



Annual Financial Report Incorporating Appendix 4E

Xenith IP Group Limited and its controlled entities
For the year ended 30 June 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET**APPENDIX 4E FOR THE YEAR ENDED 30 JUNE 2017**

	2017 \$'000	2016 \$'000	Change
Revenues from ordinary activities ¹	85,036	36,868	131%
Statutory profit from ordinary activities after tax attributable to the owners of Xenith IP Group Limited	3,957	6,535	(39%)
Statutory profit attributable to the owners of Xenith IP Group Limited	3,957	6,535	(39%)
Underlying net profit after tax ("NPAT") ²	8,365	5,984	40%
Underlying Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") ²	15,480	9,182	69%

¹ - In the current year, the Group has changed its revenue recognition policy for official fees. The prior year comparative has been restated under this revised accounting policy. Refer to Note 5 in the Financial Statements for further details.

² - Underlying NPAT and EBITDA are non-IFRS measures that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of significant acquisition, integration and IPO related expenses. The prior year results have been presented on a pro forma basis. Refer to the reconciliation of statutory to underlying pro forma results in the Directors' report.

Dividends	Amount per share	Franked Amount per share
Interim dividend	1.6 cents	1.6 cents
Final dividend	3.4 cents	3.4 cents

The record date for determining the entitlement to the dividend is 22 September 2017.

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Directors' report

For the year ended 30 June 2017

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Xenith IP Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled during the year ended 30 June 2017.

Directors

The following persons were Directors of the Company during or since the end of the financial year:

- Sibylle Krieger
- Susan Forrester
- Andrew Harrison
- Stuart Smith
- Craig Dower (appointed 9 August 2017)
- Russell Davies (resigned 20 April 2017)
- Kathryn Spargo (appointed 20 April 2017)

Information on Directors

The skills, experience, expertise and special responsibilities of each person who has been a Director of the Company at any time during or since the end of the financial year is provided below, together with details of the Company Secretary as at the year end.

Sibylle Krieger

*LLB (Hons), LL.M., MBA,
FAICD*

Chair

Non-Executive
Director

Experience

Sibylle was appointed independent Non-Executive Chair in October 2015.

Sibylle is a professional independent non-executive director with over 35 years of broad commercial experience. Her early career was in professional services as a corporate lawyer in private practice, followed by a period as an economic regulator. Her particular focus as a non-executive director has been on corporate governance, professional services, infrastructure and regulated industries, and sectors undergoing significant change or reform.

In her earlier professional career, Sibylle was a partner of two major commercial law firms (Baker & McKenzie, a global law firm, and Clayton Utz, a top tier Australian law firm) for a combined period of 22 years, holding several strategic planning and management roles. Her client work included corporate law, governance and Directors' duties. During this time, Sibylle faced many of the governance issues experienced by professional service firms transitioning from traditional partnerships to more corporate business models.

Other Current Listed Company Directorships

- Non-Executive Director of MyState Limited (ASX:MYS) (appointed December 2016)

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

- Chair – Board (current)
- Member, Audit and Risk Committee (current)
- Member, People and Culture Committee (current)

Directors' report

For the year ended 30 June 2017

Susan Forrester

*BA, LLB (Hons),
EMBA, FAICD*

Non-Executive
Director

Experience

Susan was appointed as an independent Non-Executive Director in October 2015.

Susan is an experienced company director with significant experience as a non-executive director across a range of listed and unlisted company boards, spanning legal services, professional services, healthcare and childcare sectors. Susan's expertise at the board table encompasses strategy, governance within fast growing companies and oversight of large complex transactions.

In her earlier career, Susan garnered a wide range of executive experience, having held various roles for Allens Linklaters, Queensland Treasury Corporation, Arkhefield Architects, The CEO Institute and Chandler McLeod.

Other Current Listed Company Directorships

- Chair and Non-Executive Director of National Veterinary Care Ltd (ASX:NVL) (appointed February 2015)
- Non-Executive Director of G8 Education Limited (ASX:GEM) (appointed November 2011)
- Non-Executive Director of Over the Wire Ltd (ASX:OTW) (appointed November 2015)

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

- Chair, People and Culture Committee (current)
- Member, Audit and Risk Committee (current)

Andrew Harrison

*BEC, MBA, CA,
MAICD*

Non-Executive
Director

Experience

Andrew was appointed as an independent Non-Executive Director in October 2015.

Andrew is an experienced company director, ASX100 CFO, and corporate adviser. He has held executive and non-executive directorships in public and private companies, and has been CFO for a number of companies including Seven Group Holdings (ASX:SVW), Alesco Limited, Hanson Australia Limited in Australia, and Landis+Gyr in Europe and the US. Having advised on and completed numerous mergers, trade sales and capital raisings, Andrew has particular expertise in structuring debt and equity transactions, corporate consolidations and repositioning strategies, multi-jurisdictional governance, reporting and compliance.

In the earlier stages of his career Andrew was an investment banker at Gresham Partners (Sydney) and Chase Manhattan Bank (New York) and originally trained as a Chartered Accountant at Ernst & Young (Sydney and London).

Other Current Listed Company Directorships

- Non-Executive Director of Burson Group Limited (ASX:BAP) (Director) (appointed March 2014)
- Non-Executive Director of Estia Health Limited (ASX:EHE) (appointed November 2014)
- Non-Executive Director of IVE Group Limited (ASX:IGL) (appointed November 2015)
- Non-Executive Director of WiseTech Global Limited (ASX:WTC) (appointed July 2015)

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

- Chair, Audit and Risk Committee (current)

Directors' report

For the year ended 30 June 2017

Stuart Smith

*BE (Mech), PEng,
FIPTA, MAICD*

Managing Director
(August 2015 –
9 August 2017)
Executive Director
(from 9 August 2017)

Experience

Stuart was appointed to the Xenith Board in August 2015.

Stuart is an Executive Director and currently holds the position of Head of Corporate Development within Xenith's group executive management team. He led the company through a corporate restructure and IPO in 2015 and served as Managing Director until August 2017, during which time the strategic acquisitions of Watermark and Griffith Hack were successfully completed and Glasshouse Advisory was launched.

Stuart has worked within the business since 1988, and has 27 years' experience as a patent attorney specialising in mechanical engineering technologies. Prior to the restructure, Stuart was a partner of Shelston IP for more than 20 years, and a member of the executive management team for more than 15 years. For 10 years Stuart held the position of Executive Chairman of Shelston IP, with responsibility for leading the firm, developing business strategy and co-ordinating the activities of the senior management team.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

n/a

Craig Dower

FAICD FAIM MACS

CEO and Managing
Director
(from 9 August 2017)

Experience

Craig was appointed CEO and Managing Director of Xenith IP Group Limited in August 2017.

Craig's professional services career has spanned over 30 years and his recent positions include leadership roles as CEO of Salmat (ASX:SLM), and President, Asia Pacific and China for Avanade Inc. His experience includes leading and driving organisational change, building high performance teams, technology-based innovation and integrating and managing acquisitions. He also has more than 15 years' experience working across all of Asia Pacific, including five years based in Singapore.

Craig has served on a number of boards both as an executive and non-executive director.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

n/a

Directors' report

For the year ended 30 June 2017

Russell Davies

*BE (Mech)(Hons),
FIPTA*

Executive Director
(August 2015 – April
2017)

Experience

Russell was appointed to the Xenith Board in August 2015 and ceased in April 2017, continuing in the executive role of General Manager of Shelston IP.

Russell has worked for Shelston IP since 1997, and has 24 years' experience as a patent attorney specialising in mechanical engineering technologies. Prior to the restructure, he was a partner for 11 years, and a member of the executive management team for the last eight years. This entailed direct responsibility for managing and co-ordinating the group's core support functions, including HR, IT, finance and operations. Russell is also team leader of the mechanical engineering patent practice group.

Prior to joining the patent profession, Russell worked in the mining industry as a mechanical engineer, acquiring a wide range of experience in mining engineering and the design of mining equipment.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

Member, People and Culture Committee (August 2015 – April 2017)

Kathryn Spargo

*BA, LLB (Hons),
FAICD*

Non-Executive
Director

Experience

Kate was appointed as an independent Non-Executive Director in April 2017.

Kate has worked as a non-executive director for over 20 years in a range of company structures. She is a lawyer by profession and has worked in both public and private practice, as well as professional services practice management. She has extensive experience in directing Australian companies engaged in business internationally.

Other Current Listed Company Directorships

- Non-Executive Director of Sonic Healthcare Limited (ASX:SHL) (appointed July 2010)
- Non-Executive Director of Adairs Limited (ASX:ADH) (appointed May 2015)
- Non-Executive Director of Fletcher Building Limited (ASX:FBU) (appointed March 2012)
- Non-Executive Director of Sigma Pharmaceuticals Limited (ASX:SIP) (appointed December 2015)

Former Listed Company Directorships in the Last Three Years

- Non-Executive Director of UGL Limited (ASX: SHJ) (2010 – 2016)

Special Responsibilities

- Member, People and Culture Committee (current)

Directors' report

For the year ended 30 June 2017

Company Secretary

Lesley Kennedy
*BAcc (Hons), CA,
GAICD*
CFO and Company
Secretary

Experience

Lesley joined Xenith as Chief Financial Officer and Company Secretary on 18 May 2016. Lesley has over 20 years' experience in corporate finance and professional services, including approximately 10 years as CFO and Company Secretary in ASX listed companies. Lesley's recent experience includes the role of CFO and Company Secretary for Prime Media Group Limited (ASX:PRT) and, prior to that, the then listed Independent Practitioner Network Ltd, now wholly owned by Sonic Healthcare Ltd (ASX:SHL). Prior to this Lesley spent eight years advising multinational organisations as Senior Manager with Ernst & Young's Audit Assurance Services.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Meetings of Directors

The following table sets out the number of meetings of the Board of Directors and each of the established Board Committees held during the reporting period, as well as attendance at those meetings of each of the Directors.

Director	Full Board		People and Culture Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Sibylle Krieger	16	17	6	6	5	5
Stuart Smith	17	17	-	-	-	-
Andrew Harrison	16	17	-	-	5	5
Susan Forrester	15	17	6	6	5	5
Russell Davies (resigned 20 April 2017)	12	13	4	4	-	-
Kate Spargo (appointed 20 April 2017)	3	4	2	2	-	-

Held: represents the number of meetings held during the time the Director held office.

The number of Board meetings during the year increased as a result of the strategic acquisitions.

Principal activities

The Group's core business is to provide a comprehensive range of Intellectual Property ("IP") services including identification, registration, management, commercialisation and enforcement of IP rights for a broad spectrum of clients in Australia, New Zealand and the rest of the world, with the aim of contributing to their success. Following the acquisition of the Griffith Hack and Watermark businesses the company launched Glasshouse Advisory which provides an extended range of highly complementary specialist consulting services across the innovation landscape.

Significant changes in the state of affairs

2017 was a year of transformational change as the Group embarked on its strategy of growth by acquisition. The key milestone developments are noted below:

Watermark acquisition

On 2 November 2016, the Group acquired the Watermark business for a purchase consideration of \$19,420,000, including \$3,467,000 of deferred contingent consideration. The upfront purchase consideration was met through the issue of 2,285,459 shares in the Company at a fair value of \$3.24 per share, and \$8,548,000 of cash.

Watermark is one of the longest established national intellectual property practices in Australia, with a high quality base of long tenure blue chip clients, with offices in Melbourne, Perth and Sydney.

The strategic rationale for the acquisition was expanded geographic reach, additional complementary service lines and improved scale.

Directors' report

For the year ended 30 June 2017

Griffith Hack acquisition

On 2 February 2017 the Group acquired the Griffith Hack Group for a purchase consideration of \$139,415,000.

The purchase consideration was met through the issue of 21,638,744 shares in the Company to the Vendors of Griffith Hack at a fair value of \$2.594 per share, and \$83,284,000 in cash. The cash component was funded through an Accelerated Non-renounceable Entitlement Offer (refer "Issue of Share Capital" below) and additional debt facilities (refer "Increased bank loan facilities" below).

Griffith Hack, one of Australia's largest privately owned firms, has been operating for over 110 years with offices in Melbourne, Sydney, Brisbane and Perth.

The strategic rationale for the acquisition was to create a transformational combination of 3 of Australia's leading IP firms. The acquired entities of Griffith Hack and Watermark will trade alongside Xenith's existing business, Shelston IP, and the recently launched Glasshouse Advisory business. Selected support functions in the businesses will be integrated into a centralised support services centre capable of providing services across the group in a more efficient and economical manner.

Issue of Share Capital

During the year the Company made the following significant issues of share capital:

- The Company issued 2,434,489 shares raising \$7,947,000 in share capital to part fund the Watermark acquisition with the remaining equity consideration met through the issue of an additional 2,285,459 shares to the Vendors of Watermark. The shares issued to the Vendors are held under an escrow arrangement which prevents the shares from being traded for a period of 2 years from completion.
- The Company issued 28,336,504 shares under an Accelerated Non-renounceable Entitlement Offer (ANREO) raising \$65,578,000 to part fund the Griffith Hack acquisition with the remaining equity consideration met through the issue of 21,638,744 shares to the Vendors of the Griffith Hack business. The shares issued to the Vendors are held under an escrow arrangement which prevents the shares from being traded for a period of 2 years from completion.

Increased bank loan facilities

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

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

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

Launch of Glasshouse Advisory

In May 2017, the Company launched the Glasshouse Advisory business, a new business unit within the Group comprising approximately 40 personnel. Glasshouse Advisory is a specialist intellectual asset advisory firm specialising in IP strategy, IP economics and Innovation incentive advice.

Directors' report

For the year ended 30 June 2017

Review of operations and financial results

Operations Overview

The Xenith Group, with more than 175 IP professionals and a network of offices across Australia and New Zealand, offer a suite of complementary services that enable clients to identify and leverage commercial potential from their technologies, brands and intangible assets.

From Xenith's inception in October 2015, the strategy has been to create the pre-eminent specialist IP services provider in Asia Pacific. This ambition will be achieved through organic growth and the targeted aggregation of the region's best IP services companies and professionals.

Xenith services more than 11,000 active clients globally, including Fortune Global 500 companies, foreign and domestic corporations, research institutes, educational institutions, SMEs, domestic professional service firms, innovative start-up companies, entrepreneurs, foreign associates including offshore IP and other law firms.

The largest client within the group represents just 2% of revenue and 36 of the top 50 clients have been with Xenith for more than 10 years. The client base is also highly diversified by geography, service line and industry. This client profile creates a stable foundation and a very different risk profile relative to many other services-based companies.

Each Xenith company maintains its own brand and works with clients to address their individual needs, but also gives clients access to the full range of professional skills available across the Group. The Group comprises the following brands:

- Shelston IP;
- Watermark (Acquired in November 2016);
- Griffith Hack (Acquired in February 2017); and
- Glasshouse Advisory (Launched in May 2017)

Bringing together complementary businesses also presents opportunities to improve efficiency, with productivity savings identified across human resources, finance, technology, operations and corporate services.

As well as providing the foundation for strong growth in Australia and New Zealand, executing the strategy also presents significant opportunities in South East Asia. A regional 'hub and spoke' model is envisioned to provide comprehensive IP services across the region to existing and new clients. Xenith's current services technology and expertise can be scaled to take advantage of strong demand in Asian economies for intellectual asset management and protection.

As the global economy increasingly transitions from growth based on physical assets to growth based on knowledge and technological innovation. The Xenith Group is at the forefront of identifying, capturing, protecting and commercialising clients' intellectual property and intangible assets, to drive their commercial success.

Directors' report

For the year ended 30 June 2017

Operating Performance (Statutory)

The Group reported a consolidated statutory net profit after tax of \$3,957,000 for the year ended 30 June 2017 (2016: \$6,535,000).

The Company reported revenue of \$85,036,000 in the current year, an increase of \$48,168,000 or 131% on the prior year. This increase was largely driven by the transformational acquisitions during the year of the Watermark and Griffith Hack businesses contributing \$47,683,000 of revenue. Revenue growth in Shelston IP was negatively impacted by foreign currency headwinds which resulted in revenue growth of only \$526,000 year on year. The impact of the unfavourable movement in USD:AUD exchange rate in the current year has been estimated to reduce revenue by \$822,000. On a constant currency basis, professional fee revenue in Shelston IP has increased by \$1,348,000 or 5%.

Statutory Net profit after tax (NPAT) for the year of \$3,957,000 is \$2,578,000 or 39% below the prior period. The acquisition related activity in the current year, and IPO and corporate restructure in the prior year make a comparison of statutory results year on year complex. Consequently the movement in underlying NPAT (after removing the impact of acquisition and IPO/corporate restructure activity) has been analysed and a reconciliation of Statutory NPAT to Underlying NPAT provided below.

	2017 EBITDA ¹ \$'000	2017 NPAT \$'000	2016 EBITDA \$'000	2016 NPAT \$'000
Reconciliation of statutory to underlying²				
Statutory	10,139	3,957	7,401	6,535
Add back non-recurring items				
Acquisition related expense	2,437	1,706	321	225
Fair value adjustment to contingent consideration	1,394	1,394	-	-
Unwinding of interest on contingent consideration	-	307	-	-
Acquisition related income	(186)	(186)	-	-
Integration related expense	931	652	-	-
IPO related retention rights	765	535	525	368
IPO and restructure expense	-	-	1,630	1,141
Net lease surrender costs	-	-	466	326
Prior year pro-forma adjustments				
Notional remuneration adjustment	-	-	(861)	(603)
Notional public company cost adjustment	-	-	(300)	(210)
Incremental notional cost of interest	-	-	-	(44)
Notional tax adjustment	-	-	-	(1,754)
Underlying	15,480	8,365	9,182	5,984

¹ EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation

² Underlying NPAT and EBITDA are non-IFRS measure that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of significant acquisition, integration and IPO related expenses.

