Victory Offices

ANNUAL REPORT
2019


Award Winning Flexible Workspace Providers
We mind your business

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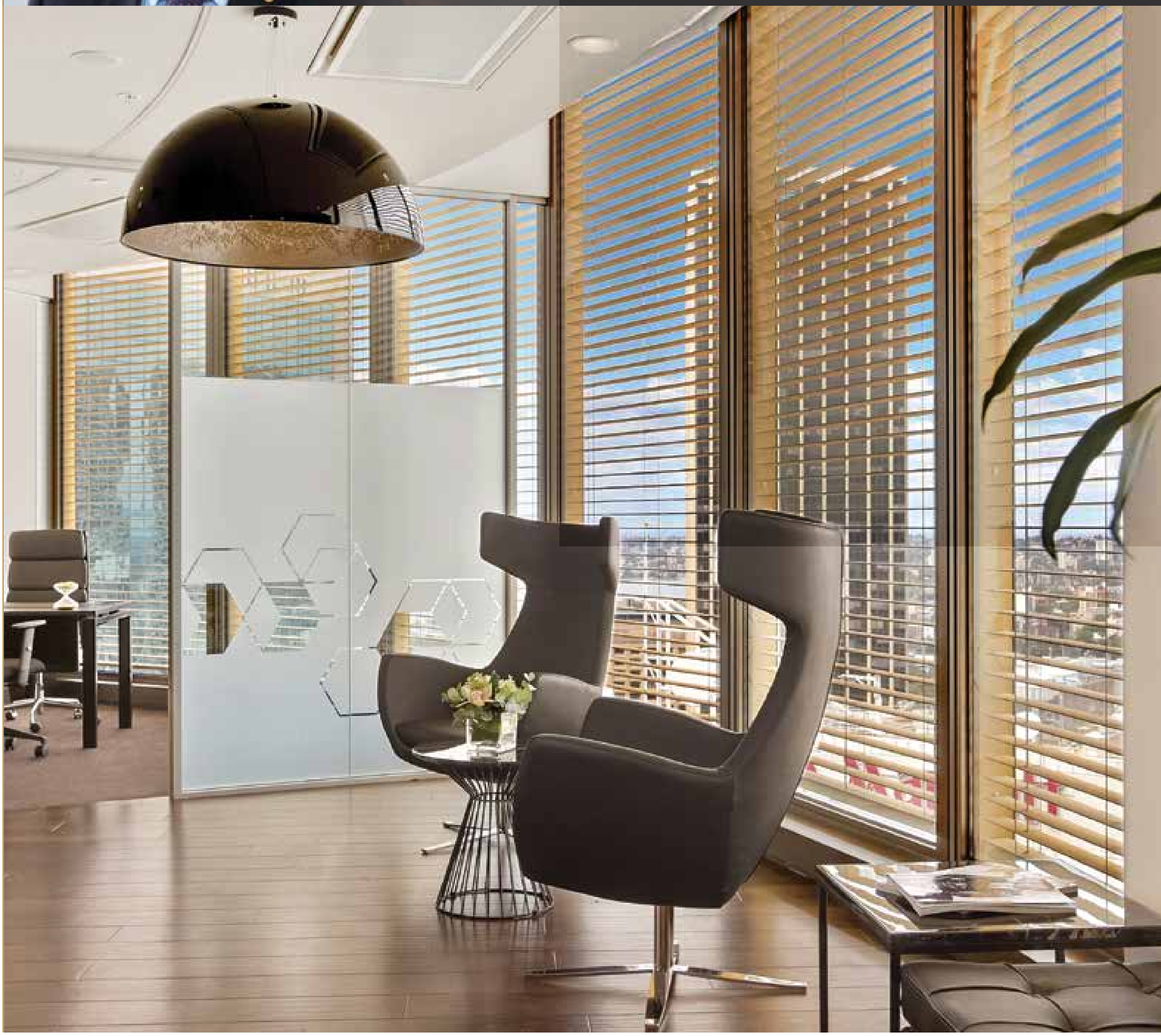
CHAIRMAN'S REPORT

For the 2019 Financial Year

Our mission at Victory Offices, as it has been since the business was founded, is to offer a friendly, transparent and genuine serviced workplace experience to our clients.



Dear shareholders,

On behalf of the Directors, I have great pleasure in presenting the Annual Report for Victory Offices Limited, a leading provider of serviced offices, virtual office facilities and coworking within the evolving flexible workspace industry. On the 14 June 2019 the Company successfully listed on the Australian Stock Exchange (ASX) via an Initial Public Offering (IPO). The IPO was oversubscribed and we were delighted to welcome a high calibre investor base as shareholders.

Our mission at Victory Offices, as it has been since the business was founded, is to offer a friendly, transparent and genuine serviced workplace experience to our clients. We understand the challenges that businesses face on a day to day basis and we aim to deliver a 6-star service to support our clients and allow them to grow without the additional administration burden and inefficiencies of a traditional office environment.

The Company has a growing portfolio of 22 flexible workspaces across Australia (with 19 operational as at 30 June 2019) with the 20th location opening recently in St Kilda Road, Melbourne. The portfolio now comprises in excess of 33,000 square metres of floor space where thousands of clients have been utilising the Group's services in the 2019 financial year. These are terrific achievements for a business that commenced just over five years ago.

Our client base comprises businesses seeking serviced offices, virtual offices and coworking space such as large corporates, multinationals, professional service firms, start-up businesses and sole traders. They are continuing to support our model which results in above average client licence term.

For the 2019 financial year, sales revenue was $47.0 million against a prospectus forecast of $45.0 million, actual EBITDA was $33.6 million against a prospectus forecast of $31.8 million and pro-forma net profit after tax was $9.6 million against a forecast of $9.4 million. The results were underpinned by our market leading occupancy and extensive business services offered to clients.

We acknowledge that the flexible workspace industry is competitive and we are seeing a maturity in the sector with providers often focusing on either serviced offices or coworking space or a combination of both. We have a firm belief that our market offering is servicing our target market and this will assist in attracting new business for future growth and retaining current businesses for a longer than expected timeframe. At Victory Offices, we are attempting to differentiate on service and we believe in providing a holistic solution that supports and facilitates business growth, no matter the size.

The Board believes the 2020 financial year will be another successful year for Victory Offices. As outlined in the recent prospectus the Group is planning on opening eight additional locations throughout the 2020 financial year which will result in 27 locations being open by year end. Three of these locations have been previously announced with the remaining five either subject to heads of agreement or in negotiation. All of the new locations will be in high quality buildings keeping with the Company's ethos of only providing services in high quality buildings in locations that are in demand.

Victory Offices has made very good progress during the 2019 financial year. On behalf of the Board I would like to thank all of our employees for their contribution and commitment and our clients for choosing us as their flexible workspace provider.

