,153
TOTAL ASSETS		144,702	135,035
CURRENT LIABILITIES			
Trade and other payables		10,724	13,527
Provisions		8,943	7,766
Borrowings		1,723	1,995
Lease liability		4,482	4,467
Other financial liabilities		1,891	751
Current tax liabilities		-	29
TOTAL CURRENT LIABILITIES		27,763	28,535
NON-CURRENT LIABILITIES			
Provisions		295	413
Borrowings		29,734	19,868
Lease liability		8,856	10,835
Other financial liability		1,228	-
Deferred tax liability		4,147	2,554
TOTAL NON-CURRENT LIABILITIES		44,260	33,670
TOTAL LIABILITIES		72,023	62,205
NET ASSETS		72,679	72,830
EQUITY			
Issued capital	8	298,558	297,408
Reserves		(222,479)	(222,396)
Non-controlling interest		(272)	(274)
Accumulated losses		(3,128)	(1,908)
TOTAL EQUITY		72,679	72,830

The accompanying notes on pages 13 to 18 form part of this half year financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Half Year ended 31 December 2021

	Issued Capital	Reorg. Reserve	Acquisition Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Non – Controlling Interest	Acc. Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2020	295,510	(222,856)	655	26	(103)	(186)	(1,852)	71,194
Profit for the period	-	-	-	-	-	27	5,957	5,984
Other comprehensive income for the period	-	-	-	-	21	-	-	21
Total comprehensive income for the period	-	-	-	-	21	27	5,957	6,005
Shares issued during the year	1,413	-	-	-	-	-	-	1,413
Share based payment	-	-	-	200	-	-	-	200
Dividends paid	-	-	-	-	-	-	(5,103)	(5,103)
Closing balance at 31 December 2020	296,923	(222,856)	655	226	(82)	(159)	(998)	73,709

	Issued Capital	Reorg. Reserve	Acquisition Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Non – Controlling Interest	Acc. Losses	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance at 1 July 2021	297,408	(222,856)	270	272	(82)	(274)	(1,908)	72,830
Profit for the period	-	-	-	-	-	2	3,406	3,408
Other comprehensive income for the period	-	-	-	-	(214)	-	-	(214)
Total comprehensive income for the period	-	-	-	-	(214)	2	3,406	3,194
Shares issued during the year	60	-	-	-	-	-	-	60
Issued capital from Spotify Acquisition	1,000	-	-	-	-	-	-	1,000
Share based payment	-	-	-	221	-	-	-	221
Performance rights	90	-	-	(90)	-	-	-	-
Dividends paid	-	-	-	-	-	-	(4,626)	(4,626)
Closing balance at 31 December 2021	298,558	(222,856)	270	403	(296)	(272)	(3,128)	72,679

The accompanying notes on pages 13 to 18 form part of this half year financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the Half Year ended 31 December 2021

	Half Year ended	
	31-Dec-21	31-Dec-20
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	68,471	61,013
Payment to suppliers and employees	(58,168)	(48,796)
Interest and costs of finance paid	(664)	(420)
Income tax paid	(2,344)	(2,741)
Net cash provided by operating activities	7,295	9,056
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(204)	(726)
Payments for intangible assets	(316)	(486)
Payment for business acquisition	(6,657)	-
Net cash used in investing activities	(7,177)	(1,212)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	11,000	3,000
Repayment of bank borrowings	(1,411)	(2,544)
Payment of lease liability	(2,449)	(2,504)
Dividends paid	(4,626)	(5,103)
Net cash used in finance activities	2,514	(7,151)
Net increase in cash and cash equivalents	2,632	693
Cash and cash equivalents at the beginning of the period	5,722	6,163
Effects of exchange rate changes on the balance of cash held in foreign currencies	3	5
Cash and cash equivalents at the end of the period	8,357	6,861

The accompanying notes on pages 13 to 18 form part of this half year financial report

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the Half Year ended 31 December 2021

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These general purpose interim financial statements for the Half Year reporting period ended 31 December 2021 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 2021, together with any public announcements made during the following half year.

The interim financial report has been prepared on an accruals and historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. The financial statements are presented in Australian dollars, rounded off to the nearest thousand dollars, unless otherwise indicated.

(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.

(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 2021. The only exception is the acquisition of all the shares in Sortify on 30th September 2021. The acquisition included contingent consideration which is an estimate dependent on the outcome of certain variables. Purchase price accounting involves judgment and complexity in the purchase price allocation, including determining the fair values of the acquired assets and liabilities. Further details are disclosed in note 11.