Directors' report

For the year ended 30 June 2017

In calculating underlying NPAT the current and prior year statutory earnings of the Group have been adjusted for the following significant non-recurring amounts:

- \$2,437,000 (\$1,706,000 net of tax) of costs associated with the acquisition of Watermark and Griffith Hack (2016: \$225,000, net of tax);
- \$1,394,000 (\$1,394,000 net of tax) relating to the fair value adjustment to the Watermark contingent consideration as a result of improved performance of the business in the post-acquisition earn out period (2016: nil);
- Income of \$186,000 (\$186,000 net of tax) associated with the acquisition of Watermark (2016: nil);
- Following the acquisition of Griffith Hack and Watermark, the company embarked on a comprehensive 3 year integration plan to realise \$4 to \$6 million in synergies. In the current year \$931,000 (\$652,000 net of tax) of integration costs have been incurred. (2016: nil). The integration expense items include:
 - \$382,000 of redundancy costs;
 - \$150,000 of rebranding costs, including costs relating to the launch of the Glasshouse Advisory business;
 - \$130,000 of recruitment costs relating to the incoming CEO;
 - \$100,000 of consultancy costs; and
 - \$130,000 of temporary labour costs in corporate finance;
- \$765,000 (\$525,000 net of tax) in share based payments expense relating to the one-off issue of equity instruments at the date of the IPO (2016: \$368,000, net of tax);
- Transaction costs, including stamp duty, associated with the IPO and restructure of \$1,630,000 (\$1,141,000 net of tax) in the prior period;
- Net cost of \$466,000 (\$326,000 net of tax) associated with the surrender of floor space under lease in the prior period as part of the company restructure; and
- Interest expense (statutory) in the current year includes \$307,000 of interest arising on the unwinding of the discount on the Watermark contingent consideration liability.

The prior period statutory earnings have been adjusted for comparative purposes to include notional cost amounts that arise on the assumption that the restructure of the business on 1 October 2015 took effect from the beginning of the period. These pro forma adjustments include:

- Incremental notional cost of being a listed entity of \$300,000 (\$210,000 net of tax);
- Incremental notional salary costs, including leave entitlements and on costs, of the principals of the business amounting to \$861,000 (\$603,000 net of tax). Prior to the restructure the principals were not paid a salary but instead participated in a profit share arrangement;
- Incremental notional interest expense of \$63,000 (\$44,000 net of tax) reflecting the debt/equity structure of the business post the restructure of the group; and
- Incremental notional tax expense of \$1,754,000 arising on tax exempt income relating to the partnership before the date of incorporation, and the impact of the initial recognition of deferred tax balances through the profit and loss account on incorporation.

Directors' report

For the year ended 30 June 2017

Operating Performance (Underlying)

On an underlying basis the Group reported NPAT for the year of \$8,365,000, an increase of \$2,381,000 or 40% on the prior year. The key movements during the year include:

- The NPAT contribution from the acquired entities of \$3,121,000 for Griffith Hack for the 5 months to 30 June 2017 and \$918,000 for Watermark for the 8 months to 30 June 2017. Refer "Performance of Acquisitions" for more information on the financial performance of the acquired entities during the current financial year;
- Revenue growth in Shelston IP was unfavourably impacted by foreign currency headwinds which resulted in revenue growth of only \$526,000 year on year. The impact of the unfavourable movement in the USD:AUD exchange rate in the current year has been estimated to reduce revenue by \$822,000. On a constant currency basis, professional fee revenue in Shelston IP has increased by \$1,306,000 or 5% on the prior year;
- An increase in employee benefits expense of \$1,916,000 or 14.4% in the current year. \$1,174,000 of this cost increase is attributable to the establishment of an appropriately skilled corporate management team for the larger and more complex group and includes a reclassification of \$394,000 of executive management cost from the Griffith Hack business reflecting the group responsibilities of the roles from 2 February 2017;
- An increase in occupancy costs of \$245,000 or 16%, largely a result of the expanded corporate office. This increase reflects the full year impact of the increased corporate office accommodation cost;
- An increase in travel costs of \$180,000 or 35%. A large component of this increased cost can be attributed to the increased travel of the management team as a result of multi office locations following the acquisitions;
- An increase in net interest expense in the current year of \$115,000 as a result of the increased debt levels as a result of the acquisitions, net of interest earned on the Griffith Hack capital raising; and
- The tax expense impact of points 2 to 6 above.

On an underlying basis EPS in FY17 is 13.5 cent (2016: 17.7 cents). The decrease in EPS of 4.2 cents or 24% is a result of the following:

- The increase in the cost base of the existing business as outlined above;
- The unfavourable impact on EPS arising from the issue of 28,276,504 shares in December 2016 (21,922,834 on 9 December 2016 and 6,353,670 on 19 December 2016) ahead of completion of the Griffith Hack acquisition on 2 February 2017;
- Increased amortisation expense on acquired intangibles in the current year of \$1,965,000; and
- A large component of the strategic rationale for the acquisitions was realising synergies in the amount of \$4-\$6 million per annum within a 3 year period from the date of acquisition of Griffith Hack on 2 February 2017. The Company has embarked on a comprehensive integration plan to realise these synergies in future reporting periods.

Directors' report

For the year ended 30 June 2017

Performance of Acquisitions

Watermark

Under the terms of the acquisition agreement the Vendors of Watermark could earn additional purchase consideration contingent upon the EBITDA of the business during the 8 month period from the acquisition date of 2 November 2016 to 30 June 2017, annualised (Annualised Earn out EBITDA). The Share Sale and Purchase Agreements provide for certain adjustments to Statutory EBITDA in determining Annualised Earn out EBITDA. The contingent consideration is calculated at 8 times the amount by which the Annualised Earn out EBITDA exceeds \$2,000,000, up to a maximum Annualised Earn out EBITDA of \$2,700,000. The contingent consideration is payable 50% in cash and 50% in shares issued at \$3.5004 per share, and is subject to adjustment for any one off costs.

At the time of acquisition Management estimated the Annualised Earn out EBITDA at \$2.5 million in accordance with the valuation performed at the time of due diligence. Consequently a deferred contingent consideration amount of \$3,467,000 was recognised on acquisition. The actual Annualised Earn out EBITDA reported by Watermark of \$2,973,000 was significantly above this initial estimate and indeed above the earn-out cap threshold. The Vendors will therefore be receiving \$5,480,000 in consideration being the maximum earn out amount of \$5,600,000 net of one off costs of \$120,000. The increase in the fair value of the deferred consideration amount of \$1,394,000 has been expensed through the current year profit and loss account as it relates to improved financial performance subsequent to the acquisition date.

Griffith Hack

Under the terms of the acquisition agreement the Vendors of Griffith Hack could earn additional purchase consideration contingent upon the Earn out EBITDA of the business during the 5 month period from the acquisition date of 2 February 2017 to 30 June 2017, annualised (Annualised Earn out EBITDA). The terms of the share sale and purchase agreement provide for certain adjustments to EBITDA in calculating Earn out EBITDA, including an allocation of certain executive management costs back into the Griffith Hack business.

The contingent consideration is calculated at 10.5 times the amount by which the Annualised Earn out EBITDA exceeds \$14,476,000, up to a maximum Annualised Earn out EBITDA of \$16,381,000. The contingent consideration is payable 55% in cash and 45% in shares issued at \$3.161 per share.

At the time of acquisition management estimated the Annualised Earn out EBITDA at \$14,476,000 in accordance with the base case valuation established at the time of due diligence. Consequently no deferred contingent consideration amount was recognised on acquisition. The actual Annualised Earn out EBITDA reported by Griffith Hack of \$14,200,000 was just below the earn-out floor and base case valuation of \$14,476,000. Consequently no earn out is payable to the Vendors of the Griffith Hack business, in line with the valuation of the business at the time of acquisition.

Financial Position

Net assets at 30 June 2017 of \$142,838,000 increased \$138,353,000 during the current year. The main components of this increase were:

- \$137,114,000 from the issue of ordinary shares in Xenith to fund the Watermark and Griffith Hack acquisitions and from the exercise of employee retention rights;
- \$433,000 increase in retained earnings (operating profit after tax less dividends paid); and
- \$808,000 share based payments expense relating to equity instruments (retention and performance rights).

Net of cash, interest bearing debt increased \$12,166,000 from the prior year level of (\$911,000) net cash. This increase largely comprises payments for acquisitions of \$18,416,000 and dividend payments of \$3,524,000 offset by cash generated during the year. The transformational acquisitions of Watermark and Griffith Hack resulted in significant changes in the balance sheet including the recognition of \$162,665,000 (2016: \$8,000) of intangible assets relating largely to acquired customer relationships, brand names and goodwill. Consequently the Company has recognised a significant deferred tax liability at 30 June 2017 of \$15,435,000 (2016: \$1,023,000 Deferred tax asset) largely relating to the recognition of the customer relationship intangible asset. Additionally working capital balances increased in line with the increased scale of the business as a result of the acquisitions. Detail of purchase considerations paid is included in "Significant changes in the state of affairs" in this Report.

Directors' report

For the year ended 30 June 2017

Effective 2 February 2017 the Group increased its available facilities under the restated senior facility agreement executed on 25 November 2016 (the "Agreement") with Australia and New Zealand Banking Group Limited ("ANZ") increasing the facility from \$10,000,000 to \$50,000,000. Detail of the increased facility limit and terms is included in "Significant changes in the state of affairs" in this Report.

Xenith's financial ratios calculated in accordance with the terms under the Agreement are as follows:

	30 June 2017	31 Dec 2016	30 June 2016
Leverage Ratio	0.76	(5.9)	0.01
Interest cover	46.1	20.8	55.5

Definitions:

- Leverage Ratio = Net Debt / EBITDA. (Bank covenant limit < 2 times)
- Interest Cover = EBIT / Interest expense (Bank covenant limit > 3 times)

At 31 December 2016 the group reported net cash balance of \$62 million as a result of the capital raising in December 2016 (funds used for acquisition on 2 February 2017).

Business Strategy and Outlook

With innovation a fundamental driver of global growth and development, IP has emerged as a valuable currency in the knowledge economy. Xenith's vision is to be the pre-eminent IP group in Asia Pacific, providing industry leading expertise in traditional IP services in conjunction with a uniquely comprehensive suite of complementary advisory services across the innovation ecosystem. The Group intends to pursue this vision through a combination of business integration, organic growth, diversification and carefully targeted acquisitions and strategic partnerships.

The acquisitions of Watermark and Griffith Hack and the subsequent launch of Glasshouse Advisory in FY17 have been transformational, establishing a significantly larger platform to support the next stages of growth and development. Through Glasshouse Advisory, the Group has also established a unique combination of highly complementary services, built on the foundations of deep technical expertise in IP but extending well beyond traditional IP services, enabling clients' businesses to more effectively maximise and leverage the potential of their intellectual assets.

Building on this enlarged and more diversified platform, key areas of strategic focus in the next phase will include:

- achieving further productivity gains and cost synergies through comprehensive three-year integration plans, rationalising and leveraging IT system platforms, management resources, property and other infrastructure across the Group;
- leveraging complementary service lines within Glasshouse Advisory across the Group's expanded client base to build on differentiated market position and current growth momentum in diversified revenue streams;
- extending both traditional and complementary services into Asian markets, leveraging the Group's expanded client base and extended service lines to build on initial momentum in Asia and capture substantial revenue synergies;
- continuing focus on successful business development initiatives and growth momentum in China and Japan;
- creating an inspiring, innovative and differentiated culture that reflects the value of Xenith's people, attracts and retains top talent and rewards strong performance; and
- delivering value for shareholders.

Directors' report

For the year ended 30 June 2017

Business Risks

The material business risks that are likely to have an effect on the financial prospects of the Company together with indications as to how the Company intends to manage these risks are set out below:

- **Transition of CEO:** The Company appointed a new Managing Director and Chief Executive Officer on 9 August 2017. There are inherent risks associated with a change in CEO. To mitigate this risk Stuart Smith, the former Managing Director and Chief Executive Officer will remain on the Board of Directors and will continue as part of the Group Executive in the role of Head of Corporate Development to ensure continuity, support the new CEO and facilitate a smooth transition. The expanded capabilities at the Group Executive level are also intended to support effective integration in parallel with the pursuit of growth opportunities.
- **Acquisition and integration risk:** The Company has made significant acquisitions during the year. Acquisitions that do not achieve the desired business objectives or do not achieve the anticipated revenue or synergy outcomes may have an adverse impact on the Group's financial performance or growth prospects. Similarly activities of other IP firms seeking to acquire competitors may render achievement of further consolidation activity more difficult, expensive and/or time consuming. To address these risks, the Company has specifically recruited Directors and Management with appropriate experience in mergers and acquisitions, including the new CEO who brings demonstrated success in business integration. The Company also uses experienced and reputable advisors to assist with the execution of appropriate analysis, due diligence, negotiation and documentation of acquisition agreements;
- **Loss of key personnel:** Many of the Group's key personnel are highly qualified and highly experienced with in-depth industry and client knowledge. Any loss of key personnel may have an adverse impact on the Group's client service capabilities and/or financial performance. The acquisitions during the year and the resulting restructure of the acquired businesses into the listed environment, including changes to the remuneration models and governance structures, may adversely affect the ability of the Group to retain key staff and/or attract new staff with appropriate qualifications and experience at comparable cost. To mitigate this risk, the vendor Principals of the acquired businesses have entered into 3-year fixed term employment agreements and the Company has developed an appropriate incentive based remuneration framework to be implemented in 2018 financial year. A number of strategic people and culture initiatives have also been commenced with the aim of establishing a world-class employer brand and employee value proposition to attract and retain top talent;
- **Foreign exchange risk:** Approximately 37% of the company's professional revenue is invoiced in USD, while the company's cost base is predominately in AUD. Consequently, any appreciation in the AUD:USD currency exchange rate will have an unfavourable impact on the Group's reported revenue. This has been mitigated to an extent by the adoption of a hedging strategy in the prior financial year. Under this hedging strategy up to 80% of the Group's exposure to USD is hedged for a period of time through the use of collars whereby the Company is protected from adverse movements in the exchange rate up to a certain point, and to offset the cost of this protection, the Company forfeits any benefit from favourable movements in the exchange rate below a certain point. Management has performed sensitivity analysis on the impact of currency movements on the EBITDA of the business noting that a 1 cent movement in the AUD:USD exchange rate results in approximately \$500,000 impact on revenue and EBITDA. The recent business acquisitions have increased FX diversification and reduced the proportional exposure to AUD:USD exchange rate fluctuations;
- **New market risk:** A key element of the Group's growth strategy is expansion into Southeast Asia, preferably through one or more acquisitions as a basis for establishment of a regional "hub and spoke" network. There are inherent risks associated with entering any new geographical market with its own particular regulatory frameworks and cultural dynamics. The Company manages this risk through the use of long-standing established relationships, rigorous due diligence processes and a combination of management and independent advisors with appropriate geographical experience;

Directors' report

For the year ended 30 June 2017

- **Regulatory change:** The Company's core business operations are governed by various statutory and regulatory regimes, international treaties and established processes and procedures that are potentially subject to change, including as a result of judicial determinations, regulatory reforms and technological disruption. The company mitigates these risks by a range of measures including proactive participation in regulatory reviews, technological innovation and diversification. One example of potential change includes a proposal currently under consideration to extend the ePCT system for filing international patent applications to facilitate the subsequent "national phase" entry stage. It is currently not known when or if the ePCT system will be extended in this way, or if IP Australia would participate in any such extension. However, if implemented, this proposal may have a significant adverse impact on the Group's revenue currently derived from the national phase entry process step. To mitigate this risk, key strategies of the Group include continual system and process improvements to drive EBITDA margin performance and continuing development of adjacent and complementary service lines to provide a more comprehensive service offering to clients while diversifying revenue streams; and
- **Professional duties and conflicts:** The Company provides IP legal services and its employed solicitors have duties and obligations to the court and to their clients. Similarly, patent and trademark attorneys are required to abide by a code of conduct that requires them to act in accordance with the law, in the best interests of their clients, in the public interest and in the interests of the profession as a whole. In certain circumstances, these duties and obligations may compete with and prevail over the Company's duties and obligations to shareholders. Moreover, the relevant professional practice rules and codes are subject to change. The Code of Conduct for Patent and Trademark Attorneys is currently under review and relevant changes may affect the Company's operations. To mitigate this risk, the Company has sought legal advice to ensure the optimal structuring of its operations, comprehensive policies and procedures have been implemented to avoid conflicts of interest within and between entities in the Group, and the Company is actively participating in the regulatory review process to ensure that its interests are appropriately represented.

Dividends

In respect of the current year, a fully franked interim dividend of \$1,056,000 (1.6 cents per share) was paid on 31 March 2017.

In addition to the interim dividend and since the end of the financial year, Directors have declared a fully franked final dividend of 3.4 cents per share to be paid on 29 September 2017 (2016: 7 cents per share).

Events after the end of the reporting period

Apart from the final dividend declared, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- The entity's operations in future financial years;
- The results of those operations in future financial years; or
- The entity's state of affairs in future financial years

Environmental Regulations

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Directors' report

For the year ended 30 June 2017

Share Rights and Performance Rights

During the year, or since the end of the financial year, no options or rights to unissued shares have been granted.