Yours sincerely

Hon Steve Bracks AC
Chairman

29 August 2019

CHIEF EXECUTIVE OFFICER'S REPORT

For the 2019 Financial Year

The last 12 months have been very exciting for Victory Offices, with successfully opening eight new locations, listing on the ASX, and increasing overall occupancy.

Dear fellow shareholders,

I am pleased to present to you the Victory Offices Annual Report for the year ended 30 June 2019.

The last 12 months have been very exciting for Victory Offices. We successfully opened eight new locations that are all performing at or above expectations; we successfully listed on the Australian Stock Exchange; we have opened the first of the forecast eight new locations for the 2020 financial year with a further two leases executed; thousands of clients have utilised the Company's services during the year; and we have been able to increase our overall occupancy.

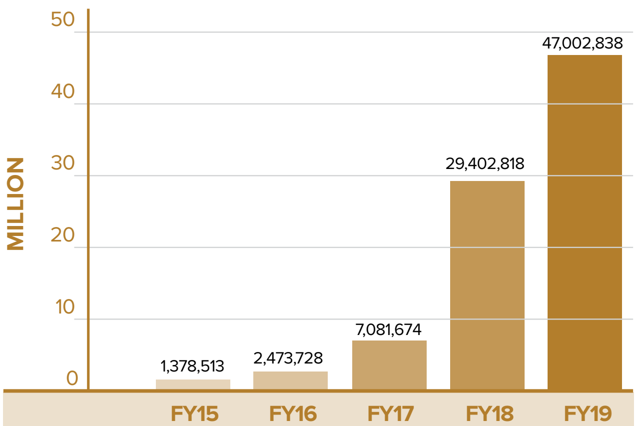
During the 2019 financial year we opened eight new locations across Melbourne, Sydney and Perth. This took the number of locations from 11 at the beginning of the year to 19 by the end of the year, a year of significant growth. In the 2020 financial year we are forecasting to open an additional eight locations which will take the total number of locations to 27.

The key highlights for the 2019 financial year include:

- Opening eight new locations taking the total number of locations to 19 as at 30 June 2019;
- Having thousands of large corporates, multinationals, professional service firms, start-up businesses and sole traders utilising our services;
- Increasing overall occupancy to 93% (up from 85%) with occupancy increasing at both mature centres and centres which have been operating for less than 12 months;
- Successfully listing on the Australian Stock Exchange in June 2019;
- Continuing expansion in Melbourne and suburbs, opening our first location in Perth and opening our third location in Sydney;
- Opening the first and second Victory Lounge offering in Melbourne CBD and Chadstone Shopping Centre;
- Revenue from flexible workspace services increased by $17.6 million to $47.0 million as a result of new locations and increased occupancy at exisiting locations; and
- Net profit after tax increased by $3.9 million to $9.6 million.

Revenues from flexible workspace services has increased from $1.6 million in the Company's first year of operations in the 2014 financial year to $47.0 million in the 2019 financial year.

Growing revenues from flexible workspace services

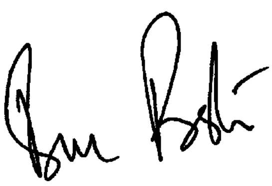


SQUARE METRES	FY15	FY16	FY17	FY18	FY19
Number of locations	2	2	6	11	19
Locations opened	2	-	4	5	8
Total square metres	**2,432**	**2,432**	**8,378**	**17,044**	**26,204**

We are continuing to invest in innovative solutions to enhance our client's experience. Later this year we will be launching the first Victory Offices client portal that will be accessible via a number of platforms. The portal will enable our clients to more easily interact with us and each other as well as better utilise the facilities we provide for them. We have also invested in a new CRM system that will provide us with increased real-time information to better service our clients and manage our growing workforce.

The 2020 financial year promises to be another exciting year of growth for Victory Offices. I will ensure it is another year in which our clients are at the core of what we do and that the Victory Offices team continues to deliver 6-star service to our wonderful and diverse client base.

Yours sincerely



Dan Baxter
Chief Executive Officer / Managing Director

29 August 2019

DIRECTORS' REPORT

For the Year Ended 30 June 2019

The directors present their report, together with the financial statements, on Victory Offices Limited and its Controlled Entities (referred to hereafter as the 'consolidated entity' or 'entity') at the end of, or during, the year ended 30 June 2019.

DIRECTORS

The following persons were directors of the consolidated entity during the whole of the financial year and up to the date of this report, unless otherwise stated:

Hon Steve Bracks AC

Dan Baxter

Alan Jones

Ted Chwasta

Shane Tanner (appointed 1 April 2019)

Brett Lethborg (ceased 25 February 2019)

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity was providing flexible office solutions. Its associated revenue is driven from providing comprehensive office serviced packages and other services to its clients.

OPERATING RESULTS

The operating profit of the consolidated entity for the financial year after provision for income tax was $9,596,498 (2018: $5,742,519).

DIVIDENDS

There were no dividends paid during the year ended 30 June 2019.

REVIEW OF OPERATIONS

Refer to the detailed comments in the Chief Executive Officer's Report and the Operating and Financial Review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 14 June 2019 the Company listed on the Australian Securities Exchange (ASX). The Company completed an initial public offering of 15 million Shares at a price of $2.00 per Share raising $30 million before costs of the offer.

The consolidated entity has successfully opened eight new centres Australia wide during the year.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year not otherwise disclosed in these accounts.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 16 July 2019, the Company announced to the ASX the execution of a new lease for an office location in Fortitude Valley, Brisbane. A further location in St Kilda Road, Melbourne was opened on 23 August 2019.

No other matters or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Victory Offices intends to continue its programme of offering serviced offices, coworking, hot desks and virtual offices and facilities for businesses to contract to use on flexible licence arrangements. The Company intends to use the proceeds of the recent IPO to expand by opening and offering new serviced and virtual offices and facilities in cities the Company already operates in and to penetrate new markets by offering its products in new cities nationally.

Victory Offices intends to fund the fit-out and bank guarantees of new locations in FY2020. The Company has a Development Program which it intends to implement in FY2020. The objective of the Development Program is to open approximately eight new location's Australia.

INFORMATION ON DIRECTORS

Hon Steve Bracks AC

Non-Executive Chairman

Experience and expertise: Hon Steve Bracks AC was Premier of Victoria for eight years. He now advises several leading Australian finance and service sector corporations. Mr Bracks also holds three major honorary positions: as an Adviser to the Prime Minister of Timor-Leste and Honorary Chair of The Union Education Foundation. He is Chairman of the superannuation fund Cbus and a non-executive Director of Bank of Sydney Limited. Former Chairman of AFL Sports Ready; Former Chairman of the Kardinia Park Stadium Trust; and a member of the Monash Business School's Business Advisory Board (BAB); The Australian Republican Movement's Republican Advisory Panel (RAP), and the West Melbourne Alliance Board.