NOTE 2: ACCUMULATED IMMATERIAL MISSTATEMENTS IDENTIFIED IN PRIOR PERIODS

The Group elected to adjust for accumulated immaterial misstatements identified in prior periods. These adjustments largely related to the application of the guidance obtained from the International Financial Reporting Interpretations Committee ("IFRIC") for Software as a Service ("SaaS") and inconsistencies within the accounting for the Right-of-Use Asset and Lease Liability under AASB 16 Leases. The impact to the condensed consolidation statement of financial position as at 31 December 2021 was a decrease to the right-of-use asset of \$167,000, a decrease in intangible assets of \$182,000 and an increase to lease liabilities of \$421,000. The impact to earnings before finance costs, income tax, depreciation and amortisation is a \$495,000 decrease. The impact to net assets is a \$758,000 decrease.

The table below shows the adjusted amounts included within the reported condensed consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2021:

	Adjustments effected to final position \$'000	Final position for the 6 months ended 31 Dec 2021 \$'000
Impact on Condensed Consolidated Statement of Profit and Loss and Other Comprehensive Income		
Earnings before finance costs, income tax, depreciation and amortisation	(495)	10,500
Amortisation	(167)	(4,297)
Net finance costs	(421)	(1,129)
Profit before income tax	(1,083)	5,074
Profit after income tax	(758)	3,373

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the Half Year ended 31 December 2021

NOTE 3: DIVIDENDS

On 23 February 2022, the directors approved a fully franked interim dividend of 3.0 cents per share in respect of the half-year ended 31 December 2021, to be paid on 6 April 2022 to all eligible shareholders on the Company's share register as at the record date of 3 March 2022. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$4.1 million.

NOTE 4: SEGMENT INFORMATION

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.

Half Year ended	AUSTRALIA		ASIA		TOTAL	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Service charges	45,952	43,970	2,945	2,626	48,897	46,596
Associate charges	12,959	11,099	832	855	13,791	11,954
Total Revenue	58,911	55,069	3,777	3,481	62,688	58,550
Other Income	841	894	210	92	1,051	986
Less Recoverable Expenses	(12,289)	(10,481)	(831)	(830)	(13,120)	(11,311)
Net Revenue	47,463	45,482	3,156	2,743	50,619	48,225
Less Overheads	(35,811)	(32,550)	(2,025)	(2,115)	(37,836)	(34,665)
Earnings Before Interest, Tax, Depreciation and Amortisation	11,652	12,932	1,131	628	12,783	13,560
Depreciation	(530)	(473)	(38)	(85)	(568)	(558)
Amortisation	(3,662)	(2,776)	(67)	(387)	(3,729)	(3,163)
Segment profit before finance costs and income tax	7,460	9,683	1,026	156	8,486	9,839
Adjustments to reconcile to statutory profit						
Unallocated expenses					(2,283)	(713)
Statutory profit before finance costs and income tax					6,203	9,126
Finance costs					(1,129)	(745)
Profit for the period before income tax					5,074	8,381

Major customers

No single customer contributed 10% or more of the Group's revenue during either the Half Year ended 31 December 2021 or 31 December 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the Half Year ended 31 December 2021

NOTE 5: 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 4).

	Half Year ended	
	31-Dec-21 \$'000	31-Dec-20 \$'000
Geographical markets		
Australia	58,911	55,069
Asia	3,777	3,481
	62,688	58,550
Service Lines		
Service Charges	48,897	46,596
Associate Charges	13,791	11,954
	62,688	58,550
Timing of revenue recognition		
At a point in time	37,786	32,241
Over time	24,902	26,309
	62,688	58,550

NOTE 6: CONTINGENT LIABILITIES

	31-Dec-21 \$'000	30-Jun-21 \$'000
Estimates of material amounts of contingent liabilities, not provided for in the financial report:		
Bank guarantees in respect of property leases	2,309	3,846
	2,309	3,846

NOTE 7: EVENTS SUBSEQUENT TO BALANCE DATE

Other than the dividend that the directors have resolved to pay as outlined in Note 3, 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the Half Year ended 31 December 2021

NOTE 8: ISSUED CAPITAL

	31-Dec-21 \$'000	30-Jun-21 \$'000
Fully Paid Ordinary shares	298,558	297,408
At the beginning of the reporting period	136,059,964	134,298,552
Shares issued during the year:		
Issued to employee share trust	-	1,348,539
Issue for business acquisition	876,888	334,784
Issued to employee share schemes	138,471	78,089
At the end of the reporting period	137,075,323	136,059,964

NOTE 9: SHARE-BASED PAYMENTS

LTI program performance rights

QANTM has issued performance rights to various senior executives under the Company's Employee Incentive Plan, in place since IPO in 2016 and summarised in the 2019 Notice of Annual General Meeting. Each performance right may be eligible to vest as a QANTM share subject to satisfaction of vesting conditions such as continued service, personal performance objectives and the Group's performance during the vesting period against metrics such as growth in earnings per share.