Details of unissued shares or interests under performance rights and share rights at the date of this report are:

Issuing Entity	Type	Class	Exercise Price	Vesting Date	No. of Shares
Xenith IP Group	Performance Rights	Ordinary	Nil	30 Jun 2018	45,680
Xenith IP Group	Share Rights	Ordinary	Nil	20 Nov 2017	216,908
Xenith IP Group	Share Rights	Ordinary	Nil	20 Nov 2018	378,669

During the year 150,735 ordinary shares in the Company were issued on vesting of Share Rights.

Indemnification of officers and auditors

Xenith maintains a Directors' and Officers' liability insurance policy that, subject to the policy terms and conditions and to the extent permitted by law, indemnifies the Company's current, past and future directors and officers (including directors and officers of the Company's subsidiaries). The Company pays the insurance premium for the Directors' and Officers' insurance policy.

The Company has not provided an indemnity in favour of its external auditor.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 33 and forms part of this report.

Rounding

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

Directors' report

For the year ended 30 June 2017

Remuneration report (audited)

Contents

Section	Title	Description
1.0	Introduction	Describes the scope of the Remuneration Report and the individuals whose remuneration details are disclosed together with a summary of the key changes during the year.
2.0	Remuneration governance	Describes the role of the Board and the Remuneration Committee, and the use of remuneration consultants when making remuneration decisions.
3.0	Non-executive director remuneration	Provides details regarding the fees paid to non-executive directors.
4.0	Executive remuneration	Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver rewards including the performance and remuneration linkages.
5.0	Equity plans and KMP equity interests	Provides details of Xenith equity plans and shareholdings in Xenith of KMP.
6.0	Employment agreements	Provides details regarding the contractual arrangements between Xenith and the executives whose remuneration details are disclosed.

Directors' report

For the year ended 30 June 2017

1.0 Introduction

We see our people as being the key to our success and the success of our clients. As we work through the integration of our newly acquired companies, we are striving to create best in class programs and processes for our people to be successful. This long-term commitment to excellence extends to learning and development, talent management, succession planning, remuneration and benefits.

The Board's philosophy and approach to executive remuneration includes fair remuneration for skills and expertise for our growing organisation, along with a suitable reward framework that supports longer-term growth and sustainability. A comprehensive review of executive remuneration was carried out during the current financial year (FY17) and will be implemented in FY18. Key elements of the review included:

- Approval of an executive remuneration framework incorporating a fixed remuneration component and a variable component ("at risk) comprising both a short term incentive (STI) and a long term incentive (LTI);
- The design and implementation of Long-Term Incentives (LTI), for Senior Executive Management;
- The design and implementation of Short-Term Incentives (STI) for Senior Executive Management;
- A review of each policy across the Group under the Remuneration and Benefits umbrella; and
- Standardisation of employment contract terms and conditions and remuneration language.

The Board believes Xenith's approach to Key Management Personnel (KMP) remuneration is balanced, fair and equitable. Our approach is designed to reward and motivate our experienced executive team to deliver ongoing business growth and meet the expectations of all shareholders.

The Board will continue to welcome feedback from shareholders on our remuneration practices and remuneration matters in the FY17 Remuneration Report and beyond.

1.1 Background

Xenith has invested significant time during FY17 to create a suitable remuneration framework for the larger group. This is in part due to the acquisitions of the Watermark and Griffith Hack businesses, as well as maturity around the remuneration strategy for a publicly listed organisation, noting that the company only became a publicly listed company in the prior year. This framework will come into effect in FY18.

For the FY17 year, some of the legacy remuneration strategies following the listing of Xenith in FY16 remained in place. Two out of three executive KMP in FY17 were vendor shareholders with remuneration arrangements established at the time of the IPO and with significant shareholdings in the Company held under escrow arrangements. These legacy remuneration arrangements provided time for the Company to develop its executive remuneration strategy whilst the shareholding held under escrow arrangements provided alignment with shareholders.

During FY17 and in preparation for FY18, we finalized a remuneration framework for Senior Executives. It is important to note that this expanded Senior Executive team includes employees that do not have shares under escrow arrangements. Our new remuneration framework will align the KMP and Senior Executives with shareholder interests, by implementing STI deferral, LTI and benchmarked fixed remuneration. This will include two key Senior Executive roles held by vendor principals.

Directors' report

For the year ended 30 June 2017

1.2 Scope

This Remuneration Report sets out, in accordance with the relevant Corporations Act 2001 (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for key management personnel (KMP) of Xenith during FY17.

1.3 Key management personnel

KMP have authority and responsibility for planning, directing and controlling the activities of Xenith and comprise the non-executive directors, and executive KMP (being the executive directors and other senior executives named in this report). Details of the KMP during or since the end of the financial year are set out in the table below:

Non-Executive Directors	Title (at year end)/ Committees	Change in FY17 or since end of FY
Sibylle Krieger	Non-Executive Chair Member, Audit and Risk Committee Member, People and Culture Committee	No change. Full year.
Andrew Harrison	Non-Executive Director Chair, Audit and Risk Committee	No change. Full year.
Susan Forrester	Non-Executive Director Chair, People and Culture Committee Member, Audit and Risk Committee	No change. Full year.
Kathryn Spargo	Non-Executive Director Member, People and Culture Committee	Commenced on 20 April 2017
Executive Directors	Title (at year end)/ Committees	Change in FY17 or since end of FY
Stuart Smith	Managing Director and CEO	Resigned as Managing Director on 9 August 2017. Continues in role of Executive Director: Corporate Development
Craig Dower		Appointed Managing Director and CEO on 9 August 2017
Russell Davies	Executive Director Member, People and Culture Committee	Resigned from the Board on 20 April 2017 and continued in role of Executive General Manager of Shelston IP.
Other Executive KMP	Title (at year end)/ Committees	Change in FY17 or since end of FY
Lesley Kennedy	Chief Financial Officer and Company Secretary	No change. Full year
Jacinta Flattery-O'Brien		Ceased to be classified as KMP effective from 1 July 2017 and continues in the capacity of Principal within Shelston IP.

Directors' report

For the year ended 30 June 2017

1.4 Incoming Managing Director and CEO

Mr Craig Dower commenced as Managing Director and CEO of Xenith on 9 August 2017. A summary of his remuneration arrangements was released to the market on 1 August 2017. Mr Dower's FY18 remuneration comprises a mix of 50% fixed, 25% short term incentive (STI) and 25% long term incentive (LTI).

Component	Amount
Fixed	\$600,000
STI	\$300,000 (target) 50% cash 50% deferred in equity for 2 years
LTI	\$300,000 (target)
Total (at Target)	\$1,200,000

Mr Dower's CEO remuneration is consistent with Xenith's executive remuneration policy recently adopted for FY18 onwards, and as outlined in this report. 50% of his overall remuneration is at risk with 75% of this at risk component deferred into either equity (STI) or performance rights (LTI). Mr Dower's grant of LTI will be submitted for shareholder approval at the 2017 AGM.

The Non Executive Directors consider that Mr Dower's remuneration package (including the proposed grant under the LTI plan) is reasonable and appropriate having regard to relevant market benchmarks, the circumstances of the Company and Mr Dower's responsibilities as CEO.

2.0 Remuneration governance

This section of the Remuneration Report describes the role of the Board and the People and Culture Committee, and the use of remuneration consultants when making remuneration decisions affecting KMP.

2.1 Role of the Board and the People and Culture Committee

The Board is responsible for Xenith's remuneration strategy and policies. Consistent with this responsibility, the Board has established the People and Culture Committee (PCC).

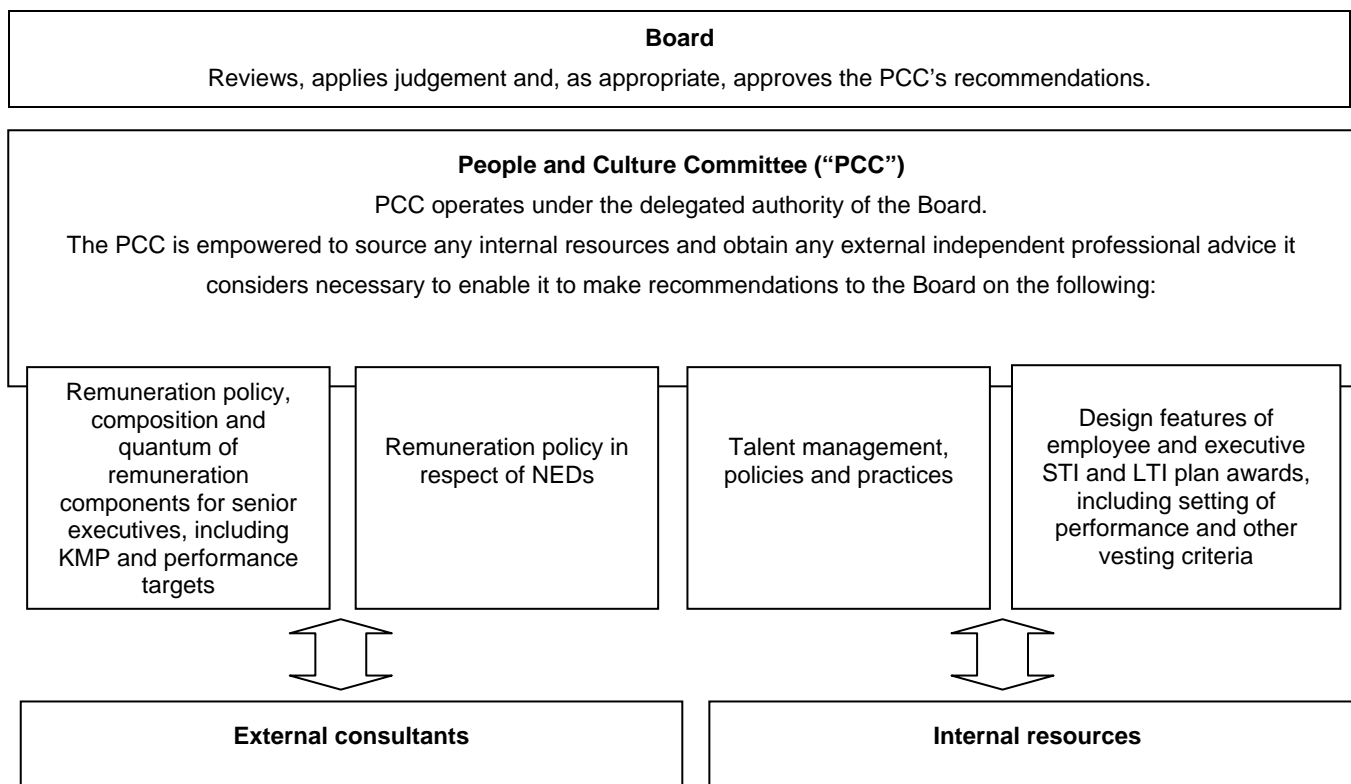
The role of the PCC is set out in its Charter. The primary objective of the PCC is to assist the Board in fulfilling its responsibility to stakeholders in:

- (a) Overseeing the development and implementation of the Human Resources strategy with reference to the appropriate resources, policies and procedures that are in place or being developed to support the achievement of the Company's strategy;
- (b) Promoting a safe working culture;
- (c) Driving high performance in executives, management and fee-earning employees by providing effective remuneration policies and programs that have regard to the creation of value for shareholders;
- (d) Monitoring appropriate performance management, development planning and succession management programs to enable talented, motivated and engaged people to achieve the Company's strategic objectives;
- (e) Promoting and supporting a diverse workplace and a culture that embraces gender equality at all stages of the employment cycle;
- (f) Complying with the relevant listing rules, legal and regulatory body requirements, and good governance practices; and
- (g) Reporting to shareholders in line with required legislation and standards.

Directors' report

For the year ended 30 June 2017

The PCC's role and interaction with Board, and internal and external advisors, are further illustrated below:



The PCC charter can also be viewed in the "About Us" section of the Xenith website under Corporate Governance.

2.2 Use of remuneration consultants

All proposed remuneration consultancy contracts (within the meaning of section 206K of the Corporations Act) are subject to prior approval by the Board or the PCC in accordance with the Corporations Act 2001. During FY17, Xenith used the following independent remuneration consultant:

Crichton + Associates Pty Ltd
Level 26, 44 Market Street, Sydney, NSW 2000

Under the terms of the engagement, Crichton + Associates provided remuneration recommendations as defined in section 9B of the Corporations Act 2001 and was paid \$45,682 for these services. \$12,585 of the fees related to KMP advice (see below) and \$33,097 related to other advice.

The services provided included:

- KMP salary benchmarking for fixed remuneration;
- KMP LTI plan; and
- Advice on KMP STI and LTI opportunities.

Other advice (non KMP) was for the remuneration strategy review and STI deferral plan. Crichton + Associates has confirmed that the recommendations have been made free from undue influence by members of Group's Key Management Personnel.

Crichton + Associates was engaged by, and reported directly to, Sue Forrester, Non-Executive Director and Chair of the People and Culture Committee. The Board is satisfied that the remuneration recommendations made are free from undue influence as the terms of the Non-Executive Director and Chair of the People and Culture Committee's contract do not provide for participation in any STI or LTI plans of the company.

Directors' report

For the year ended 30 June 2017

2.3 Voting and comments made at the Company's last Annual General Meeting

Xenith IP Group Ltd received 99.5% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2016. The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

3.0 Non-executive director ("NED") remuneration

3.1 NED remuneration

Principle	Comment
Fees are set by reference to key considerations	Fees for NEDs are based on the nature of the NEDs' work and their responsibilities. The remuneration rates reflect the complexity of Xenith's business and the extent of the number of geographical locations in which Xenith operates. In determining the level of fees, survey data on comparable companies is considered. NEDs' fees are recommended by the PCC and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of NEDs.
Remuneration is structured to preserve independence whilst creating alignment (see also section 3.4)	To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including options and the level of their fees are not set with reference to any measure of Xenith performance. However, to create alignment between Directors and shareholders, the NEDs voluntarily hold shares in Xenith. Xenith does not offer loans to NEDs to fund share ownership.
Aggregate Board and committee fees are approved by shareholders	The total amount of fees paid to NEDs in FY17 is within the aggregate amount approved by shareholders at the time of IPO. No increase in the total fee pool is proposed in FY17.

3.2 NED fees and other benefits explained

Elements	Details
Board/ committee fees per annum - FY17	Board Chair fee \$ 150,000 Board NED fee \$ 90,000 No additional committee fees are paid.
Post-employment benefits	
Superannuation	NED fees are inclusive of superannuation. Superannuation contributions have been made at a rate of 9.5% (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contribution obligations. The contribution rate will increase in future years in line with mandated legislative increases.
Retirement schemes	There are no retirement schemes in place for NEDs other than superannuation.
Other benefits	
Equity instruments	NEDs do not receive any performance related remuneration, options, performance rights or shares.
Other fees/benefits	NEDs receive reimbursement for costs directly related to Xenith business. No payments were made to NEDs during F17 for travel allowances, extra services or special exertions.

Directors' report

For the year ended 30 June 2017

3.3 NED total remuneration paid

Amounts \$	Short-term benefits		Post-employment benefits		Total
	Year	Fees	Termination benefits	Superannuation benefits	
Sibylle Krieger (Non-Executive Chair)	FY17	136,987	-	13,013	150,000
	FY16	103,267	-	8,504	111,771
Susan Forrester (Non-Executive Director)	FY17	82,192	-	7,808	90,000
	FY16	61,960	-	5,886	67,846
Andrew Harrison (Non-Executive Director)	FY17	82,192	-	7,808	90,000
	FY16	61,960	-	5,886	67,846
Kathryn Spargo (Non-Executive Director)	FY17	14,858	-	1,411	16,269
	FY16	-	-	Nil	Nil
Total	FY17	316,229	-	30,040	346,269
	FY16	227,187	-	20,276	247,463

The prior year comparative includes remuneration from 1 October 2015, the date of incorporation.