Interests in shares: Nil

Dan Baxter

Managing Director/Chief Executive Officer

Experience and expertise: Dan is the founder of Victory Offices with more than 20 years of senior management experience under his belt. Under his leadership, the company has emerged as a prominent player in the flexible work space market. Dan's creative thinking, vision and passion has led to success of Victory Offices in a short span of 5 years. As the Victory Group Holdings Executive Director, Dan has also successfully led Victory Aluminium to be one of the largest exporters of aluminium from Australia. Dan is a current member of AICD, with academic qualifications in Engineering and Business Management.

Interests in shares: 25,901,500

Alan Jones

Non-Executive Director

Experience and expertise: With over 35 years' experience in various management roles within the private and public sector, Alan's successful career reflects a strong understanding of capital and facilities management and experience in high performing team environments. Alan is currently the Managing Director of AML Advisory, a Melbourne based advisory established in 2003, delivering capital project equipment support and commercial services. Alan has also held senior roles on committees and boards with not for profit organisations. Alan's commercial career follows an extensive career serving within the Australian Defence Force specialising in operational and strategic logistical support. He holds graduate and post graduate qualifications in logistics, asset management, administration and strategic studies.

Special responsibilities: Chairman of the Human Resources & Remuneration Committee, Member of the Audit Committee

Interests in shares: 50,000

Ted Chwasta

Non-Executive Director

Experience and expertise: Ted is a career retailer with over 37 years' experience with some of Australia's largest public and private companies, including The Brash Group and The Good Guys. Ted previously served as the State Chairman for The Good Guys Victoria and has held positions in various National Advertising Committees.

Special responsibilities: Member of the Audit Committee, Member of the Human Resources & Remuneration Committee

Interests in shares: Nil

Shane Tanner

Non-Executive Director

Experience and expertise: Shane is currently Chairman of Paragon Care Limited (ASX: PGC) and Rhythm Biosciences Limited (ASX: RHY). Formerly he was Chairman of Vision Eye Institute (ASX: VEI) and Funtastic Limited (ASX: FUN), Chief Executive Officer of Mayne Nickless Diagnostic Services (later named Symbian Health (ASX: SYB)) and Chief Financial Officer of Mayne Group. Shane also has significant strategy and transaction experience through the Mayne Group and via his role in the IPO of Optus Communications. Shane holds Business and Finance qualifications from RMIT University and Swinburne University of Technology.

Other current directorships: Paragon Care Limited, Rhythm Biosciences Limited

Former directorships (in the last 3 years):
Zenitas Healthcare Limited (delisted 12 December 2018)
Funtastic Limited (resigned 31 July 2019)

Special responsibilities: Chairman of the Audit Committee, Member of the Human Resources & Remuneration Committee

Interests in shares: Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Fady Said

Company Secretary

Fady has over 13 years' experience in accounting and finance heading the finance department for various listed and unlisted companies. He has extensive knowledge in taxation and compliance and is a member of the Chartered Accountants Australia and New Zealand. He was appointed as Company Secretary in October 2017.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	FULL BOARD		HR & REMUNERATION COMMITTEE		AUDIT COMMITTEE	
	ATTENDED	HELD	ATTENDED	HELD	HELD	ATTENDED
Steve Bracks	1	1	n/a	n/a	n/a	n/a
Dan Baxter	1	1	n/a	n/a	n/a	n/a
Alan Jones	1	1	-	-	-	-
Ted Chwasta	1	1	-	-	-	-
Shane Tanner	1	1	-	-	-	-
Brett Lethborg	-	-	n/a	n/a	n/a	n/a

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

The Human Resources & Remuneration Committee and the Audit Committee members have only recently been appointed.

CORPORATE GOVERNANCE

Details of the Company's corporate governance procedures, policies and practices are at:
https://victoryofficeslimited.com/corporate-governance

OPERATING AND FINANCIAL REVIEW

OVERVIEW

The Company continued to manage and add to its portfolio of flexible workspace locations during the 2019 financial year. Net profit after tax was $9.6 million (2018: $5.7 million).

FINANCIAL AND OPERATING HIGHLIGHTS

KEY FINANCIAL DATA	MEASURE	FY2019	FY2018	CHANGE	CHANGE %
Revenue	A$ millions	**47.6**	**31.5**	**16.1**	**51**
Earnings before interest, tax, depreciation and amortisation	A$ millions	**33.6**	**21.5**	**12.1**	**56**
Earnings before interest and tax	A$ millions	**20.7**	**13.6**	**7.1**	**52**
Net profit before tax	A$ millions	**13.5**	**8.2**	**5.3**	**65**
Net profit after tax	A$ millions	**9.6**	**5.7**	**3.9**	**68**
Operating cash flow	A$ millions	**27.9**	**18.9**	**9.0**	**48**
Operating expenses (% revenue)(1)	%	**29.3**	**32.0**	**(2.7)**	**(8)**
Earnings per share(2)	A$ cents	**36.0**	**22.2**	**13.8**	**62**
Diluted earnings per share(2)	A$ cents	**36.0**	**22.2**	**13.8**	**62**

(1) Operating expenses include employee benefits expense, other expenses and occupancy costs (outgoings)

(2) FY2018 comparative adjusted to assume similar number of shares as at 30 June 2019 for comparative purposes

Included in the table above are several non IFRS measures including earnings before interest and tax, earnings before interest, tax, depreciation and amortisation and net profit after tax. These figures have not been subject to audit but have been provided to give a better understanding of the performance of the Company during the 2019 financial year (and comparatives).

ANALYSIS OF INCOME STATEMENT

Net profit after tax increased to $9.6 million (2018: $5.7 million). The table below shows the changes to net profit after tax from 30 June 2018 to 30 June 2019.

	A$ MILLIONS	A$ MILLIONS
Net profit after tax for the year ended 30 June 2018		**5.7**
Changes in revenues		
Suite services revenue	17.6	
Service charges revenue	(1.5)	
Finance revenue	-	**16.1**
Changes in expenses		
Employee benefits expense	(2.1)	
Occupancy costs	(1.2)	
Other expenses	(0.6)	
Amortisation – right of use assets (AASB 16 lease expense)	(2.5)	
Depreciation – other P&E	(2.5)	
Finance costs – lease liability (AASB 16 lease expense)	(1.8)	
Finance costs – other interest and finance charges	(0.1)	**(10.8)**
Increase in income tax expense		**(1.4)**
Net profit after tax for the year ended 30 June 2019		**9.6**

The key drivers of changes in profitability were:

REVENUE CHANGES

- Suite services revenue increased to $47.0 million (2018: $29.4 million) due to an increase in locations as well an increase on occupancy. At year end occupancy was 93% (2018: 85%).
- Service charges revenue reduced to $0.6 million (2018: $2.1 million). Service charges related to payment for expenses and utilisation of the Company's employees by related parties due to capacity. Service charges have no profit impact and all expenses are passed through as revenue with no margin. All service charges revenue occurred prior to the ASX listing and has been phased out.