On 8 December 2021, 760,963 performance rights were issued, 570,174 of those to the CEO/MD relating to his contractual Long Term Incentive entitlement for FY21 and FY22. The terms of issue for those performance rights are detailed in the 2021 Notice of Annual General Meeting. The remaining 190,789 of performance rights issued on 8 December 2021 were issued to other senior executives.

Movements during the year

	Number	Weighted Average Exercise Price \$
Performance rights outstanding as at 1 July	397,600	-
Granted during the year	760,963	-
Performance rights vested	(90,000)	1.04823
Performance rights outstanding as at 31 December	1,068,563	-
Performance rights exercisable as at 31 December	-	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the Half Year ended 31 December 2021

NOTE 10: INTANGIBLE ASSETS

	Note	31-Dec-21 \$'000	30-Jun-21 \$'000
Goodwill			
Balance at beginning of period		48,793	48,793
Foreign currency translation		(109)	-
Acquisitions through business combinations	11	6,357	-
Accumulated impairment losses		-	-
Net carrying value of goodwill		<u>55,041</u>	48,793
Brand names			
Balance at beginning of period		4,521	4,521
Foreign currency translation		(17)	-
Acquisitions through business combinations	11	970	-
Accumulated impairment losses		-	-
Net carrying value of brand names		<u>5,474</u>	4,521
Client relationships			
Balance at beginning of period		25,328	25,328
Acquisitions through business combinations		-	-
Accumulated amortisation bought forward		(5,348)	(4,074)
Amortisation charge for the period		(642)	(1,274)
Net carrying value of client relationships		<u>19,338</u>	19,980
Software			
Balance at beginning of period		2,568	1,731
Foreign currency translation		(88)	-
Additions at cost		316	837
Acquisitions through business combinations	11	5,095	-
Accumulated amortisation bought forward		(1,203)	(633)
Amortisation charge for the period		(573)	(570)
Net carrying value of software		<u>6,115</u>	1,365
Total Intangibles		<u>85,968</u>	74,659

(a) MOVEMENTS IN CARRYING AMOUNTS OF INTANGIBLE ASSETS

	Note	Goodwill \$'000	Brand Name \$'000	Client Relationship \$'000	Software \$'000	Total \$'000
Opening balance at 1 July 2021		48,793	4,521	19,980	1,365	74,659
Foreign currency translation		(109)	(17)	-	(88)	(214)
Additions		-	-	-	316	316
Additions through business combinations	11	6,357	970	-	5,095	12,422
Amortisation		-	-	(642)	(573)	(1,215)
Closing balance at 31 December 2021		55,041	5,474	19,338	6,115	85,968

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the Half Year ended 31 December 2021

NOTE 11: BUSINESS COMBINATION

Acquisition of Sortfy.tm

On the 30th of September 2021, the Company acquired all the shares in Sortfy.tm Limited for a total purchase consideration of \$11 million subject to the business achieving certain contingent considerations hurdles. The contingent consideration of \$3 million is payable in 2 annual instalments of \$0.5 million cash and \$1 million in the issue of QANTM shares, subject to the business achieving the contingent considerations hurdles.

The acquisition significantly increases the number of trademark applications being filed by QANTM companies in Australia and New Zealand.

At completion, cash consideration of \$6.7 million was paid together with the issue of shares to the vendors valued at \$1 million. Contingent consideration of up to \$3 million is expected to be payable based on the performance of Sortfy.tm over the 2 years following completion. The \$3 million of contingent consideration has been discounted to its fair value of \$2.6 million.

The purchase price accounting involves judgment and complexity in the purchase price allocation, including determining the fair values of the acquired assets and liabilities. The fair value of the below numbers are subject to measurement period adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Details of the business combination are set out below:

	Note	\$'000
Cash consideration		6,657
Shares		1,000
Contingent consideration		2,585
Total consideration		10,242
Recognised amounts of identifiable net assets:		
Assets		
Cash & cash equivalents		98
Trade and other receivables		72
Other assets		5
Property, plant and equipment		6
Intangible assets	10	6,065
Total Assets		6,246
Liabilities		
Trade and other payables		182
Borrowings		428
Provisions		53
Deferred tax liability (acquisition related)		1,698
Total Liabilities		2,362
Total identifiable net assets at fair value		3,884
Goodwill	10	6,357

The fair value of the acquired trade and other receivables is \$72,000, which is expected to be fully recoverable.

DIRECTORS' DECLARATION

for the Half Year ended 31 December 2021

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 condensed financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give 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



Sonia Petering, Director