4.0 Executive remuneration

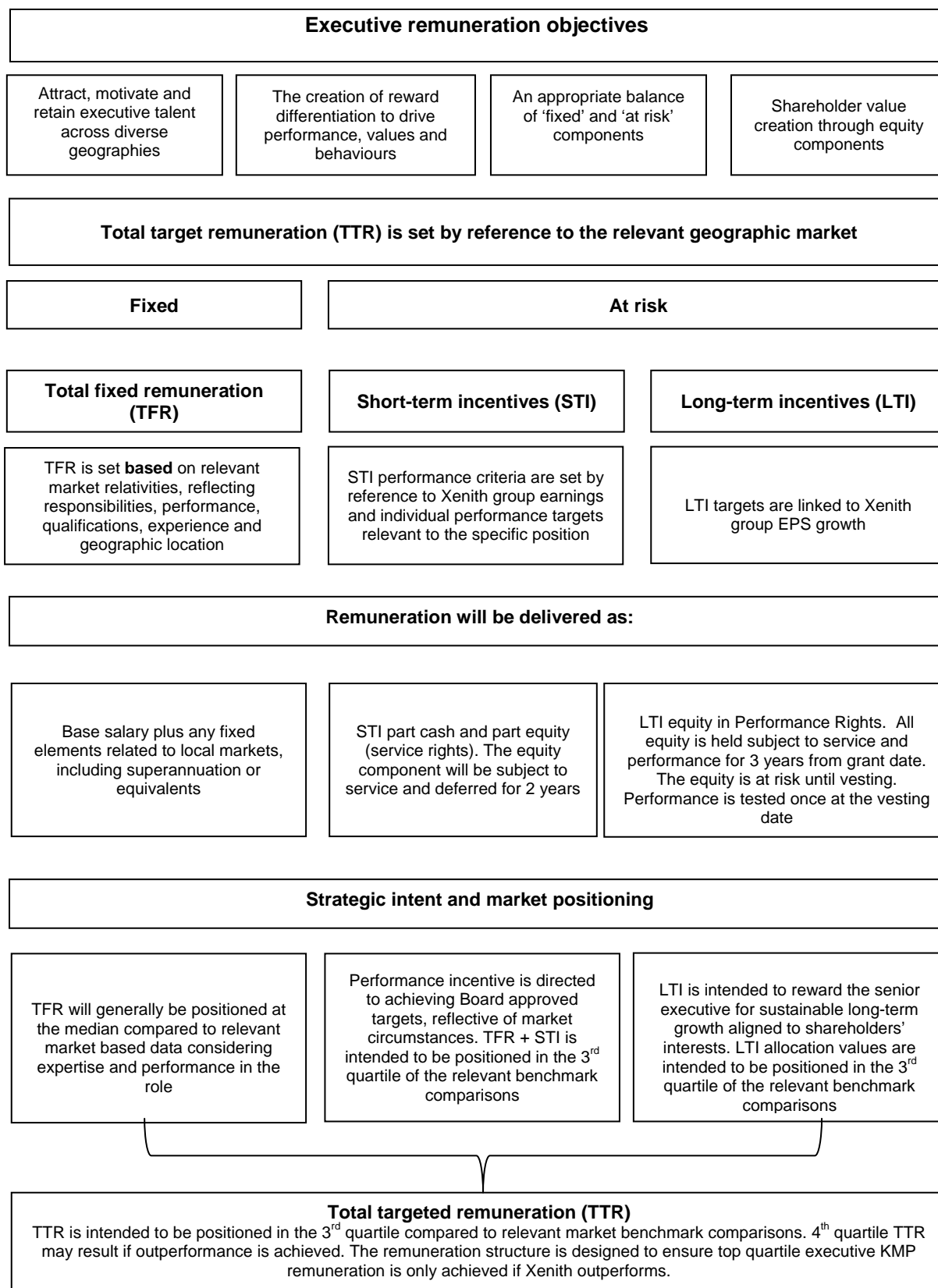
4.1 Executive remuneration framework

Xenith's Executive remuneration framework covers the senior executive management team which currently comprises KMP and their direct reports.

The Company has invested a significant amount of time to develop an appropriate Executive remuneration framework for FY18 and beyond. Xenith's executive remuneration policies are designed to attract, motivate and retain a qualified and experienced group of executives with complementary skills. Fixed remuneration components are determined having regard to the specific skills and competencies of the executive with reference to both internal and external relativities, particularly local market and industry conditions. The 'at risk' components of remuneration are strategically directed to encourage our people to strive for superior (risk balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated within the ambit of accountability of the relevant executive.

Directors' report
For the year ended 30 June 2017

Executive remuneration objectives are exemplified through three categories of remuneration, as illustrated below:



Directors' report

For the year ended 30 June 2017

4.2 Remuneration composition and timing of receipt

4.2.1 Remuneration composition

Xenith endeavours to provide an appropriate and competitive mix of remuneration components balanced between fixed and at risk and paid in both cash and equity. The broad remuneration composition mix for executive KMP can be illustrated as follows:

Remuneration composition FY17

The actual remuneration mix for the Managing Director and other executive KMP in FY17 consisted of Total Fixed Remuneration (TFR) and a cash bonus. This resulted in the following remuneration mix:

Position	TFR	STI	LTI	Total Target Remuneration (TTR)
CEO	83.3%	16.7% of TTR	-	100%
CFO and Company Secretary	77%	23% of TTR	-	100%

In FY17, the CEO remuneration reflected an arrangement set at the time of IPO, with the addition of a discretionary bonus of \$50,000 granted by the Board to acknowledge the role of the CEO in achieving significant strategic growth objectives, including originating and facilitating the completion of the Watermark and Griffith Hack acquisitions. Xenith will have a new CEO and Managing Director from 9 August 2017.

During FY17 the company engaged a remuneration consultant to assist with the design of a formal executive STI plan which will be implemented in FY 18. The CFO and Company Secretary bonus for FY17 was based on achievement of individual KPI's set around the establishment of an effective corporate finance function and strategic and financial input into the acquisition initiatives during FY17.

Remuneration composition proposed in FY18

The mix of remuneration for the CEO and executive KMP for FY18 will change significantly and have a large percentage of the at risk component linked to the performance of the company. The proposed 'new' remuneration mix effective from 1 July 2017, will be as follows:

Position	TFR at target	STI at target	LTI at target	TTR
CEO	At least 50%	Up to 25% of TTR	Up to 25% of TTR	100%
Other Executive KMP	At least 60%	Up to 20% of TTR	Up to 20% of TTR	100%

In FY18, the remuneration arrangements for the incoming CEO have been set in accordance with a revised remuneration strategy that has been approved by the Board.

Total fixed remuneration (TFR)

Xenith's approach to TFR settings has been re-evaluated. It is now the aim of Xenith to position all executives at median percentile. This positioning has been determined by our recent independent remuneration benchmark assessments.

Total target remuneration (TTR)

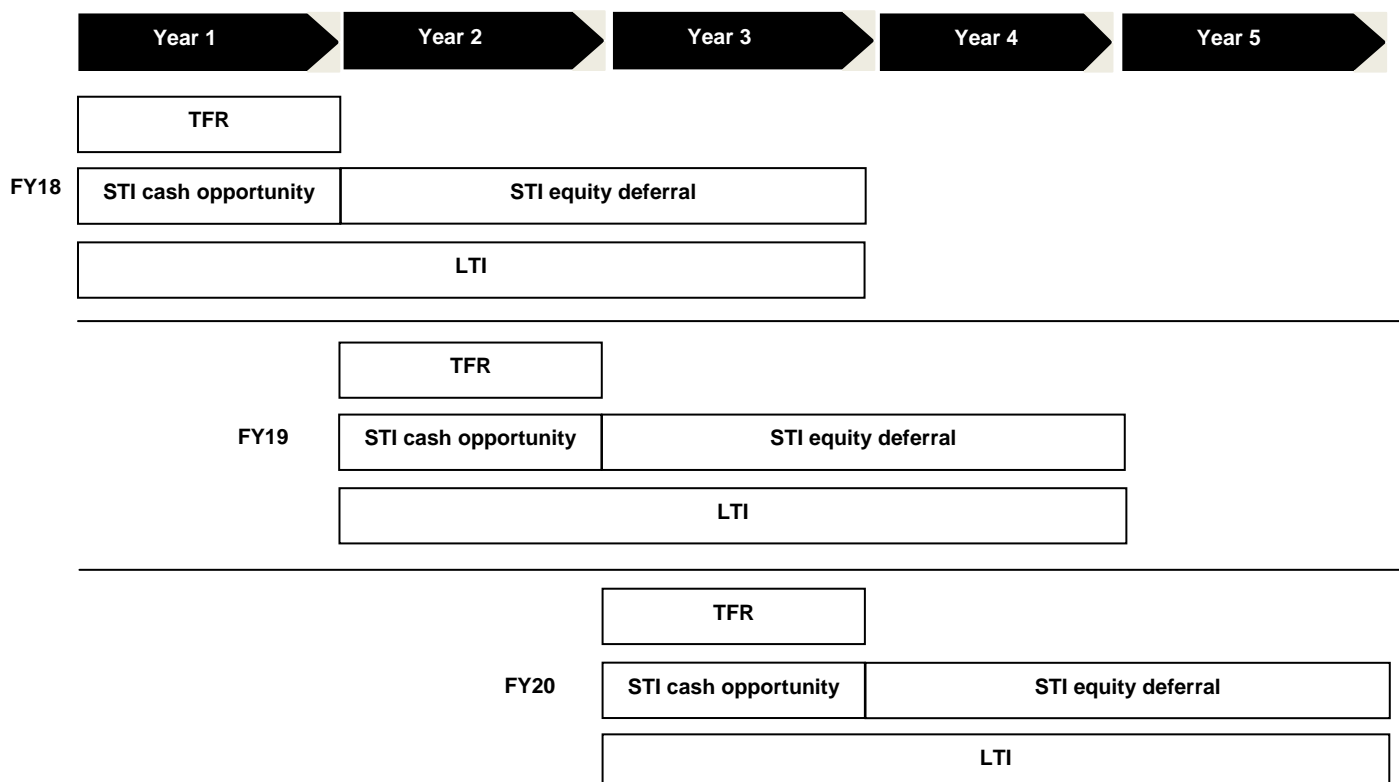
TTR under the remuneration mix adopted will, in the opinion of the Board, deliver an overall risk adjusted reward opportunity which is fair and market competitive.

Directors' report

For the year ended 30 June 2017

4.2.2 Remuneration – timing of receipt of the benefit for FY18 onwards

The three complementary components of executive remuneration are 'earned' over multiple time ranges. This is illustrated in the following chart:



As illustrated, senior executive remuneration is delivered on a cascading basis, with a material component deferred for two (STI) and three (LTI) years and awarded as equity. This remuneration mix is designed to ensure senior executives are focused on delivering results over the short, medium and long term if they are to maximise their remuneration opportunity. The Board believes this approach will align executive remuneration to shareholder interests and expectations.

4.3 Total fixed remuneration explained

Total fixed remuneration (TFR) includes all remuneration and benefits paid to senior executives calculated on a total employment cost basis. In addition to base salary, superannuation and other allowances are included.

Senior executive TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information, including for comparable ASX listed companies, and based on a range of size criteria including market capitalisation, taking into account an executive's responsibilities, performance, qualifications, experience and location.

Job evaluation methodologies may be applied from time to time to assist with managing internal relativities.

TFR adjustments, if any, are made with reference to individual performance, an increase in job role or responsibility, changing market circumstances as reflected through independent benchmark assessments or through promotion. Any adjustments to executive KMP remuneration are approved by the Board, based on Remuneration Consultant and CEO recommendations.

Due to the increase in size of the company during FY17, the Board requested an independent benchmarking exercise to be carried out on senior executive remuneration and consequently the Board approved to increase the TFR of the CFO and Company secretary from \$325,000 to \$365,000 with effect from 1 July 2017.

Directors' report

For the year ended 30 June 2017

4.4 Variable (at risk) remuneration explained

As set out in section 4.2, variable remuneration is intended to form a significant portion of the CEO and other senior executive remuneration opportunity from FY 18 onwards. Apart from being market competitive, the purpose of variable remuneration is to direct executives' behaviours towards maximising Xenith's short, medium and long-term performance.

The key aspects are summarised below:

4.4.1 Short-term incentives (STI) – for FY 18

Purpose	<p>The STI arrangements at Xenith are designed to reward executives for the achievement of annual performance targets set by the Board at the beginning of the performance period. The STI program is reviewed annually by the PCC and approved by the Board.</p> <p>All STI awards to the CEO and other executive are recommended by the PCC to the Board for approval.</p>
Performance targets	<p>The key performance objectives of Xenith are currently directed to achieving Board approved earnings targets, and individual performance goals.</p> <p>The targets for FY18 include achievement of individual KPIs and Group and business unit financial performance.</p>
Mandatory deferral of STI	<p>To reinforce alignment with shareholder interests, effective from 1 July 2017 a mandatory deferral of STI was introduced whereby up to 50% of the STI amount will be deferred and satisfied through the issue of share rights which vest subject to continued service with the Group for a further two years. This achieves additional retention and alignment of executives with shareholder interests.</p> <p>The deferred STI component for Senior Executives in FY18 will be calculated based on 50% of the STI amount. Transitional arrangements will apply to existing members of KMP with an existing STI entitlement whereby full deferral will be achieved by 2020.</p> <p>The equity component will be independently determined based on the gross contract value using Xenith's five-day volume weighted average price (VWAP) following the announcement of year end results.</p> <p>Once the STI awarded as service rights has been granted, there are no further performance measures attached other than continued tenure for the vesting period (two years).</p>

Directors' report

For the year ended 30 June 2017

4.4.2 Long-term incentives (LTI)

No grants under the LTI plan were made to senior executives during FY17.

A senior executive LTI plan was designed and developed for implementation in FY18. The LTI plan provides an annual opportunity for senior executives (based on their ability to influence and execute strategy) to receive an equity award deferred for three years that is intended to align a significant portion of executives' overall remuneration to shareholder value over the longer term.

Purpose	To align senior executives' remuneration opportunity with shareholder value and provide retention stimulus.
Types of equity awarded	LTI is provided under the Xenith IP Group Limited Performance Rights Plan. Under the Xenith Plan, senior executives will be offered performance rights (being a nil exercise price right to fully paid ordinary shares of Xenith), subject to satisfying the relevant performance conditions.
Time of grant	All equity grants will be made after the AGM each year but based on values determined in August after release of the Company's annual results.
Time restrictions	Equity grants awarded to the CEO and other senior executives are tested against the performance hurdles set, at the end of three years. If the performance hurdles are not met at the vesting date, performance rights lapse.
Performance hurdles and vesting schedule	Equity grants to the CEO and other senior executives will be subject to hurdles established based on EPS CAGR ¹ over a three year period. Performance rights vest if the time restrictions and relevant performance hurdles are met. The Board must approve any special provisions, in accordance with Company policies, in the event of termination of employment or a change of control.
Dividends	No dividends will attach to performance rights.
Voting rights	No voting rights will attach to performance rights.
Retesting	There will be no retesting of performance hurdles.
LTI allocation	The size of individual LTI grants for the CEO and other senior executives will be determined in accordance with the Board approved remuneration strategy mix. See section 4.2. The allocation methodology for performance rights is to determine the target LTI dollar value for each executive and divide it by the gross contract value based on a Black-Scholes pricing model without discounting for service or performance hurdles.

¹ CAGR means "compound annual growth rate".

4.5 Other remuneration elements and disclosures relevant to executive KMP

4.5.1 Clawback

The Clawback Policy aims to align the remuneration outcomes of the Senior Executive with the experiences of the shareholders of Xenith and to provide the Board with the ability to claw back incentives earned as a result of a material misstatement in group financial statements.

The Clawback Policy will apply if the Board becomes aware of any misstatement in its financial statements for any of the immediately preceding three financial years due to:

- A material non-compliance with any financial reporting requirements;
- The misconduct of any members of its KMP or senior executive; and
- The misconduct of any of its other employees, contractors, advisors as a result of the direction (or lack thereof) by any members of its senior executives.

In such an event, any STI amount unpaid or held as STI deferral or any LTI awarded and unvested, may be adjusted to correct any misstatement.

4.5.2 Hedging and margin lending prohibition

Under the Xenith Share Trading Policy and in accordance with the Corporations Act, equity granted under Xenith equity incentive schemes must remain at risk until vested, or until exercised if performance rights. It is a specific condition of grant that no schemes are entered into by an individual or their associates that specifically protect the unvested value of performance rights allocated.

Xenith also prohibits all employees from providing Xenith securities in connection with any margin loan or similar financing arrangement unless that person has received a specific notice of no objection in compliance with the policy from the Board.

Xenith, in line with good corporate governance, has a formal policy detailing how and when employees of Xenith may deal in Xenith securities.

Xenith's Share Trading Policy is available on the Xenith website under "About Us", Corporate Governance.

4.6 Executive remuneration table – audited statutory disclosure (accounting cost to Xenith)

Amount \$		Fixed Remuneration				Variable remuneration			Proportion of total remuneration				
		Short-term		Other employee costs		Total	Short-term	Equity Compensation		Total	Performance related	Equity related	
		Salary	Non-monetary benefits	Superannuation benefits	Long service leave		Bonus	Value of options	Value of performance shares		%	%	
	Stuart Smith	F17	233,918	-	19,616	3,886	257,420	50,000	-	-	307,420	-	-
		F16	173,906	-	14,782	2,836	191,524	-	-	-	191,524	-	-
	Russell Davies (1)	F17	198,348	-	15,466	(17,364)	196,450	-	-	-	196,450	-	-
		F16	168,746	-	14,527	2,750	186,023	-	-	-	186,023	-	-
	Lesley Kennedy(2)	F17	324,211	-	19,616	871	344,698	97,500	-	-	442,198	-	-
		F16	32,921	-	2,253	-	35,174	-	-	-	35,174	-	-
	Nicholas Carson (3)	F17	-	-	-	-	-	-	-	-	-	-	-
		F16	195,279	1,000	15,288	3,091	214,658	50,000	-	-	264,658	-	-
	Jacinta Flattery-O'Brien (4)	F17	-	-	-	-	-	-	-	-	-	-	-
		F16	169,470	-	14,782	2,836	187,088	-	-	-	187,088	-	-
	Total	F17	756,477	-	54,698	(12,607)	798,568	147,500	-	-	946,068	-	-
	Total	F16	740,322	1,000	61,632	11,513	814,467	50,000	-	-	864,467	-	-

(1) Russell Davies' remuneration is included up to 20 April 2017, at which point Russell resigned from the board and ceased to be KMP.

(2) Lesley Kennedy commenced with Xenith on 18 May 2016.

(3) Nicholas Carson resigned 14 April 2016.

(4) Jacinta Flattery-O'Brien remains in the capacity of a Principal within the group, but ceased to be classified as KMP effective from 1 July 2017.

The prior year comparative includes remuneration from 1 October 2015, the date of incorporation.

Directors' report

For the year ended 30 June 2017

5.0 Equity Plans and KMP Equity interests

5.1 Equity Plans

The following equity plans were in place during the financial year:

Employee Exempt Share Plan (EESP)

The Company established an Employee Exempt Share Plan (EESP) at the time of IPO and invited certain staff to apply for shares at nil acquisition cost the time of IPO. This was to encourage share ownership in the company in the new listed environment.