EXPENSE CHANGES

- Employee benefits expense (net of service charges) increased to $6.5 million (2018: $3.2 million) due to an increase in locations and overhead requirements. The Company had 107 FTE at 30 June 2019, an increase from 75 FTE at 30 June 2018. Each location requires two or three full-time receptionists as well as a barista. In addition to this there are also additional requirements for sales and marketing support. To support growth, the Company has also invested in the back office support teams across finance, sales, marketing, ICT and human resources.
- Occupancy costs increased to $3.2 million (2018: $2.0 million) due to increased locations. Occupancy costs related to outgoings incurred in conjunction with leasing obligations.
- Other expenses (net of service charges) increased to $3.6 million (2018: $2.8 million) due to increased operations and becoming a listed company.
- Amortisation of right of use assets increased to $9.3 million (2018: $6.8 million) due to increased locations. Right of use assets are recorded pursuant to the requirements of AASB 16 'Leases' for each individual lease. They are initially measured at the discounted value of the total expected lease payments (adjusted for lease incentives) and are amortised over the estimated life of the lease. A corresponding lease liability is also recorded upon initial measurement.
- Depreciation of plant and equipment increased to $3.6 million (2018: $1.1 million) due to increased fit-out assets at new locations and the adoption of a more conservative (lower) useful life for fit-out assets.
- Finance costs relating to lease liabilities increased to $7.0 million (2018: $5.2 million) due to increased locations. Lease liabilities are recorded pursuant to the requirements of AASB 16 'Leases' for each individual lease. They are initially measured at the discounted value of the total expected lease payments (adjusted for lease incentives) and are 'unwound' using a consolidated incremental borrowing rate as a discount rate. A corresponding right-of-use asset is also recorded upon initial measurement.

ANALYSIS OF CASH FLOW

A$ MILLIONS	FY2019	FY2018	CHANGE
Cash flows related to operations	**27.9**	18.9	9.0
Cash flows related to investing activities	**(48.6)**	(21.2)	(27.4)
Cash flows related to financing activities	**22.5**	(0.8)	23.3
Net movement in cash	**1.8**	(1.5)	
Cash at the beginning of the period	**1.4**	2.9	
Cash at the end of the period	**3.2**	1.4	
Add cash on term deposit	**21.9**	0.9	
Total cash and term deposit position	**25.1**	2.3	

Cash flows related to operations increased to a surplus of $27 million (2018: $18.9 million). The increase is mainly attributable to a $17.2 million increase in receipts from customers. Payments to suppliers and employees also increased (increasing by $5.1 million) reflecting more locations. Also included within cash flows from operation is an interest paid outflow of $5.7 million (2018: $2.5 million) reflecting an apportionment of lease payments pursuant to AASB 16.

Cash flows related to investing activities included: $21.0 million for term deposits; and $26.2 million relating to property, plant and equipment (including the fit-out of new locations).

Cash flows related to financing activities included: $28.2 net proceeds from the IPO; $4.4 million for payment of lease liabilities; $3.0 million net payment to related parties mainly in relation to share of tax liabilities as the Company was party to a wider tax consolidated group up until listing on the ASX on 14 June 2019; and $1.8 million fit-out incentive received from landlords.

ANALYSIS OF BALANCE SHEET

NET ASSETS AND TOTAL EQUITY

A$ MILLIONS	FY2019	FY2018	CHANGE	CHANGE %
Assets				
Cash and cash equivalents	**3.2**	1.5	1.7	113
Trade and other receivables	**1.1**	6.1	(5.0)	(454)
Plant and equipment	**139.5**	96.5	43.0	45
Deferred tax assets	**35.4**	29.9	5.5	18
Other financial assets	**30.9**	8.5	22.4	264
Total Assets	**210.1**	142.5	67.6	47
Liabilities				
Trade and other payables	**(14.0)**	(17.4)	3.4	20
Borrowings	**-**	(0.3)	0.3	100
Provisions	**(1.4)**	(0.8)	(0.6)	(75)
Lease liabilities	**(116.5)**	(88.1)	(28.4)	(32)
Other liabilities	**(3.3)**	(2.7)	(0.6)	(22)
Current tax payable	**(0.2)**	-	(0.2)	-
Deferred tax liabilities	**(30.0)**	(26.3)	(3.7)	(14)
Total Liabilities	**(165.4)**	(135.6)	(29.8)	22
Net Assets	**44.7**	6.9	37.8	559
Equity				
Issued capital	**28.2**	0.0	28.2	-
Retained earnings	**16.5**	6.9	9.6	139
Total Equity	**44.7**	6.9	37.8	548

During the year the Company's net assets and total equity increased to $44.7 million (2018: $6.9 million) as a result of: net proceeds from the IPO in June 2019 of $28.2 million; and profit during the period of $9.6 million.

Trade and other receivables have reduced to $1.1 million (2018: $6.1 million) due to a repayment of a related party receivable of $5.4 million that existed at the end of the 2018 financial year.

Plant and equipment has increased to $139.5 million (2018: $96.5 million) as a result of: additions of right of use assets as a result of new locations of $30.4 million; additions of other plant and equipment / fit-out assets as a result of new locations of $25.7 million; being partially offset by depreciation and amortisation expenses of $12.9 million.

Deferred tax assets have increased to $35.4 million (2018: $29.9 million) mainly due to increased lease liabilities.

Other financial assets related to landlord bank guarantees for each location and term deposits. Landlord bank guarantees have increased to $9.1 million (2018: $7.7 million) as a result of new locations. Term deposits have increased to $21.9 million (2018: $0.9 million) as a result of surplus funds from the IPO.

Trade and other payables have reduced to $14.0 million (2018: $17.4 million) due to timing.

Current tax liabilities of $0.2 million represent tax liabilities related to the Victory Offices tax consolidated group which was formed as at the date of listing Being 14 June 2019. Prior to this date the Victory Offices Limited group was part of the Victory Group Holdings Pty Ltd tax consolidated group.

Deferred tax liabilities have increased to $30.0 million (2018: $26.3 million) mainly due to increased right-of-use assets.

OUTLOOK AND RISKS

OUTLOOK

The Board is pleased with the performance of locations and in particular the strong occupancy levels.