Under the EESP eligible employees are invited to apply for up to \$1,000 worth of fully paid ordinary shares in the capital of the company. Shares acquired under the EESP are exempt from taxation upon acquisition, subject to the employee's adjusted taxable income being \$180,000 or less. In order to benefit from this tax benefit there is a 3 year restrictive period on selling, transferring or otherwise dealing with the shares. During the current financial year employees of the acquired Griffith Hack business were invited to apply for shares at a nil acquisition cost in accordance with the terms of the Share Sale and Purchase Agreement.

Xenith IP Group Limited Performance Rights Plan

The performance rights plan was designed to attract, motivate and retain key staff by allowing the participants to earn equity on achievement of performance and service conditions over a 3 year period.

The purpose of the plan was to provide annual equity incentives to KMP and select fee earners in line with current market standards and expectations. During the year the company reviewed the remuneration arrangements for fee earners and it was agreed that ongoing equity participation would be met through the STI deferral plan. Consequently no grants were made under the plan during the current year. No executive KMP are current participants under the plan. However, it is the intention to issue performance rights to the senior executive team in FY18.

5.2. KMP equity interests

The tables below set out the equity interests held by Non-executive Directors ("NEDs") and executive KMP. Please refer to sections 4.5.2 (Hedging and margin lending prohibition) and 4.5.5 (Minimum shareholding guidelines).

Non-Executive Directors	Balance as at 1 July 2016 No.	Granted as compensation No.	Received on exercise of options No.	Net Other change No.	Balance as at 30 June 2017 No.
Sibylle Krieger	18,400	-	-	21,678	40,078
Susan Forrester	80,903	-	-	46,143	127,046
Andrew Harrison	36,800	-	-	27,670	64,470
Kathryn Spargo	-	-	-	10,000	10,000
Total NED	136,103	-	-	105,491	241,594
Stuart Smith	1,208,803	-	-	333,334	1,542,137
Russell Davies	1,208,803	-	-	145,834	1,354,637
Craig Dower	-	-	-	-	-
Lesley Kennedy	-	-	-	-	-
Total Executive KMP	2,417,606	-	-	479,168	2,896,774
Total KMP	2,553,709	-	-	584,659	3,138,368

Note: the shareholdings listed above, includes both direct and indirect shareholdings. The KMP hold no options and / or share rights in the Company.

Directors' report

For the year ended 30 June 2017

6.0 Employment Agreements

The CEO and other executive KMP operate under employment agreements.

The following sets out details of the employment agreements relating to the CEO and other executive KMP.

Executive Directors	Fixed Remuneration	Term of Agreement	Notice period
Stuart Smith (CEO to 9 Aug 2017)	\$250,000*	3 years (20 Nov 15 – 19 Nov 18)	6 months (i) (ii)
Russell Davies	\$250,000	3 years (20 Nov 15 – 19 Nov 18)	6 months (i) (ii)
Craig Dower (CEO from 9 Aug 2017)	\$600,000	Unspecified	6 months
Other KMP			
Lesley Kennedy	\$365,000	Unspecified	3 months

(i) Subject to completion of minimum 3 year fixed term. The company can terminate with 6 months' notice at any time

(ii) The terms of these agreements provide for a fixed base salary of \$250,000 per annum over the fixed term period.

(*) The Board is currently reviewing the remuneration arrangements of Stuart Smith on transition to new role

End of audited remuneration report

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

On behalf of the Directors



Craig Dower
Managing Director

29 August 2017
Sydney

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Auditor's Independence Declaration To the Directors of Xenith IP Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Xenith IP Group Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Partner - Audit & Assurance

Sydney, 29 August 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

		30 June 2017	30 June 2016 (restated)
	Notes	\$'000	\$'000
Revenue	5	85,036	36,868
Other income	6	413	141
Employee benefits expense		(35,085)	(12,805)
Disbursement expense		(24,430)	(9,279)
Occupancy expense		(4,653)	(2,070)
Depreciation and amortisation expense	7	(3,099)	(377)
IT and communication expense		(1,304)	(543)
Consultancy fees		(764)	(356)
Travel expense		(924)	(477)
Advertising and marketing expense		(461)	(186)
Other expenses		(3,618)	(1,798)
Acquisition related expenses	7	(2,437)	(321)
Fair value adjustment to contingent consideration	27	(1,394)	-
Restructure and IPO costs	7	-	(1,630)
Net foreign exchange loss	7	(55)	(143)
Finance costs	7	(863)	(194)
Profit before tax		6,362	6,830
Income tax expense	8	(2,405)	(295)
Profit for the year attributable to the owners of the Group		3,957	6,535
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year attributable to the owners of the Group		3,957	6,535
		Cents	Cents
Earnings per share attributable to the equity holders of Xenith IP Group Limited			
Basic earnings per share	24	6.4	20.4
Diluted earnings per share	24	6.3	20.0

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

Consolidated statement of financial position
As at 30 June 2017

	Notes	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Current assets			
Cash and cash equivalents	9	3,646	4,911
Trade and other receivables	10	29,036	8,340
Work in progress	11	2,198	290
Derivative financial asset		66	-
Other current assets	12	1,561	278
Total current assets		36,507	13,819
Non-current assets			
Property, plant and equipment	13	6,635	911
Intangible assets	14	162,665	8
Deferred tax assets	8	-	1,355
Other non-current assets		228	27
Total non-current assets		169,528	2,301
Total assets		206,035	16,120
Current liabilities			
Trade and other payables	16	6,882	2,438
Contingent consideration liability	27	5,168	-
Provisions	17	7,800	1,951
Income tax payable		2,599	1,318
Derivative financial liability		-	77
Other current liabilities	19	2,996	236
Total current liabilities		25,445	6,020
Non-current liabilities			
Borrowings	18	14,901	4,000
Deferred tax liability	8	15,435	332
Provisions	17	1,980	662
Other non-current liabilities	19	5,436	621
Total non-current liabilities		37,752	5,615
Total liabilities		63,197	11,635
Net assets		142,838	4,485
Equity			
Issued capital	20	141,405	3,883
Reserves	21	929	(2,496)
Retained earnings	21	504	3,098
Total equity		142,838	4,485

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

Consolidated statement of changes in equity
For the year ended 30 June 2017

	Issued capital \$'000	Former partner loans \$'000	Share based payment \$'000	Reorgan-isation \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2015	1	4,583	-	(3,027)	1,033	2,590
Items of comprehensive income:						
Net profit for the period	-	-	-	-	6,535	6,535
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	6,535	6,535
Transactions with owners in their capacity as owners:						
Shares issued	3,882	-	-	-	-	3,882
Repayment of partner loans	-	(4,583)	-	-	-	(4,583)
Share-based payment expense	-	-	531	-	-	531
Distributions to former partners	-	-	-	-	(4,470)	(4,470)
Balance at 30 June 2016	3,883	-	531	(3,027)	3,098	4,485
Balance at 1 July 2016	3,883	-	531	(3,027)	3,098	4,485
Items of comprehensive income:						
Net profit for the period	-	-	-	-	3,957	3,957
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	3,957	3,957
Transactions with owners in their capacity as owners:						
Shares issued, net of issue costs	137,114	-	-	-	-	137,114
Vesting of share rights	408	-	(410)	-	-	(2)
Share-based payment expense	-	-	808	-	-	808
Dividends paid	-	-	-	-	(3,524)	(3,524)
Transfer to retained earnings	-	-	-	3,027	(3,027)	-
Balance at 30 June 2017	141,405	-	929	-	504	142,838

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

Consolidated statement of cash flows
For the year ended 30 June 2017

	Note	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Cash flows from operating activities			
Receipts from customers		85,660	37,457
Payments to suppliers and employees		<u>(74,184)</u>	<u>(30,651)</u>
		11,476	6,806
Interest received		185	2
Interest expense for the funding of operations		-	(194)
Income tax paid		<u>(1,312)</u>	-
Net cash provided by operating activities	31	<u>10,349</u>	<u>6,614</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(1,770)	(460)
Payments for intangible assets		(78)	-
Payments for the acquisition of controlled entities, net of cash acquired and transaction costs	27	<u>(88,319)</u>	-
Net cash used in investing activities		<u>(90,167)</u>	<u>(460)</u>
Cash flows from financing activities			
Proceeds from issue of shares		76,163	3,831
Payment of share issue costs		(3,867)	-
Proceeds from borrowings		29,500	4,000
Repayment of borrowings		(18,680)	(2,000)
Dividends / distributions paid		(3,524)	(4,470)
Finance costs paid		(905)	-
Repayment of partnership loans		-	<u>(4,583)</u>
Net cash provided by / (used in) financing activities		<u>78,687</u>	<u>(3,222)</u>
Net (decrease) / increase in cash and cash equivalents		(1,131)	2,932
Cash and cash equivalents at the beginning of the year		4,911	1,403
Effects of exchange rate changes on cash and cash equivalents		<u>(134)</u>	<u>576</u>
Cash and cash equivalents at the end of the year	9	<u>3,646</u>	<u>4,911</u>

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

Notes to the consolidated financial statements

For the year ended 30 June 2017

1. General information

Xenith IP Group Limited (“the Company”) is a for-profit listed public company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange (“ASX”). The consolidated financial report of the Company for the year ended 30 June 2017 (“the financial report”) comprises the Company and its controlled entities (“the Group”). Xenith IP Group Limited is the ultimate parent entity in the Group.

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

The financial statements were authorised for issue in accordance with a resolution of Directors, on 29 August 2017.

2. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss (FVTPL) and derivative financial instruments.

Group Restructure

On 1 October 2015 the business was restructured. Prior to the restructure, the business comprised two separate partnerships being Shelston IP and Shelston IP Lawyers. Additionally Shelford Services Pty Limited, as trustee for Shelford Services Trust, provided administrative and support services to the partnerships. These entities are collectively referred to as the 'existing merged group'.

The Company was incorporated as a public company on 26 August 2015. On 1 October 2015 an internal restructure took place in preparation for the Initial Public Offering ('IPO') of the Company's shares on the ASX on 19 November 2015. Under the restructure:

- The business assets and liabilities of Shelston IP and Shelston IP Lawyers were transferred to Shelston IP Pty Limited and Shelston IP Lawyers Pty Limited respectively;
- The partners of Shelston IP exchanged their partnership interests for shares in Shelston IP Pty Limited;
- The partners of Shelston IP Lawyers exchanged their partnership interests for shares in Shelston IP Lawyers Pty Limited;
- Shelford Services Pty Limited transferred the assets of the Shelford Services Trust to Xenith IP Services Pty Limited, a wholly owned subsidiary of Xenith IP Group Limited, for \$1; and
- The shareholders of Shelston IP Pty Limited and Shelston IP Lawyers Pty Limited transferred their shares in Shelston IP Pty Limited and Shelston IP Lawyers Pty Limited to the Company in consideration for the issue of shares in the Company.

The resulting parent and subsidiaries are collectively referred to as the 'reconstructed consolidated group'.

This reorganisation did not represent a business combination in accordance with AASB 3 'Business Combinations' but instead was recognised as a capital reconstruction related to existing businesses. The prior year results represent the financial position of the 'reconstructed consolidated group' as at 30 June 2016 and the financial performance of the 'existing merged group' from 1 July 2015 to the date of restructure and the 'reconstructed consolidated group' from the date of restructure to 30 June 2016.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 29.

3. Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods, are outlined below.

- Accounting for official fees – refer Note 5
- Provision for impairment of receivables – refer Note 10
- Provision for impairment of work in progress – refer Note 11
- Estimation of useful lives of acquired intangible assets – refer Note 14
- Review for impairment of Goodwill and other Non-current assets – refer Note 15
- Employee benefits provision - refer Note 17
- Provision for make good obligation – refer Note 17
- Business combinations – refer Note 27

4. Segment information

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

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

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

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

Notes to the consolidated financial statements
For the year ended 30 June 2017

5. Revenue

	2017	2016
	\$'000	(restated) \$'000
Revenue from rendering of services	84,027	36,336
Commission revenue	982	496
Other revenue	27	36
	85,036	36,868

Change in Accounting policies

The accounting for official fees charged by national IP bodies and on-charged to clients has been reviewed in the current year and based on the Group's assessments of the facts related to these transactions, it has been judged to be appropriate for these transactions to be accounted for on a principal basis with the effect from 1 July 2016. Previously these transactions were accounted for on an agency basis. The prior year revenue and disbursement expense have been restated to reflect the revised accounting policy.

As a result of this decision "Revenue from rendering of services" for the year ended 30 June 2016 has been restated from \$31,639,000 to \$36,336,000 reflecting the \$4,697,000 of official fee revenue that had been accounted for on an agency basis in that year. Similarly, the recorded disbursement expenses for that year increased from \$4,321,000 to \$9,018,000. As these entries reflect only a gross up to the revenue and expense lines. As such, profit for the year, retained earnings and net assets of the business are unaffected, and therefore reconciliations of these amounts and the statement of financial position for 30 June 2015 have not been presented.

Significant accounting policy

Revenue recognition

Revenue from the rendering of services is recognised at the fair value of consideration receivable, based on stage of completion unless the outcome cannot be estimated reliably, in which case revenue is only recognised to the extent that expenditure incurred can be recovered.

Disbursement income is recognised on a principle basis where the Group considers that it assumes risks and rewards associated with disbursement payments made.

Commissions and other revenue is recognised at fair value of consideration receivable, on an accruals basis.

6. Other income

	2017	2016
	\$'000	\$'000
Net gain on disposal of property, plant and equipment	-	88
Interest income	185	1
Other income	228	52
	413	141

Notes to the consolidated financial statements
For the year ended 30 June 2017

7. Expenses

Profit before income tax is presented after deducting the following expenses.

	2017	2016
	\$'000	\$'000
<i>Depreciation and amortisation</i>		
Depreciation of property, plant and equipment	1,017	357
Amortisation of intangibles	2,082	20
	3,099	377
<i>Acquisition related expenses</i>		
Share based payment to vendor's employees	120	-
Consulting and legal due diligence costs	2,083	295
Accounting fees	109	-
Other costs	125	26
	2,437	321
<i>Restructure and IPO expenses</i>		
ASX / registry costs	-	170
Consulting and legal fees	-	152
Employee benefits expense	-	179
Stamp duty	-	1,031
Other costs	-	98
	-	1,630
<i>Net (gain) / loss on foreign exchange</i>		
Included in this expense category is:		
Foreign exchange loss on other financial instruments	197	66
Fair value (gain) / loss on derivative financial instruments	(142)	77
	55	143
<i>Operating lease expense</i>		
Property rental expenses	4,353	1,995
Other operating leases	51	8
	4,404	2,003
<i>Employee benefits expense</i>		
Included within Employee benefits expenses are:		
Superannuation contributions	2,481	878
Equity settled share based payments	808	531
	3,289	1,409
<i>Finance costs</i>		
Interest on borrowings	257	89
Facility line fees	203	105
Unwinding of discount on contingent consideration liability	307	-
Loan establishment fees expensed	96	-
	863	194

Notes to the consolidated financial statements
For the year ended 30 June 2017

8. Income tax and tax balances

	2017	2016
	\$'000	\$'000
Income tax expense		
Current tax expense	2,542	1,318
Deferred tax income		
- Origination and reversal of temporary differences	(137)	(1,023)
Income tax expense for the year	2,405	295

Reconciliation of the actual tax expense to the expected tax expense at the statutory rate:

Profit before tax	6,362	6,830
Tax thereon at the applicable statutory rate of 30% (2016: 30%)	1,909	2,049
Add / (less) tax effect of:		
Profits attributable to former partnership	-	(1,059)
Initial recognition of deferred tax balances on restructure	-	(1,118)
Non-taxable income	(56)	-
Unwinding of discount on contingent consideration	92	-
Fair value adjustment to contingent consideration	418	-
Other non-tax-deductible items	42	423
Income tax expense for the year	2,405	295

The movement and analysis of the recorded deferred tax (liability) / asset balance is as follows:

	1 Jul 2016	Recognised on business combination	Recognised in profit or loss	Recognised in equity	30 Jun 2017
	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets					
Trade and other receivables	48	567	137	-	752
Work in progress	(87)	-	(573)	-	(660)
Derivative financial asset	-	-	(20)	-	(20)
Cash (unrealised FX)	(189)	-	55	-	(134)
Non-current assets					
Intangible assets	-	(21,134)	507	-	(20,627)
Property, plant and equipment	(56)	(150)	38	-	(168)
Current liabilities					
Trade and other payables	178	(51)	130	-	257
Provisions	676	627	1,038	-	2,341
Non-current liabilities					
Other liabilities	186	598	(148)	-	636
Provisions	108	1,299	(814)	-	593
Equity					
Transaction costs	-	385	(273)	1,161	1,273
Unutilised losses	-	103	(59)	-	44
Share based payment reserve	159	-	119	-	278
	1,023	(17,756)	137	1,161	(15,435)
Deferred tax asset disclosed					-
Deferred tax liability disclosed					(15,435)
					(15,435)

Notes to the consolidated financial statements
For the year ended 30 June 2017

8. Income tax and tax balances (continued)

	1 Jul 2015 \$'000	Recognised on business combination \$'000	Recognised in profit or loss \$'000	Recognised in equity \$'000	30 Jun 2016 \$'000
Current assets					
Trade and other receivables	-	-	48	-	48
Work in progress	-	-	(87)	-	(87)
Cash (unrealised FX)	-	-	(189)	-	(189)
Non-current assets					
Property, plant and equipment	-	-	(56)	-	(56)
Current liabilities					
Trade and other payables	-	-	178	-	178
Provisions	-	-	676	-	676
Non-current liabilities					
Other liabilities	-	-	186	-	186
Provisions	-	-	108	-	108
Equity					
Share based payment reserve	-	-	159	-	159
	-	-	1,023	-	1,023
Deferred tax asset disclosed					1,355
Deferred tax liability disclosed					(332)
					1,023

Franking credits

As at 30 June 2017, the Group had a franking deficit of \$25,000 (2016: \$nil). The Group commenced paying monthly income tax instalments from July 2017 and is expected to maintain a franking surplus in the future.