As per the Prospectus the Company is forecasting eight new locations in the 2020 financial year. Subsequent to year end the Company has opened a location in St Kilda Rd, Melbourne and announced the execution of two lease agreements for new locations in North Sydney, NSW and Fortitude Valley, QLD. The opening of the eight forecast locations will take the total number of locations to 27 by the end of the 2020 financial year.

KEY RISKS

The Company's key risks include:

Competition

The Company is subject to competition from well-established organisations, including but not limited to Servcorp, Regus and WeWork. Some of the competitors have a long track record of sustained growth. As well as competing for customers, Victory Offices also competes for office space from landlords.

Certain market conditions may cause an increase in competition. For instance, an increase in demand may present the opportunity for competitors to expand their operations and markets. The industry is also subject to new entrants from overseas markets. Increased competition may reduce the volume and price of the services that the Company provides, which may have a material and adverse effect on the Company's revenue and profitability and, in particular, its growth.

Decline in economic conditions, unanticipated changes and adverse shift in industry drivers

A downturn in the Australian economy, structural changes to the flexible workspace industry or a slower than expected uptake in the demand for serviced offices and coworking space or other industry drivers could lead to reduced demand for the Company's services and negatively impact the financial performance of the Company.

Inability to secure new locations

The Company's ability to achieve growth in FY2020 and beyond will rely on the ability to secure new site locations. There can be various reasons as to why it may become difficult to secure new locations such as: increased competition; reputational damage; onerous lease agreements due to market conditions; and the financial position of the Company.

If the Company is unsuccessful in securing new locations, the Company's operating and financial performance could be adversely affected.

Lease term asymmetry and exposure

The Company does not, as at the date of this report, own freehold land. Rather, the Company through its subsidiaries enters into long term leases with landlords for office space that the subsidiary then converts into serviced offices. The subsidiary then licences the serviced offices on shorter and flexible terms.

This business model gives rise to a potential asymmetry between the timing and coverage of the obligations under the short-term licences relative to the overhead long-term lease under which the subsidiary leases the office space from a landlord. The subsidiary bears the risk of having to meet its obligations under the leases regardless of its ability to licence some or all of the space under licence arrangements.

Termination of Head Lease(s)

The premises from which the Company (through its subsidiaries) operates the serviced offices are not owned by the relevant subsidiary. Rather, the ability to license these premises to its clients arises from leases of the premises entered into by the relevant subsidiary with the owner or head-lessor of the relevant building. The provisions of each lease govern the relevant subsidiaries' ability to license those premises to its clients. In the event that the relevant subsidiary defaults in its obligations under a lease, such a default may entitle the owner or head-lessor to terminate the relevant lease. In the case where the relevant subsidiary is a sub-lessee, a default under the head lease by the relevant lessee under the head lease (i.e. the sub-lessor under the sub-lease to the relevant subsidiary) is likely to entitle the head lessor to terminate the relevant lease. If a lease is terminated for any reason, the relevant subsidiary would not be able to continue to grant a valid licence to its clients. Any occurrence of this kind may have a material adverse impact on the Company's revenue generation capacity and profitability.

REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency

The Human Resources and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Human Resources and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

NON-EXECUTIVE DIRECTORS REMUNERATION

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Human Resources and Remuneration Committee. The Human Resources and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

Under the Constitution, subject to the ASX Listing Rules, the Directors as a whole (other than Executive Directors) may be paid or remunerated for their services a total amount or value not exceeding $400,000 per annum or such other maximum fixed by the Company in a general meeting. Non-Executive Directors may not be paid a commission on or a percentage of profits or operating revenue. All Director's fees include superannuation at statutory amounts (currently 9.5%).

EXECUTIVE REMUNERATION

The consolidated entity aims to reward executives based on their position and responsibility.

Fixed remuneration, consisting of base salary and superannuation, are reviewed annually by the Human Resources and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

CONSOLIDATED ENTITY PERFORMANCE AND LINK TO REMUNERATION

Remuneration for individuals is not directly linked to the performance of the consolidated entity. The Human Resources and Remuneration Committee is of the opinion that the continued improved results of the consolidated entity can be achieved without the adoption of directly linked performance based compensation.

DETAILS OF REMUNERATION

AMOUNTS OF REMUNERATION

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors:

- Hon Steve Bracks AC *Non-Executive Chairman*
- Dan Baxter *Managing Director and Chief Executive Officer*
- Alan Jones *Non-Executive Director*
- Ted Chwasta *Non-Executive Director*
- Shane Tanner *Non-Executive Director* (appointed 1 April 2019)
- Brett Lethborg *Non-Executive Director* (ceased 25 February 2019)

And the following persons:

- Manisha Angirish *Chief Operating Officer*
- Geoff Hollis *Chief Financial Officer* (appointed 14 February 2019)
- George Paolucci *Chief Information Officer*

	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	
2019	CASH SALARY AND FEES $	ANNUAL LEAVE $	NON-MONETARY $	SUPER-ANNUATION $	NON-MONETARY $	TOTAL $
Non-Executive Directors:						
S Bracks	76,104	-	-	7,230	-	83,334
A Jones	-	-	-	-	-	-
T Chwasta	-	-	-	-	-	-
S Tanner *	10,274	-	-	976	-	11,250
B Lethborg **	-	-	-	-	-	-
Executive Director:						
D Baxter	503,539	26,923	-	25,000	-	555,462
Other Key Management Personnel:						
M Angirish	201,416	19,231	-	19,135	-	239,782
G Hollis ***	52,223	3,737	-	6,084	-	62,044
G Paolucci	154,865	707	-	14,712	-	170,284
	998,421	50,598	-	73,137	-	1,122,156

* Represents remuneration from 1 April 2019

** Represents remuneration from 1 July 2018 to 25 February 2019

*** Represents remuneration from 14 February 2019

2018	Short-term benefits: Cash salary and fees $	Short-term benefits: Annual leave $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Non-monetary $	Total $
Non-Executive Directors:						
S Bracks	-	-	-	-	-	-
A Jones	-	-	-	-	-	-
T Chwasta	-	-	-	-	-	-
B Lethborg	-	-	-	-	-	-
Executive Director:						
D Baxter	500,000	40,193	-	30,000	-	570,193
	500,000	40,193		30,000		570,193

No remuneration was paid to Non-Executive Directors in the year ended 30 June 2018.

No other employees were considered key management personnel.

EXECUTIVE REMUNERATION

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

MANAGING DIRECTOR AND CEO

The Company has entered into an employment agreement with Dan Baxter to govern his employment with the Company as Chief Executive Officer and Managing Director. Dan's employment agreement does not have a fixed term. Either Victory Offices or Dan may terminate the employment by giving three months' notice or, in the case of Victory Offices, by making a payment in lieu of notice. The Company may terminate Dan's employment without payment in lieu of notice in circumstances involving serious or wilful misconduct. Dan is entitled to 4 weeks of annual leave per annum.