Significant accounting policy

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the consolidated financial statements
For the year ended 30 June 2017

8. Income tax and tax balances (continued)

Significant accounting policy

Income tax (continued)

As part of the restructure to facilitate listing during the previous financial year, the Shelston IP partnership and associates transferred its business to Shelston IP Pty Limited. This change in legal structure caused a change in the tax status of the operations, impacting the profit or loss since the restructure. Refer Note 2.

During the year ended 30 June 2016, Xenith IP Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries formed an income tax consolidated group under the tax consolidation regime. During the current year, the newly acquired entities were added to the tax group, from the date of each acquisition. All companies in the Tax consolidated group are party to standard tax funding and tax sharing agreements, which entails current and deferred tax expenses will be allocated to each company, which is in turn joint and severally liable for any tax liabilities of the Group. Tax expenses are allocated on the "group allocation" method as defined in UIG1052.

9. Cash and cash equivalents

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Cash at bank and on hand	3,646	4,911

Significant accounting policy

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

10. Trade and other receivables

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Trade receivables, gross	30,836	7,606
Provision for impairment of receivables	(2,195)	(160)
	28,641	7,446
Amounts due from previous partnership	-	810
Commissions receivable	189	79
Other receivables	206	5
	29,036	8,340

Impairment of trade receivables

The analysis of trade receivables ageing by due date and respective provision recognised is as follows:

	30 Jun 2017		30 Jun 2016	
	Gross receivables	Of which provided	Gross receivables	Of which provided
	\$'000	\$'000	\$'000	\$'000
Balances not overdue	18,786	(2)	2,713	-
Less than 45 days overdue	4,878	-	2,279	-
46 to 60 days overdue	1,604	(1)	387	-
61 to 90 days overdue	1,461	(13)	974	-
91 to 120 days overdue	809	(1)	530	-
More than 120 days overdue	3,298	(2,178)	723	(160)
	30,836	(2,195)	7,606	(160)

Notes to the consolidated financial statements

For the year ended 30 June 2017

10. Trade and other receivables (continued)

The ageing above is presented based on customers being invoiced on standard payment terms of 15-30 days, and associates (other IP firms outside of Australia) having standard terms of up to 45 days. However, as is normal in the industry, most customer invoices are settled between 30 and 60 days of the invoice date, and associate invoices are settled at around 90 days.

Having regard to the above, and having performed detailed analysis of recent historic actual collection trends, the levels of provisioning against overdue balances reflects management's best estimate of the fair value and recoverable amount of the trade receivable balances.

Movement on provision for impairment of receivables

The analysis below presents the movement in the provision during the year, including amounts:

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Provision at the start of the year	160	256
Acquired as part of the business acquisition	1,770	-
Other movements through profit or loss	265	(96)
Closing provision as at the year end	2,195	160

Significant accounting judgements, estimates and assumptions

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Significant accounting policy

Trade receivables

Trade receivables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Recoverability of trade receivables is reviewed on an ongoing basis. Trade receivable balances which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised by applying a provision rate based on historic collection rates for overdue balances, which are reassessed each year, and adjusted specific debtors where management is aware of specific conditions which affect the likely recovery of outstanding balances.

The provision for impairment of receivables is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, if the impact of discounting is considered material.

Notes to the consolidated financial statements

For the year ended 30 June 2017

11. Work in progress

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Work in progress at cost	2,569	385
Less: provision for impairment of work in progress	(371)	(95)
	2,198	290

Significant accounting judgements, estimates and assumptions

Provision for impairment of work in progress

The provision for impairment of work in progress assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of work in progress, historical billing and collection rates and specific knowledge of the individual customer's financial position.

Significant accounting policy

Work in progress

Unbilled work in progress is initially recognised based on the actual time worked at the applicable charge out rates, plus disbursements expenditure incurred. It is subsequently adjusted to its recoverable amount. The recoverable amount is determined after applying the average recovery rate for the preceding 12 months to the balance on hand for client matters that are incomplete and unbilled at the reporting date after providing for any specific amounts which are not considered to be recoverable.

12. Other current assets

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Prepaid expenses	1,552	247
Other current assets	9	31
	1,561	278

Notes to the consolidated financial statements
For the year ended 30 June 2017

13. Property, Plant and Equipment

	Leasehold improvements \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Office equipment \$'000	Total \$'000
Written down value					
At 1 July 2015	678	191	96	6	971
Additions	322	48	92	1	463
Depreciation charge for the year	(225)	(55)	(75)	(2)	(357)
Disposals	(166)	-	-	-	(166)
At 30 June 2016	609	184	113	5	911
Acquisition of controlled entities (Note 27)	4,928	404	910	81	6,323
Additions	-	6	405	7	418
Depreciation charge for the year	(614)	(82)	(304)	(17)	(1,017)
At 30 June 2017	4,923	512	1,124	76	6,635
Cost					
At 30 June 2016	1,725	718	816	36	3,295
Accumulated amortisation	(1,116)	(534)	(703)	(31)	(2,384)
WDV at 30 June 2016	609	184	113	5	911
Cost					
At 30 June 2017	12,293	1,956	5,884	698	20,831
Accumulated amortisation	(7,370)	(1,444)	(4,760)	(622)	(14,196)
WDV at 30 June 2017	4,923	512	1,124	76	6,635

Significant accounting policy

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives at the depreciation rate as follows:

Leasehold improvements	Lease term
Furniture and fittings	5% to 15%
Computer equipment	15% to 20%
Office equipment	10% to 30%

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

The accounting policy for the assessment for impairment is included in Note 15.

Notes to the consolidated financial statements
For the year ended 30 June 2017

14. Intangible assets

	Goodwill \$'000	Brand names \$'000	Customer relationships \$'000	Computer software \$'000	Total \$'000
At 30 June 2015 and 2016	8	-	-	-	8
Acquisition of controlled entities (Note 27)	81,198	9,121	70,447	3,895	164,661
Additions in the year	-	-	-	78	78
Amortisation expense for the year	-	-	(1,690)	(392)	(2,082)
At 30 June 2017	81,206	9,121	68,757	3,581	162,665
Cost	81,206	9,121	70,447	3,973	164,747
Accumulated amortisation and impairment	-	-	(1,690)	(392)	(2,082)
At 30 June 2017	81,206	9,121	68,757	3,581	162,665

There is no movement in the intangible cost balance of \$8,000 and accumulated amortisation and impairment balance of nil between 1 July 2015 and 1 July 2016.

Significant accounting judgements, estimates and assumptions

The intangible assets recognised on the business combinations are material, and the determination of the useful lives applicable to those intangible assets is an area of key estimation. While the useful lives have been determined based on advice from experts and by reference to the best observable or benchmark data available, the eventual useful lives may differ from estimates for numerous reasons including technical innovations, political and economic factors, or other events. The amortisation charge will increase where the useful lives are less than previously estimated. The determined useful lives are as set out below.

Significant accounting policy

Intangible assets

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

Goodwill

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

Brand names

Brand names are the assessed value of the acquired entity's brand names, including trademarks, using the royalty relief method at acquisition date. They are deemed to have an indefinite useful life.

Customer relationships

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

Software

The assessed value of identified software assets controlled by the acquired businesses is recognised on acquisition at its assessed fair value determined by its replacement cost at the acquisition date.

Derecognition

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

14. Intangible assets (continued)

Amortisation

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

Goodwill and Brand names	Not applicable - indefinite life
Customer relationships	5% to 8%
Software	20% to 34%

The amortisation expense is recognised in the Depreciation and amortisation expense line in the profit or loss.

15. Impairment assessment

Goodwill and other indefinite useful life assets allocated to Cash Generating Units (CGUs) are as presented in the table below. The business combination accounting for the Griffith Hack acquisition has been presented on a provisional basis at 30 June 2017. Consequently the allocation of goodwill arising on the acquisition of the Griffith Hack business has been allocated to the Griffith Hack CGU on a provisional basis.

	30 Jun 2017	30 Jun 2017	30 Jun 2017	30 Jun 2016
	Brand names	Goodwill	Total	Goodwill
	\$'000	\$'000	\$'000	\$'000
Shelston IP	-	2,511	2,511	8
Watermark	1,480	5,188	6,668	-
Griffith Hack	7,641	73,268	80,909	-
Glasshouse Advisory	-	239	239	-
	9,121	81,206	90,327	8

Watermark, Griffith Hack, and Glasshouse Advisory

The recoverable amounts of the Watermark, Griffith Hack and Glasshouse Advisory cash generating units (CGUs) were determined based on the fair value less cost to sell (FVLCTS) basis. The purchase consideration paid (representing the Market Price) for the acquisition of these businesses during the current financial year is indicative of fair value. The Group considers this to be appropriate based on the fact that the transactions were completed on an arm's length basis between willing and knowledgeable parties. The transactions occurred in November 2016 (Watermark) and February 2017 (Griffith Hack and Glasshouse Advisory), and the Group does not consider the market for these acquired businesses to have changed significantly since those dates. Furthermore, the Group considers the underlying performance of these businesses to 30 June 2017 suggests that the market value for these businesses has not declined since acquisition.

The group consider this assessment of the fair value to fall into the Fair Value Hierarchy Level 2 as defined in AASB 13, with market corroborated inputs being the recent purchase consideration paid for the acquired businesses. The Group considers this to be market value, corroborated by the fact the businesses were purchased within eight months of year end, and the acquisitions were deemed to have occurred at market price, without any adjustment necessary for changes in either the assets or the market.

Shelston IP

The recoverable amount of the Shelston IP CGU was determined based on a value-in-use calculation covering a detailed forecast for the next five years, and terminal growth rate of 2% per annum, discounted at a post tax discount rate of 12%.

The terminal growth rate conservatively reflects the long-term average growth rate for the industry. The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each cash generating unit.

Detailed cash flow forecasts reflect average revenue growing at approximately 5% per annum over the five year forecast period, and expenditure increasing in line with inflation. Synergies have only been included in the forecast future cash flows to the extent they have been realised. The revenue growth rate reflected for the forecast period of five years is a reflection of the actual growth rates historically achieved.

No reasonable change in key sensitivities would result in an impairment being recognised.

15. Impairment assessment (continued)

Significant accounting judgements, estimates and assumptions

The review for impairment of Goodwill and other Non-current assets is an area where both significant judgement and estimation uncertainty apply.

Determination of Cash Generating Units (CGUs)

Determination of the Cash Generating Units (CGUs) for purpose of impairment reviews is a key judgement made by management. Management has undertaken a formal assessment of what constitutes the CGUs, by reference to the level of information routinely distributed to the Chief Operating Decision Makers. The Group deemed there to be four CGUs as presented above. An alternative judgement on these CGUs may result in different conclusions regarding the existence of impairment, either in the current year, or future reporting periods.

Allocation of Goodwill to CGU

The Group has taken a systematic approach to the allocation of Goodwill to the CGUs expected to benefit from the synergies arising from the acquisitions. This allocation is an area of estimation uncertainty. Actual synergies realised in a CGU may differ from those initially expected at the time the allocation of goodwill to CGU's was performed. Such differences may impact the outcome of future impairment assessments.

The business combination accounting for Griffith Hack has been presented on a provisional basis at 30 June 2017. Consequently the allocation of goodwill arising on the acquisition of the Griffith Hack business has been allocated to the Griffith Hack CGU on a provisional basis.

Recoverable amount

Where the recoverable amount is determined based on the value-in-use (VIU) basis, this calculation relies on a number of estimation inputs including the estimated cash flows over the five year forecast period, the discount rate used, and the long term growth rate applicable.

Where the recoverable amount is determined based on the Fair value less cost to sell (FVLCTS) basis, this assessment relies on key judgements as to the condition of the market for the relevant CGUs, and the potential acquirers perception on performance while ultimately relying on the assessment that the recently paid purchase price was indicative of market price.

Significant accounting policy

Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at a cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell, and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

If impairment losses are recognised, these are booked first against the goodwill of the CGU, and thereafter against other assets on a pro rata basis. Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

Notes to the consolidated financial statements
For the year ended 30 June 2017

16. Trade and other payables

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Trade payables	3,305	788
Accrued expenses	3,168	1,622
Goods and services tax payable	409	28
Total trade and other payables	6,882	2,438

Significant accounting policy

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The average credit period on purchases of goods and services is 30 days for local vendors and 60 days for foreign vendors. The Group seeks to ensure that all payables are paid within the credit time frame.

17. Provisions

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Current		
Annual Leave	3,488	1,055
Long Service Leave	4,188	896
Make-good on leased properties	124	-
Total current provisions	7,800	1,951
Non-current		
Long Service Leave	538	301
Make good on leased properties ¹	1,442	361
Total non-current provisions	1,980	662
Total provisions	9,780	2,613

¹ The \$1,205,000 increase in the make-good provision is attributable to the acquisition of Watermark and Griffith Hack businesses.

Significant accounting judgements, estimates and assumptions

Employee benefits provision

The obligation for employee benefits expected to be settled are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of this provision liability, estimates of retention rates and salary increases are taken into account.

Provision for make good obligation

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as expected tenancy terms and remediation cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. The actual cost incurred to meet the obligation upon exiting a lease is likely to differ from the estimated provision in most cases.

17. Provisions (continued)

Significant accounting policy

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain. Provisions are classified as current when the lease is expected to be settled within 12 months of the balance date. A brief description of provisions recognised is provided below:

Property make-good

The provision represents the present value of the estimated costs to satisfy the make good obligations present in the Group's property lease contracts.

Long service leave and Annual leave provisions

The provisions represent the Group's obligations as an employer in relation to annual leave and long-service leave accrued by employees.

18. Borrowings

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Non-current		
Bank loans	15,250	4,000
Less: Transaction costs	(349)	-
	14,901	4,000

On 12 October 2015, the Group entered into a three year facility agreement ("Agreement") with Australia and New Zealand Banking Group Limited ("ANZ"). The total value of that facility was \$10 million, and with a term ending October 2018. Effective 2 February 2017, the Group increased its available facilities under the restated senior facility agreement executed on 25 November 2016 ("The Agreement") with ANZ to \$50,000,000.

The facilities under The Agreement comprise:

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

The agreement is subject to compliance with specific financial covenants and has a term of three years ending February 2020. It is secured by a fixed and floating charge over significantly all the assets of the Group.

Interest is paid at a variable interest rate. The effective rate at 30 June 2017 was 5.86% (2016: 3.6%). The effective interest rate includes a line fee of 1% per annum payable on the facility limit. Analysis of the available facilities is as follows:

	Facility limit \$'000	Used at year end* \$'000	Unused at year end \$'000
At 30 June 2017			
Cash advance facility	30,000	(15,250)	14,750
Interchangeable facility	20,000	(4,127)	15,873
	50,000	(19,377)	30,623
At 30 June 2016			
Cash advance facility	6,000	(4,000)	2,000
Interchangeable facility	4,000	(932)	3,068
	10,000	(4,932)	5,068

* The amounts used in relation to the Interchangeable facility represent bank guarantees.

Notes to the consolidated financial statements
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18. Borrowings (continued)

Significant accounting policy

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

19. Other liabilities

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Customer payments on account	2,274	236
Deferred lease incentive liability	6,158	621
	8,432	857
Expected to realise within next 12 months – current	2,996	236
Expected to realise after 12 months – non-current	5,436	621
	8,432	857

Significant accounting policy

Deferred lease incentive liability

Incentives provided under lease agreement are initially recognised as a liability and subsequently recognised as an expense on a straight line basis over the lease term.

20. Issued capital

	30 Jun 2017	30 Jun 2016	30 Jun 2017	30 Jun 2016
	Shares	Shares	\$'000	\$'000
Opening balance – fully paid ordinary shares	32,816,368	-	3,883	-
Conversion of points	-	31,353,333	-	1
Shares issued at Initial Public Offering	-	1,444,318	-	3,882
Shares issued to employees	-	18,717	-	-
Share Placement	2,064,634	-	6,746	-
Share Purchase Plan	369,855	-	1,201	-
Shares issued to the Vendors of Watermark	2,285,459	-	7,389	-
Vesting of share rights	150,735	-	408	-
Institutional Offer – ANREO*	21,982,834	-	51,080	-
Retail Offer – ANREO*	6,353,670	-	14,498	-
Shares issued to the Vendors of Griffith Hack	21,638,744	-	56,092	-
Share award to Griffith Hack employees	55,932	-	108	-
Closing balance – fully paid ordinary shares	87,718,231	32,816,368	141,405	3,883

* ANREO – Accelerated Non-renounceable Entitlement Offer to fund the Griffith Hack Acquisition (refer note 27).

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Upon a poll each share shall have one vote.

Notes to the consolidated financial statements

For the year ended 30 June 2017

20. Issued capital (continued)

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders, and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. The value is as presented below:

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Total equity	142,838	4,485
Cash and cash equivalents	(3,646)	(4,911)
Debt	14,901	4,000
Total capital for capital risk management	154,093	3,574

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The Group is subject to certain covenants under its financing agreements and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing agreements during the financial year.

Significant accounting policy

Issued capital

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

21. Reserves, Retained Earnings and Dividends

The nature of these reserve balances is as follows:

Share based payment reserve

The reserve is used to recognise the value of equity benefits provided to employees as part of their remuneration. Specifically, the reserve relates to performance rights and share rights issued by the Company to its employees under its Long Term Incentive Plan. The performance rights vest over 3 years on achievement of service conditions and non-market performance conditions. The share rights vest over 1 - 3 years and reflect the one off issue at the time of IPO. There are no performance conditions attached to the share rights.

Reorganisation reserve

The reserve is an accumulation of the pre-existing negative reserves of Shelston IP and its associate entities that has been carried forward on the basis that the consolidated financial statements have been prepared as a continuation of the financial statements of the existing merged Group (refer to Note 2: Group Restructure). The reserve recognises the cumulative impact of the existing merged Group's first adoption of Australian Accounting Standards. During the current year the reorganisation reserve was transferred to retained earnings.

The opening and closing reserve balances, as well as the movements on the reserves and retained earnings balance are presented in the Statement of Changes in Equity.

Dividends to shareholders / Distribution of profits to former partners

Dividends declared and paid to shareholders and distributions paid to former partners are as follows:

	Cents per share	2017 \$'000	2016 \$'000
Distribution to former partners of Shelston IP			
Paid October 2015 from results prior to reorganisation	n/a	n/a	4,470
Final dividend to shareholders of Xenith IP Group Limited			
Paid 30 September 2016 (declared 30 August 2016)	7.0	2,468	n/a
Interim dividends to shareholders of Xenith IP Group Limited			
Paid 31 March 2017 (declared 23 February 2017)	1.6	1,056	n/a
Total dividends paid during the year		3,524	4,470

Final dividend declared after the year end

A final fully franked dividend of 3.4 cents per share was declared on 29 August 2017 to be paid on 29 September 2017. The expected value of the dividend is \$2,982,000.

Significant accounting policy

Dividends

Dividends are recognised when declared during the financial year and are no longer at the discretion of the Group.

Notes to the consolidated financial statements
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22. Financial assets and liabilities and fair value measurement

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	3,646	4,911
Trade and other receivables	29,036	8,340
Derivative financial asset	66	-
	32,748	13,251

Cash and cash equivalents and trade and other receivables are categorised as financial assets at amortised costs. The carrying value of trade and other receivables are deemed to be materially consistent with their fair values given their short term nature.

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Financial liabilities		
Contingent consideration liability	5,168	-
Derivative financial liability	-	77
Trade and other payables (excluding statutory obligations)	5,898	2,345
Borrowings	14,901	4,000
	25,967	6,422

The carrying value of Trade and other payables are recognised at amortised cost which is deemed to be materially consistent with their fair values given their short term nature.

The fair value of the Borrowings is determined by discounting the balances at a market discount rate applicable to similar instruments.

Derivative financial instruments and Contingent consideration liability liabilities are categorised as *fair value through profit or loss* financial instruments and are remeasured at each balance sheet date. Derivatives are Level 2 fair value measurement items, while the Contingent consideration liability is classified as a level 3 as analysed below:

Fair value measurement hierarchy and values subject to each are as follows:

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date	-	-
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	66	(77)
Level 3: Unobservable inputs for the asset or liability	(5,168)	-

There were no transfers between levels during the financial year.

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

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

Contingent consideration liabilities have been valued using a discounted cash flow model. Refer to the Business Combinations Note 27, under the heading "Contingent consideration", for details of how the carrying value has been determined, including details of the Unobservable inputs estimated by management.

22. Financial assets and liabilities and fair value measurement (continued)

Significant accounting policy

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, is used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

These fair value measurement principles apply to all financial instruments measured at fair value as well as other assets and or liabilities where fair value measurement is applicable, including with reference to the valuation of intangibles arising on business combinations as discussed in Note 27.

Derivative financial instruments

No derivatives have been designated as hedging instruments. As such derivative financial instruments are accounted for at fair value through profit or loss (FVTPL).

23. Financial instrument risk

Risk management objectives and policy

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 22. The main types of risks associated with the financial assets and liabilities are market risk, credit risk and liquidity risk.

The key overarching objective of the Group's risk management policies is to secure short and medium term cash flows by reducing exposure to financial market risk, and generate lasting returns for stakeholders.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and manages financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The most significant financial risks to which the Group is exposed, its policies in relation to these, and sensitivity analysis performed on these financial risks are described in this note.

Notes to the consolidated financial statements
For the year ended 30 June 2017

23. Financial instrument risk (continued)

Market risk

The primary market risks the Group is exposed to are foreign currency risk and interest rate risk, through its use of financial instruments.

Foreign currency risk

The Group's functional and reporting currency is the Australian Dollar (AUD). Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The focus is on minimising exposure to fluctuations in the rate of the United States Dollar (USD) which represents a significant portion of the Group's foreign currency exposure.

While the Group is able to adjust its rate cards to offset any significant changes to exchange rates, the Group's policy is to seek to reduce the Group's short term exposure using currency collar derivative instruments covering up to 80% of the forecast USD transaction exposure for the next six months. Instruments in place at year end are summarised in the table below:

	US dollar value (\$'000)	Average floor rate	Average cap rate	Fair value of instrument (\$'000)
As at 30 June 2017				
Collars maturing within 3 months	3,800	0.7274	0.7763	20
Collars maturing between 3-6 months	1,200	0.7170	0.7633	46
Total				66
As at 30 June 2016				
Collars maturing within 3 months	3,300	0.7300	0.7850	(41)
Collars maturing between 3-6 months	2,200	0.7273	0.7775	(36)
Total				(77)

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities (all short term) at the reporting date were as follows:

	Financial assets		Financial liabilities	
	30 Jun 2017	30 Jun 2016	30 Jun 2017	30 Jun 2016
	\$'000	\$'000	\$'000	\$'000
United States Dollars (USD)	13,180	8,063	(1,852)	(431)
Euros (EUR)	3,236	26	(226)	(93)
Great British Pound (GBP)	274	17	(122)	(51)
Japanese Yen (JPY)	-	-	(144)	(53)
Other currencies	16	54	(197)	(28)
Total	16,706	8,160	(2,541)	(656)

Notes to the consolidated financial statements

For the year ended 30 June 2017

23. Financial instrument risk (continued)

The following table illustrates the sensitivity of profit and equity to changes in the exchange rate in regards to the Group's USD denominated financial assets and liabilities, assuming all other factors remain consistent.

A USD 5 cent movement in the year end exchange rate has been used in presenting the sensitivities below. The USD 5 cent level is considered appropriate, as this largely reflects the actual range of exchange rate movements in recent years. Furthermore, it is also largely consistent with the spread on the aforementioned collars.

	USD 5 cents weaker		USD 5 cents stronger	
	30 Jun 2017	30 Jun 2016	30 Jun 2017	30 Jun 2016
	\$'000	\$'000	\$'000	\$'000
Favourable / (adverse) impact on:				
Net assets / Equity	760	184	(373)	(362)
Profit before tax	760	184	(373)	(362)

Interest rate risk

The Group's primary interest rate risk arises from the long-term borrowings it holds which are subject to a variable interest rate. Given the relative stability of interest rates over the last 5 years, the Group has deemed it not necessary to enter into derivative instruments to reduce the exposure to reasonable interest rate rises that may be expected to occur.

	30 Jun 2017		30 Jun 2016	
	Weighted Average Interest rate	Balance	Weighted Average Interest rate	Balance
		\$'000		\$'000
Bank Loans	5.86%	15,250	3.64%	4,000
Net exposure to cash flow interest rate risk		15,250		4,000

Price risk

The Group does not have any significant exposures to reasonably possible price fluctuations.

Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its obligations.

The Group's objective is to ensure it has adequate cash and cash equivalents in place to meet all its obligations as and when they fall due as well as having available funds to meet working capital requirements arising from growth. Ideally the Group also aims to have reasonable levels of additional funding contracted to enable potential strategic acquisitions to be executed quickly, if required.

Given the available facilities that are presented in Note 18, which are available until February 2020, and the Group's historic and forecast ability to generate positive free cash flows, the Group considers there to be limited risk that it will not be able to meet its short to medium term liquidity requirements.

Notes to the consolidated financial statements
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23. Financial instrument risk (continued)

The maturity profile of the Group's non-derivate financial liabilities, including any interest payments applicable, is as follows:

Maturity profile as at 30 June 2017

	Within 6 months	6 – 12 months	1-2 years	2+ years
	\$'000	\$'000	\$'000	\$'000
Contingent consideration liability ¹	2,743	-	-	-
Trade payables	3,305	-	-	-
Borrowings ²	434	434	868	15,901
Total	6,482	434	868	15,901

¹ The cash portion of the contingent consideration liability payable includes unwinding of discount at rates of 13.5%.

² The repayment of borrowings assumes the weighted average interest rates applicable in the current year of 5.86% inclusive of the 1% line fee.

Maturity profile as at 30 June 2016

	Within 6 months	6 – 12 months	1-2 years	2+ years
	\$'000	\$'000	\$'000	\$'000
Trade payables	2,437	-	-	-
Borrowings ³	74	73	4,189	-
Total	2,511	73	4,189	-

³ The weighted average interest rate applied was 3.69% inclusive of the 1% line fee.

Credit risk

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in financial loss to the Group. It arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The Group seeks to manage its credit risk at the inception stage by performing an assessment of the credit worthiness of all customers, banks, and other counterparties with which it intends to transact. Additionally, the Group may obtain payment in advance or restrict the services offered where appropriate to mitigate credit risk.

The maximum exposure to credit risk at the reporting date is the carrying amount of financial assets, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and the notes to the financial statements. The Group does not have any material credit risk exposure to any single debtor or group of debtors and does not hold collateral in relation to any debtor balances.

Notes to the consolidated financial statements
For the year ended 30 June 2017

24. Earnings per share

	30 Jun 2017	30 Jun 2016*
	\$'000	\$'000
Profit for the year attributable to the owners of the Group	3,957	6,535
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	62,028,810	32,034,419
Adjustments for calculation of diluted earnings per share		
- Performance rights	45,680	45,680
- Share rights	595,577	753,676
Weighted average number of ordinary shares used in calculating basic earnings per share	62,670,067	32,933,775
	Cents	Cents*
Basic earnings per share	6.4	20.4
Diluted earnings per share	6.3	20.0

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

Significant accounting policy

Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Xenith IP Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, retrospectively adjusted for bonus element of the Accelerated Non-renounceable Entitlement Offer.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

25. Contingent liabilities

The group has bank guarantees outstanding as at 30 June 2017 of \$4,127,000 (2016: \$932,000).

26. Lease and other commitments

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Operating lease commitments		
Committed at reporting date but not recognised as liabilities		
Within one year	6,942	1,752
One to five years	18,202	2,470
Greater than five years	2,173	-
	27,317	4,222

As at 30 June 2017, the Group had committed to leasehold improvement expenditure of \$283,000 (2016: \$nil).

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For the year ended 30 June 2017

27. Business combinations

During the current year, the Group made two significant acquisitions. Both acquisitions were of Australian based Intellectual Property Service Groups.

The Watermark acquisition refers to the transaction that completed on 2 November 2016, with 100 per cent of the issued share capital of the following entities transferring to the Group on that date:

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

The Griffith Hack acquisition refers to the transaction that completed on 2 February 2017, with 100 per cent of the issued share capital of the following entities transferring to the Group on that date:

- GH PTM Pty Ltd;
- GH Law Pty Ltd;
- Intellectual Property Management Pty Ltd; and
- Griffith Hack Consulting Pty Ltd (since renamed Glasshouse Advisory Pty Ltd).

The strategic rationale for both acquisitions was to create a transformational combination of 3 of Australia's leading IP firms, to enhance shareholder value.

Details of the business combinations are presented below:

	Watermark \$'000	Griffith Hack \$'000	Total \$'000
Consideration			
Cash consideration paid	8,548	83,284	91,832
Consideration shares issued	7,405	56,131	63,536
Contingent consideration to be settled in cash	1,800	-	1,800
Contingent consideration to be settled in ordinary shares	1,667	-	1,667
Fair value of consideration	19,420	139,415	158,835
Identified net assets			
Cash and cash equivalents	1,089	2,424	3,513
Trade and other receivables	4,709	14,492	19,201
Work in progress	531	2,370	2,901
Other current assets	1,124	833	1,957
Property, plant and equipment	1,826	4,497	6,323
Intangible assets (excluding goodwill)	9,810	73,653	83,463
Deferred tax asset	815	2,769	3,584
Trade and other payables	(2,695)	(3,788)	(6,483)
Income tax receivable / (payable)	6	(57)	(51)
Other liabilities	(1,429)	(6,844)	(8,273)
Provisions	(2,396)	(4,332)	(6,728)
Borrowings	(430)	-	(430)
Deferred tax liability	(2,402)	(18,938)	(21,340)
Fair value of identified net assets	10,558	67,079	77,637
Goodwill on acquisitions	8,862	72,336	81,198

27. Business combinations (continued)

Consideration shares issued

Part of the upfront consideration was settled through the issue of ordinary shares. Details are as follows:

	Watermark	Griffith Hack	Total
Number of shares issued	2,285,459	21,638,744	23,924,203
Fair value of shares on date of issue (\$ per share)	3.24	2.594 ¹	n/a
Fair value of consideration shares issued (\$'000)	7,405	56,131	65,536

¹ This represents the share price on the date of acquisition, adjusted for the fair value of the March dividends in which the vendor shareholders would not participate.

Contingent consideration

Both acquisitions provide for deferred consideration contingent upon the post acquisition EBITDA to 30 June 2017, annualised (Annualised Earn out EBITDA). The Watermark and Griffith Hack Share Sale and Purchase Agreements provided for certain adjustments to Statutory EBITDA in determining Annualised Earn out EBITDA.

The key information regarding these is included below:

	Watermark	Griffith Hack
Basis of calculation and potential range	Eight times the amount by which the Annualised Earn out EBITDA exceeds \$2,000,000, up to a maximum Annualised Earn out EBITDA of \$2,700,000.	10.5 times the amount by which the Annualised Earn out EBITDA exceeds \$14,476,000, up to a maximum Annualised Earn out EBITDA of \$16,381,000.
Percentage to be settled by issue of shares¹	48.1%	59.8%
Estimated annualised Earn out EBITDA at acquisition (unobservable input)	\$2,500,000	\$14,476,000
Discount rate applicable	13.5%	10.0%
Within the earnout range, the sensitivity to a \$10,000 change in annualised EBITDA	\$80,000	\$105,000

¹ The percentage to be settled by issue of shares is calculated using the fair value of shares as at the date of the respective acquisition.

The movement between the acquisition date fair value of the contingent consideration and the carrying value as at 30 June 2017 is presented below:

	Watermark	Griffith Hack	Total
	\$'000	\$'000	\$'000
Estimated settlement amount as determined at acquisition date	3,851	-	3,851
Less: discount to expected settlement date	(384)	-	(384)
Fair value of contingent consideration at acquisition date	3,467	-	3,467
Revision of estimate of Annualised EBITDA	1,394	-	1,394
Unwinding of discount	307	-	307
Carrying value of contingent consideration at year end	5,168	-	5,168

27. Business combinations (continued)

Goodwill

The goodwill arising on the acquisitions is primarily related to the expected future profitability; the substantial skill and expertise of the professionals in the business; and expected revenue and cost synergies.

The allocation of the goodwill arising on each acquisition is as follows:

	Watermark	Griffith Hack¹	Total
	\$'000	\$'000	\$'000
Goodwill arising on the acquisition	8,862	72,336	81,198
Allocated to Cash Generating Units:			
Shelston IP	2,503	-	2,503
Watermark	5,188	-	5,188
Griffith Hack	932	72,336	73,268
Glasshouse Advisory	239	-	239

¹ The Griffith Hack acquisition accounting is provisional and the goodwill and its allocation are yet to be finalised. At present the goodwill arising on the Griffith Hack acquisition is provisionally allocated to the Griffith Hack CGU.

Status of acquisition accounting

The Group has finalised the acquisition accounting for the Watermark acquisition, which was previously presented as provisional in the half year financial report to 31 December 2016.

The Griffith Hack acquisition accounting remains provisional. This is to allow adjustments should subsequent events show the value of acquired assets or liabilities to be materially different from the initial assessment as presented above. Furthermore, and partly as a result of the impact any changes to the provisional accounting will have on goodwill, the Group is yet to fully quantify its assessment of the value of synergies from the acquisition and allocation to the Groups CGUs.

Acquisition cash flows

Cash flow information related to these acquisitions is as follows:

	Watermark	Griffith Hack	Total
	\$'000	\$'000	\$'000
Cash consideration paid	8,548	83,284	91,832
Cash and cash equivalents acquired	(1,089)	(2,424)	(3,513)
Net cash outflow on acquisitions	7,459	80,860	88,319
Cash paid in relation to acquisition related expenses			2,317
Net cash paid in relation to acquisitions			90,636

Contribution of the acquired businesses to the Group's results:

The contribution to the Group revenues and net profit (after tax) for each of the businesses from date of acquisition is as follows:

	Watermark	Griffith Hack²	Total
	\$'000	\$'000	\$'000
Revenue	13,963	33,720	47,683
Net profit after tax	859	2,467	3,326

² The figures presented for Griffith Hack include the results of the Glasshouse Advisory business which was acquired as part of the Griffith Hack acquisition.