OTHER MEMBERS OF SENIOR MANAGEMENT

Each other member of Victory Offices senior management is employed under individual employment agreements. These agreements establish total compensation including a base salary, superannuation contribution and incentive arrangements (where applicable), variable notice and termination provisions, confidentiality provisions and leave entitlements, as a minimum, as per the National Employment Standards.

ADDITIONAL INFORMATION

The results of the consolidated entity for the past three years are summarised below:

	2019 $	2018 $	2017 $
Sales revenue	47,002,838	29,402,818	7,081,674
EBITDA	33,641,546	21,429,159	5,084,801
EBIT	20,737,056	13,531,688	2,282,770
Profit after tax	9,596,498	5,742,519	150,123

ADDITIONAL DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

SHAREHOLDING

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	BALANCE AT THE START OF THE YEAR	ADDITIONS	DISPOSALS/ OTHER	BALANCE AT THE END OF THE YEAR
Ordinary shares				
S Bracks	-	-	-	-
D Baxter**	2	25,901,498*	-	25,901,500
A Jones	-	50,000	-	50,000
T Chwasta	-	-	-	-
S Tanner	-	-	-	-
B Lethborg	-	-	-	-
M Angirish	-	-	-	-
G Hollis	-	-	-	-
G Paolucci	-	29,500	-	29,500
	2	25,980,998	-	25,981,000

* 25,899,998 relates to a share split prior to the IPO.

** 25,900,000 shares included in the closing balance are held by a related party: Victory Group Holdings Pty Ltd.

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

Refer to Note 21 to the financial statements for details on transactions with related parties.

This concludes the remuneration report, which has been audited.

SHARES UNDER OPTION

There are no unissued ordinary shares of Victory Offices Limited under option at the date of this report.

PROCEEDINGS ON BEHALF OF THE CONSOLIDATED ENTITY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the consolidated entity or to intervene in any proceedings to which the consolidated entity is a party, for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings.

INDEMNITY AND INSURANCE OF OFFICERS

The Company has entered into a deed of access, insurance and indemnity (Deed) with each Director. Under the Constitution, to the extent permitted by law and subject to the Corporations Act, the Company indemnifies current and past directors and secretaries of the Company against a liability incurred in their position (or as a director or secretary of a subsidiary of the Company where the Company requested the person to accept that appointment) and reasonable legal costs in defending an action for liability incurred against them in that capacity. The Constitution provides that the Company may enter into a deed to give effect to these rights.

The Deed provides that, to the extent permitted by the Corporations Act, the Company indemnifies the Director against liabilities, costs and expenses (including legal costs incurred in defending proceedings brought against the Director) incurred in the Director's capacity as a director of the Company or its subsidiaries.

In addition, the Deed requires the Company to take out and maintain (and pay the premium of) Directors' and Officers' insurance during Director's period of office and for a period of seven years after a Director ceases to hold office (Access Period). During the Access Period, the Director also has rights to access papers, documents and other information relating to the affairs of the Company for specified purposes during the period the Director is an officer of the Company and for a period of seven years after the Director ceases to hold office.

During the financial year, the company paid an annual premium of $16,650 in respect of a contract to insure the directors and executives of the company up until 31 March 2020 against a liability to the extent permitted by the Corporations Act 2001.

INDEMNITY AND INSURANCE OF AUDITOR

The consolidated entity has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the consolidated entity or any related entity against a liability incurred by the auditor.

During the financial year, the consolidated entity has not paid a premium in respect of a contract to insure the auditor of the consolidated entity or any related entity.

ENVIRONMENTAL REGULATIONS

The consolidated entity is not subject to any significant environmental regulations in respect to its activities.

ROUNDING OF AMOUNTS

The consolidated entity is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollars.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor were $81,500 (2018: $ 2,250) and are outlined in note 22 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF RSM AUSTRALIA PARTNERS

There are no officers of the company who are former partners of RSM Australia Partners.

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 20 and forms part of this Director's Report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

Hon Steve Bracks AC
Chairman

Dan Baxter
Managing Director/CEO

29 August 2019

AUDITOR'S INDEPENDENCE DECLARATION

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report Victory Offices Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

RSM AUSTRALIA PARTNERS

R B MIANO
Partner

Dated: 29 August 2019
Melbourne, Victoria

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FINANCIAL STATEMENTS

For the year ended 30 June 2019

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

	NOTE	2019 $	2018 $
Revenue			
Revenue from continuing activities	3	47,002,838	29,402,818
Interest income		35,765	29,064
Service charges		584,094	2,106,428
		47,622,697	**31,538,310**
Operating Expenses			
Employee benefits expense		(6,898,921)	(4,750,588)
Depreciation and amortisation expense	4	(12,904,490)	(7,897,471)
Other administration expenses		(3,845,562)	(3,295,831)
Occupancy costs		(3,200,903)	(2,033,668)
Finance costs	4	(7,292,811)	(5,354,317)
		(34,142,687)	**(23,331,875)**
Profit before Income Tax Expense		**13,480,010**	**8,206,435**
Income tax expense	7	(3,883,512)	(2,463,916)
Profit after Income Tax Expense		**9,596,498**	**5,742,519**
Other comprehensive income		-	-
Total Comprehensive Income for the Year Attributable to the Owners		**9,596,498**	**5,742,519**

		CENTS	CENTS
Basic earnings per share	14	35.97	22.17
Diluted earnings per share	14	35.97	22.17

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTE	2019 $	2018 $
Current Assets			
Cash and cash equivalents	5	3,198,805	1,446,674
Trade and other receivables	6	1,080,232	6,058,087
Other financial assets	6	20,135,903	889,898
Total Current Assets		24,414,940	8,394,659
Non-Current Assets			
Other financial assets	6	10,795,496	7,683,980
Deferred tax assets	7	35,419,664	29,949,731
Plant and equipment	8	139,452,193	96,507,032
Total Non-Current Assets		185,667,353	134,140,743
Total Assets		**210,082,293**	**142,535,402**
Current Liabilities			
Trade and other payables	9	2,926,458	3,343,070
Provisions	10	336,775	194,423
Borrowings	11	-	83,880
Other liabilities	12	2,911,899	2,283,717
Lease liabilities	15	5,888,004	3,029,657
Current tax liabilities	7	156,978	-
Total Current Liabilities		12,220,114	8,934,747
Non-Current Liabilities			
Trade and other payables	9	11,098,263	14,013,347
Provisions	10	1,047,108	648,005
Borrowings	11	-	210,235
Other liabilities	12	354,776	389,241
Lease liabilities	15	110,633,983	85,097,236
Deferred tax liabilities	7	30,044,795	26,320,418
Total Non-Current Liabilities		153,178,925	126,678,482
Total Liabilities		**165,399,039**	**135,613,229**
Net Assets		**44,683,254**	**6,922,173**
Equity			
Issued capital	13	28,164,585	2
Retained earnings		16,518,669	6,922,171
Total Equity		**44,683,254**	**6,922,173**

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

	NOTE	ORDINARY SHARES $	RETAINED EARNINGS $	TOTAL $
Balance as at 1 July 2017		2	1,179,652	1,179,654
Total Comprehensive Income		-	5,742,519	5,742,519
Balance as at 30 June 2018		2	6,922,171	6,922,173
Balance as at 1 July 2018		2	6,922,171	6,922,173
Total Comprehensive Income		-	9,596,498	9,596,498
Issued share capital, net of costs	13	28,164,583	-	28,164,583
Balance as at 30 June 2019		**28,164,585**	**16,518,669**	**44,683,254**

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	NOTE	2019 $	2018 $
Cash Flows from Operating Activities			
Receipts from customers (inc GST)		52,808,410	35,595,122
Payments to suppliers and employees (inc GST)		(19,260,901)	(14,178,328)
Interest received		35,765	29,064
Interest paid (includes leases)		(5,722,424)	(2,520,967)
Net cash inflow from operating activities	16	**27,860,850**	**18,924,891**
Cash Flows from Investing Activities			
Payments for term deposits		(20,985,780)	-
Payments for bank guarantees		(1,371,741)	-
Purchase of plant and equipment		(26,225,730)	(21,246,298)
Net cash outflow from investing activities		**(48,583,251)**	**(21,246,298)**
Cash Flows from Financing Activities			
Proceeds from shares issued		30,000,000	-
Payments for capital raising costs		(1,835,417)	-
Repayment of related party borrowings		(4,963,531)	(571,846)
Receipt of funds from related parties		1,975,015	(5,427,520)
Proceeds from incentives received from landlords		1,755,033	6,930,223
Payment of hire purchase liabilities		(57,478)	(95,145)
Payments for lease liabilities		(4,399,090)	(1,629,427)
Net cash inflow/(outflow) from financing activities		**22,474,532**	**835,712**
Net increase/(decrease) in cash and cash equivalents		1,752,131	(1,485,695)
Cash and cash equivalents at start of year		1,446,674	2,932,369
Cash and Cash Equivalents at end of year	5	**3,198,805**	**1,446,674**

These financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

1 GENERAL INFORMATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Victory Offices Limited was incorporated on 28 November 2016 and shortly thereafter became the sole shareholder of various entities (refer to note 18) previously wholly owned by Victory Group Holdings Pty Ltd (the parent entity of Victory Offices Limited) as part of a group restructure by Victory Group Holdings Pty Ltd. Victory Offices Limited has previously been named Victory Offices (Holdings) Limited, Victory Serviced Offices (Holdings) Limited and Victory Serviced Offices (Holdings) Pty Ltd. On 14 June 2019, the Company was listed on the Australian Securities Exchange (ASX) following an initial public offering (IPO) raising $30 million before costs. As a result of the IPO, the ownership interest of the parent entity was reduced from 100% to 63.3%.

The financial statements of Victory Offices Ltd & Controlled Entities (the "consolidated entity") for 30 June 2019 were authorised for issue by the Directors on 29 August 2019.

A) 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').

(i) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

(ii) Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(iii) Comparatives

Comparative figures for the prior year have been re-classified where appropriate to align with current year disclosures.

B) NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The consolidated entity has also adopted AASB 15 Revenue from contracts with customers and AASB 16 Leases early for the period commencing 1 July 2016. For other standards not adopted early and the impact of these on the consolidated entity refer to note 25 for managements interpretations of the new or amended standards.

AASB 9 FINANCIAL INSTRUMENTS

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

There has been no impact from the adoption of AASB 9 on prior year comparatives.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Victory Offices Ltd as at 30 June 2019 and the results of all subsidiaries for the year then ended. Victory Offices Ltd and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Interconsolidated entity transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

D) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

E) CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

F) IMPAIRMENT OF FINANCIAL ASSETS

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

G) OPERATING SEGMENTS

IDENTIFICATION OF REPORTABLE OPERATING SEGMENTS

The consolidated entity is organised into one operating segment providing comprehensive office serviced packages and other services to customers in Australia. One operating segment is consistent with the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

NOTES TO THE FINANCIAL STATEMENTS (CONT)

2 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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 various factors, including expectations of future events, management believes to be reasonable under the circumstances.

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 (refer to the respective notes) within the next financial year are discussed below.

(i) Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

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

(ii) Make good provisions

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 application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in the profit or loss statement.

(iii) Useful lives of plant and equipment

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

(iv) Interest rate implicit in lease arrangements

A lessor uses the interest rate implicit in the lease for the purposes of lease classification and to measure the net investments in a finance lease. The interest rate 'implicit' in the lease is the discount rate at which, the sum of the present value of (i) the lease payments and (ii) the unguaranteed residual value equals the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

(v) Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

(vi) Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date 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 the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 REVENUE

	2019 $	2018 $
Revenue from continuing operations:		
Suite services	46,913,383	29,258,079
Hire of plant and equipment	72,000	144,153
	46,985,383	29,402,232
Other revenue:		
Other income	17,455	586
	17,455	586
	47,002,838	29,402,818

ACCOUNTING POLICY - REVENUE

Revenue is measured based on the consideration specified in a contract with a customer and excluded amounts collected on behalf of third parties. The consolidated entity recognises revenue when it transfers control over a product or service to a customer.

The following is a description of the principal activities from which the consolidated entity generates its revenue.

REVENUE RECOGNITION

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

SUITE SERVICE INCOME

Revenue in relation to the rendering of suite services is recognised on a straight line basis over the term of the lease agreement.

Other services revenue has been included in suite services revenue in 2019 and the comparatives figures reclassified.

SERVICE CHARGES

Services charges is recognised as services are delivered or performed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICY - REVENUE (CONTINUED)

OTHER REVENUE

Other revenue is recognised when it is received or when the right relevant performance obligation have been met.

INTEREST INCOME

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

4 EXPENSES

	2019 $	2018 $
Depreciation		
Right-of-use asset	9,346,429	6,831,860
Motor vehicles	56,359	100,102
Plant, equipment and other assets	3,501,702	965,509
	12,904,490	7,897,471
Finance costs		
Interest and finance charges paid/payable	246,387	164,150
Unwinding of the lease liability interest (refer to note 15)	7,046,424	5,190,167
	7,292,811	5,354,317

ACCOUNTING POLICY - EXPENSES

Depreciation and finance costs accounting policy refer to notes 8, 11 and 15 respectively for further details.