27. Business combinations (continued)

Pro-forma results

Had the Watermark acquisition occurred on 1 July 2016, the Group's revenue would have been \$92,293,000, and the net profit after tax (NPAT) would have been \$3,887,000.

Had the Griffith Hack acquisition also occurred on 1 July 2016, the Group's revenue (including Watermark from 1 July 2016) would have been \$128,510,000 and the NPAT (including the pro-forma net profit after tax of Watermark from 1 July 2016) would have been \$4,066,000.

The estimated contribution to the Group NPAT from the above acquisitions, on the assumption the acquisitions occurred on 1 July 2016, has been presented on a pro-forma basis to adjust for the following in the pre acquisition period:

- Notional salary costs of the principals of the acquired business as if they had been employees of the Group for the full year. Prior to the acquisitions the principals were not paid a salary but instead participated in a profit share arrangement; and
- Amortisation of acquired intangible assets.

Significant accounting judgements, estimates and assumptions

The Group uses valuation techniques in determining the fair values of the various elements of a business combination.

The fair value of contingent consideration is estimated at the date of acquisition based on the Group's best estimate of the quantum and probability of the future payout to be made. This estimation has a direct impact on the Goodwill determined, as well as the liability initially recognised. Any revisions to the fair value of the estimated contingent consideration liabilities directly impacts profit thereafter. The current fair value of the contingent consideration liabilities, as well as the basis for their determination, is discussed in Note 22.

The fair value of acquired intangibles is also subject to a number of assumptions. This involves developing estimates and assumptions consistent with how market participants would price the identified asset. Management bases its assumptions on observable or benchmark data as far as possible but this is not always available. In that case management uses the best information available. The intangible assets are presented in Note 14.

Significant accounting policy

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of fair value of consideration transferred, the recognised amount of any non-controlling interest in the acquiree, and acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets.

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28. Controlled entities

The consolidated financial statements incorporate assets, liabilities and results of the following controlled entities, all of which are Australian incorporated companies. All companies are part of the tax consolidated group and are party to Deed of Cross Guarantee with the parent Company.

	Acquired / Incorporated	Ownership interest	
		30 Jun 2017	30 Jun 2016
Shelston IP Pty Ltd	1 October 2015	100%	100%
Shelston IP Lawyers Pty Ltd	1 October 2015	100%	100%
Xenith IP Services Pty Ltd	1 October 2015	100%	100%
Watermark Holdings Pty Ltd	16 August 2016	100%	-
Watermark Intellectual Property Pty Ltd	2 November 2016	100%	-
Watermark Intellectual Property Lawyers Pty Ltd	2 November 2016	100%	-
Watermark Advisory Services Pty Ltd	2 November 2016	100%	-
Watermark Australasia Pty Ltd	2 November 2016	100%	-
Griffith Hack Holdings Pty Ltd	11 November 2016	100%	-
GH PTM Pty Ltd	2 February 2017	100%	-
GH Law Pty Ltd	2 February 2017	100%	-
Intellectual Property Management Pty Ltd	2 February 2017	100%	-
Glasshouse Advisory Pty Ltd (formerly Griffith Hack Consulting Pty Ltd)	2 February 2017	100%	-

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29. Parent Entity information

	30 Jun 2017 \$'000	30 Jun 2016 \$'000
Statement of profit or loss and other comprehensive income		
Loss after income tax	7,948	2,976
Other comprehensive income for the year, net of tax	-	-
Total Comprehensive Loss	7,948	2,976
Statement of financial position		
Current assets	967	7,567
Non-current assets	169,511	7,455
Current liabilities	(20,260)	(4,244)
Non-current liabilities	(14,901)	(4,000)
Net Assets	135,317	6,778
Issued capital	141,405	3,883
Share based payment reserve	929	531
Reorganisation reserve	-	5,339
Accumulated losses	(7,017)	(2,975)
Total Equity	135,317	6,778

Guarantees, contingent liabilities, capital commitments

As described in Note 28, Xenith IP Group Limited and all of its controlled entities are party to a Deed of Cross Guarantee. Furthermore, Xenith IP Group Limited is head of the Tax Consolidated Group, and has tax sharing and tax funding agreements with each entity in the Group.

There are no significant capital commitments in place at the year-end.

Significant accounting policy

Parent entity

The accounting policies of the parent entity are consistent with those of the Group, with the following additional applicable policies:

- Investments in controlled entities are accounted for at cost, less any impairment.
- Dividends receivable from controlled entities are recognised as other income.

30. Key management personnel and other related party transactions

	30 Jun 2017 \$	30 Jun 2016 \$
Key Management Personnel remuneration		
Short-term employee benefits	1,220,205	1,018,509
Post-employment benefits	84,739	81,908
Long-term benefits	(12,607)	11,513
	1,292,337	1,111,930

Other related party transactions

There are no related party transactions or balances other than the distribution made to former partners as noted in Note 21.

Notes to the consolidated financial statements
For the year ended 30 June 2017

31. Cash flows from operating activities

The reconciliation of the profit after tax for the year to the cash flow from operating activities as presented in the statement of cash flows is as follows:

	30 Jun 2017	30 Jun 2016
	\$'000	\$'000
Profit for the year after income tax expense	3,957	6,535
Adjusted for non-cash income and expenses:		
Depreciation and amortisation	3,099	377
Fair value movement on derivative financial instruments	(142)	77
Fair value movement on contingent consideration liability	1,394	-
Unwinding of discount on contingent consideration liability	307	-
Net unrealised exchange losses /(gains)	687	(708)
Share based payment expense	927	582
Non-operating income and expenses:		
Loss on disposal of property, plant and equipment	-	(88)
Finance costs (other than for working capital requirements)	556	-
Working capital movements:		
Trade and other receivables	(868)	(700)
Other current assets	(570)	31
Work in progress	994	(11)
Tax balances	1,093	295
Trade and other payables	(826)	765
Other liabilities	(698)	(17)
Provisions	439	(524)
Net cash flow from operating activities	10,349	6,614

Notes to the consolidated financial statements
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32. Share based payments

As at 30 June 2017, the Group maintained 3 share based payment schemes for employee remuneration. All are equity settled plans. Details of the plans are as follows:

Share rights

At the date of IPO the Company made a one off issue of share rights to assist with the retention of senior associates of Xenith IP Group Limited. The Share rights have an exercise price of \$nil, and are capable of conversion into fully paid ordinary shares in the capital of the Company over a one to three year vesting period. Vesting is not conditional on any performance conditions, only time and continued service.

Set out below are details of the share rights granted under the plan:

Grant date	Vesting date	Grant date value	Balance at start of year	Exercised	Forfeited	Balance at end of year
05/02/2016	20/11/2016	\$2.72	150,736	(150,736)	-	-
05/02/2016	20/11/2017	\$2.72	220,588	-	(3,680)	216,908
05/02/2016	20/11/2018	\$2.72	382,352	-	(3,683)	378,669
			753,676	(150,736)	(7,363)	595,577

The weighted average remaining contractual life of share rights outstanding at the end of the financial year was 1.0 year (2016: 1.7 years). Of the 805,147 rights originally issued 5 February 2016, 51,471 were forfeited before 30 June 2016. There were no grants of share rights during the current financial year.

Performance rights

The performance rights plan was approved by the Board of Directors in the financial year ended 30 June 2016 and was established to attract, motivate and retain key staff. Grants under this plan are approved by the Board. There were no grants of performance rights under this plan during the current financial year. Set out below are details of the performance rights granted under the plan on 4 December 2015, being the only grant under the plan.

The performance rights convert to ordinary shares on vesting with nil consideration payable by the recipients. The number of rights vesting is dependent on achievement of two performance conditions during the 3 year performance period to 30 June 2018. The first performance condition is continued service over the performance period. The second performance condition is the achievement of EPS CAGR¹ hurdles during the performance period of:

- < 10% for nil award
- 10-15% for a 50% award (target)
- > 15% for 100% award (maximum)

No performance rights will vest for below target performance. All performance rights will vest on a pro rata straight line basis between target and maximum performance.

¹ CAGR means "compound annual growth rate".

Set out below are details of the performance rights granted under the plan:

Period	Grant date	Vesting date	Expiry Date	Grant date value	Balance at start of year	Exercised	Forfeited	Balance at end of year
Current year	04/12/2015	30/06/2018	30/06/2020	\$2.72	45,680	-	-	45,680
Prior year	04/12/2015	30/06/2018	30/06/2020	\$2.72	51,980	-	(6,300)	45,680

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 1.0 year (2016: 2.0 years).

Notes to the consolidated financial statements

For the year ended 30 June 2017

32. Share based payments (continued)

Employee Exempt Share Plan

The Company established an Employee Exempt Share Plan (EESP) at the time of IPO and invited certain staff to apply for shares at nil acquisition cost. This was to encourage share ownership in the company in the new listed environment.

Under the EESP eligible employees are invited to apply for up to \$1,000 worth of fully paid ordinary shares in the capital of the company. Shares acquired under the EESP are exempt from taxation upon acquisition, subject to the employee's adjusted taxable income being \$180,000 or less. In order to benefit from this tax benefit there is a 3 year restrictive period on selling, transferring or otherwise dealing with the shares.

During the current financial year \$120,000 of shares were granted to the Griffith Hack employees at a nil acquisition cost in accordance with the terms of the Share Sale and Purchase Agreement.

Significant accounting policy

Share based payments

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

33. Auditor remuneration

Amounts paid or payable to Grant Thornton Audit Pty Ltd and related companies is as follows:

	30 Jun 2017	30 Jun 2016
	\$	\$
Statutory audit and review of the Group financial statements	255,000	105,000
Trust audits	6,500	-
Other non-audit services		
Tax compliance	58,355	42,370
Transaction due diligence	-	111,100
	319,855	258,470

34. Events after the end of the reporting period

Dividends declared

Refer to 'Note 21. Reserves, Retained Earnings and Dividends for the dividends declared after the end of the reporting period.

35. Accounting policies

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the reporting period ended 30 June 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

AASB 9 Financial Instruments (December 2014) (Effective from 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

The main changes that would potentially impact the Group are as follows:

- Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI); and
 - the remaining change is presented in profit or loss.

Other changes related to the application of hedge accounting, the new impairment model based on future credit losses for financial instruments, and accounting for equity investments are not expected to be relevant to the Group.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers (Effective from 1 January 2018)

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. The new standard seeks to:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time;
- provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
- expands and improves disclosures about revenue.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 16 Leases (Effective from 1 January 2019)

The entity is yet to undertake a detailed assessment of the impact of AASB 16, as it anticipates changes to its leased property portfolio over the next few years. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet.
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- Earnings before income tax expense in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

35. Accounting policies (continued)

Other standards and interpretations

AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 (Effective from 1 January 2018) and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (Effective from 1 January 2018) provide only very minor adjustments to AASB 15 and AASB 9 discussed above.

Adoption of new and revised accounting standards during the year

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2016. These largely relate to matters that are not applicable to the Group, and their adoption has not impacted these financial statements in any significant manner. Those that may potentially impact the financial reporting in future years include:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations,
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation, and
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.

Other accounting policies

In addition to the key accounting policies presented in the preceding notes to the financial statements, certain other pervasive accounting policies are applied in the preparation of these financial statements. These are summarised as follows:

Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of the balance sheet date. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have the same reporting date as the Parent.

All transactions and balances between Group companies are eliminated on consolidation, including, if applicable, unrealised gains and losses on transactions between Group companies.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Foreign currency

The consolidated financial statements are presented in Australian Dollars (\$AUD), which is also the functional currency of the Parent Company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Directors' Declaration

For the year ended 30 June 2017

In the opinion of the Directors of Xenith IP Group Limited ("the Company"), we state that:

- (a) The consolidated financial statements and notes of Xenith IP Group Limited are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of its financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that Xenith IP Group Limited will be able to pay its debts as and when they become due and payable.
- (c) There are reasonable grounds to believe that the members of the extended closed group identified in Note 28 will be able to meet any obligations or liabilities which they are, or may become, subject to by virtue of the Deed of Cross Guarantee described in Note 28.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2017.

Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

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



Craig Dower
Managing Director
Sydney, 29 August 2017

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Xenith IP Group Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying consolidated financial report of Xenith IP Group Limited is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial report of the current period. These matters were addressed in the context of our audit of the consolidated financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Acquisitions of Griffith Hack and Watermark (Note 27)</p> <p>The Group made two material acquisitions during the year, being Griffith Hack and Watermark.</p> <p>These acquisitions are a key audit matter due to judgements and estimates required in determining the appropriate accounting, including estimating the fair value of net assets acquired and estimating the fair value of the purchase consideration, in particular in relation to the identification and valuation of intangible assets, allocating goodwill across the different cash generating units ("CGU") and the determination of the value of contingent consideration.</p> <p>These intangible assets are material to the Group and the Group has engaged an expert to assist them in determining the appropriate asset values.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Testing the acquisition accounting for appropriateness and compliance with AASB 3: <i>Business Combinations</i>, including assessing management's accounting entries with reference to the acquisition agreements; • Evaluating the methodology applied by management to identify and value the assets and liabilities; • Evaluating the competence, capability and objectivity of the management's external expert and performing a detailed review of their reports to understand the scope of their engagement and any limitations in the report. In addition we held discussions with them. • With the assistance of Grant Thornton valuation experts: <ul style="list-style-type: none"> – Assessing the identification of intangible assets acquired including software, customer relationships, and brand names along with the valuation methodologies used to value these assets; – Challenging the associated underlying forecast cash flows for the software and customer assets intangible asset valuations and comparing key assumptions to historical results, business trends, economic and industry forecasts and comparable transactions; – Evaluating discount rates used by assessing the cost of capital applied in each valuation by comparing them to market data and industry research; and – Testing on a sample basis the mathematical accuracy of the cash flow models; • Evaluating the methodology applied by management to calculate the contingent consideration, and the allocation of goodwill to CGUs; • Assessing the amount and accounting treatment of acquisition costs by testing a sample of items to supporting documentation; and • Assessing the adequacy of financial report disclosures.
<p>Trade receivables and Work in progress (Notes 10 and 11)</p> <p>The Group had trade receivables of \$28,641,000 and work in progress of \$2,198,000 at 30 June 2017.</p> <p>This area is a key audit matter due to the fact that there is significant management judgment in estimating the appropriate level of any provision.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Challenging management's assumptions regarding the level of provisioning against the ageing of receivables and work in progress, along with consistency and appropriateness of provisioning, with reference to subsequent cash received in respect of debtors and subsequent invoicing in respect of work in progress; • Critically assessing the recoverability of overdue debts, including those which have been and have not been provided against; and • Assessing the adequacy of financial report disclosures.

Key audit matter	How our audit addressed the key audit matter
<p>Recoverable amount of intangible assets (Notes 14 and 15)</p> <p>As at 30 June 2017, the Group's intangible assets of \$162,665,000 consist of goodwill, computer software, customer relationships, and brand names.</p> <p>The Group is required to perform an impairment test, where goodwill is allocated to a CGU acquired in a business combination during the current period, before the end of the current period.</p> <p>Management has assessed that the group has four CGUs, and has allocated the goodwill and other intangible assets to these CGUs.</p> <p>Management has tested the CGUs for impairment by comparing their carrying amounts with their recoverable amounts. The recoverable amounts were determined using a combination of fair value less costs of disposal and value-in-use.</p> <p>We have determined this is a key audit matter due to the judgements and estimates required in determining the appropriate CGUs and calculating the recoverable amount.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Enquiring with management to obtain and document an understanding of management's process and controls related to the assessment of impairment, including management's identification of CGUs and the calculation of the recoverable amount for the CGU; • Evaluating the value in use models against the requirements of AASB 136: <i>Impairment of Assets</i>, including consultation with our valuations experts; • Reviewing management's value-in-use calculations to: <ul style="list-style-type: none"> – Test the mathematical accuracy of the calculations; – Evaluate management's ability to perform accurate estimates; – Test forecast cash inflows and outflows to be derived by the CGUs' assets; and – Agree discount rates applied to forecast future cash flows; • Performing sensitivity analysis on the significant inputs and assumptions made by management in preparing its calculation; and • Assessing the adequacy of financial report disclosures.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

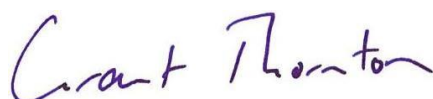
Opinion on the remuneration report

We have audited the remuneration report included in pages 18 to 32 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Xenith IP Group Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



C F Farley
Partner - Audit & Assurance

Sydney, 29 August 2017

Appendix 4E continued

For the year ended 30 June 2017

For the “Results for Announcement to the Market” refer page 2 of the Financial Report

NTA BACKING

	30 Jun 2017 Cents	30 Jun 2016 Cents
Net tangible asset backing per ordinary security ¹	(4.98)	10.52

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

DIVIDEND REINVESTMENT PLAN

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

DETAILS OF JOINT VENTURE AND ASSOCIATE ENTITIES

During the year ended 30 June 2017, Xenith IP Group Limited had no ownership interest in Joint Ventures or associate entities.

Corporate Directory

DIRECTORS

Sibylle Krieger – Chair
Craig Dower – Chief Executive Office / Managing Director
Stuart Smith - Head of Corporate Development
Andrew Harrison
Susan Forrester
Kathryn Spargo

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Lesley Kennedy

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SOLICITORS

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STOCK EXCHANGE LISTING

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

WEBSITE

www.xenithip.com

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement was approved by the Board of Directors on the 29 August 2017 and can be found on the Corporate Governance section under “About us” on www.xenithip.com.