5 CASH AND CASH EQUIVALENTS

	2019 $	2018 $
Cash at bank	3,195,246	1,444,098
Cash on hand	3,559	2,576
	3,198,805	1,446,674

ACCOUNTING POLICY - CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and money market deposits which have a maturity of three months or less from the date of acquisition, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

Bank overdrafts (if applicable) are shown as a current liability on the Statement of Financial Position and are shown as a reduction to the cash balance in the Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 TRADE AND OTHER RECEIVABLES

	2019 $	2018 $
Trade receivables	272,660	141,727
Prepayments	807,572	525,011
Related party receivables	-	5,391,349
	1,080,232	6,058,087
Other Financial Assets		
Current		
Term Deposits	20,135,903	889,898
	20,135,903	889,898
Non - current		
Term Deposits	1,739,775	-
Bank Guarantees	9,055,721	7,683,980
	10,795,496	7,683,980

ACCOUNTING POLICIES

TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

OTHER FINANCIAL ASSETS

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

LOANS

Related entity loans are financial assets with determinable payments. They arise when the consolidated entity provides money to the related entity. They are included in current assets, except for those that are likely to be repaid greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans are included in receivables and other receivables in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 INCOME TAX RECONCILIATION

		2019 $	2018 $
(a)	**The major components of tax expense (income) comprise:**		
	Current tax expense	4,440,790	4,829,851
	Deferred tax expense	(235,646)	(2,365,935)
	Under/(over) provision in prior years	(321,632)	-
	Income Tax expense	3,883,512	2,463,916
(b)	**Reconciliation of income tax to accounting profit**		
	Profit before income tax expense	13,480,010	8,206,435
	Prima facie income tax on profit before tax @ 30%	4,044,003	2,461,930
	Add / deduct		
	Non-deductible expenses	5,325	1,986
	Capital gains	155,816	-
	Over/under provision for income tax in prior year	(321,632)	-
	Income Tax expense	3,883,512	2,463,916
(c)	**Recognised deferred tax asset**		
	Employee benefits	101,032	68,723
	Make good provision	-	194,402
	Lease liability	34,956,598	26,438,068
	Make good asset	-	398,556
	Right-of-use asset accumulated depreciation	-	2,849,619
	Black hole expenditure	361,061	-
	Other	973	363
	Deferred tax asset balance	35,419,664	29,949,731
(d)	**Recognised deferred tax liabilities**		
	Right-of-use asset and make good asset	29,401,525	26,320,418
	Plant and equipment	643,270	-
	Deferred tax liabilities balance	30,044,795	26,320,418

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 INCOME TAX RECONCILIATION (CONTINUED)

	TAX ADJUSTMENT	DTA	DTL
	NET MOVEMENT	NET MOVEMENT @ 30%	NET MOVEMENT @ 30%
	$	$	$
(e) Deferred tax amounts recognised in income tax expense			
Plant and equipment	(6,194,906)	-	1,858,472
Right-of-use / Lease liability	7,501,326	-	(2,250,398)
ASX Fees	151,902	(45,571)	-
Black hole expenditure	(783,784)	17,655	217,481
Employee benefits	142,352	(42,706)	-
Accruals	(31,403)	-	9,421
Impact of movements in deferred tax balances on income tax expense		(70,622)	(165,024)
Net impact of movements in deferred tax balances on income tax expense			(235,646)

ACCOUNTING POLICY - INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in the deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and 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 FINANCIAL STATEMENTS (CONTINUED)

8 PLANT AND EQUIPMENT

	2019 $	2018 $
Office furniture		
Cost - Office Furniture	6,528,358	1,334,747
Accumulated depreciation - Office Furniture	(499,815)	(226,872)
	6,028,543	1,107,875
Motor vehicles		
Cost - Motor Vehicles	-	718,353
Accumulated depreciation - Motor Vehicles	-	(418,047)
	-	300,306
Office equipment		
Cost - Office Equipment	10,525,955	6,506,164
Accumulated depreciation - Office Equipment	(1,099,050)	(145,059)
	9,426,905	6,361,105
Computer equipment		
Cost - Computer equipment	2,156,859	498,831
Accumulated depreciation - Computer equipment	(377,746)	(190,986)
	1,779,113	307,845
Computer software		
Cost - Computer Software	141,849	77,778
Accumulated depreciation - Computer Software	(53,863)	(35,403)
	87,986	42,375
Leasehold Improvements		
Cost - Improvements	26,773,214	11,981,851
Accumulated depreciation - Improvements	(2,967,758)	(760,806)
	23,805,456	11,221,045
Artwork		
Cost - Artwork	325,414	262,519
Accumulated depreciation - Artwork	(6,308)	(3,516)
	319,106	259,003
Right of use asset		
Cost - Right-of-use asset	116,625,486	86,181,451
Accumulated depreciation - Right-of-use asset	(18,620,402)	(9,273,973)
	98,005,084	76,907,478
	139,452,193	96,507,032

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 PLANT AND EQUIPMENT (CONTINUED)

ACCOUNTING POLICY - PLANT AND EQUIPMENT

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 is calculated on a straight-line basis to write off the net cost of each item of plant and equipment (excluding land) over their expected useful lives as follows:

Fixed asset class	Useful Life (in years)
Office furniture	10
Motor vehicles	4
Office equipment	5
Computer equipment	5
Computer software	3
Leasehold Improvements	Life of lease
Office fit out	Life of lease
Artwork	40
Right-of-use asset	Life of lease

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Right-of-use assets under lease are depreciated over the unexpired period of the lease term.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 PLANT AND EQUIPMENT (CONTINUED)

RECONCILIATION OF CARRYING AMOUNT

The following table shows a reconciliation from the opening balances to the closing balances for the current and prior financial year.

	OFFICE FURNITURE $	MOTOR VEHICLES $	OFFICE EQUIPMENT $	COMPUTER EQUIPMENT $	COMPUTER SOFTWARE $	LEASEHOLD IMPROVE-MENTS $	ARTWORK $	RIGHT-OF-USE ASSET $	TOTAL $
Balance at 1 July 2017	737,624	400,408	95,864	331,403	23,078	4,591,031	169,684	33,454,638	39,803,730
Additions	485,553	-	6,385,634	51,819	35,638	7,261,518	91,293	50,284,700	64,596,155
Disposals - written down value	-	-	-	4,618	-	-	-	-	4,618
Depreciation expense	(115,302)	(100,102)	(120,393)	(79,995)	(16,341)	(631,504)	(1,974)	(6,831,860)	(7,897,471)
Balance at 30 June 2018	1,107,875	300,306	6,361,105	307,845	42,375	11,221,045	259,003	76,907,478	96,507,032
Balance at 1 July 2018	1,107,875	300,306	6,361,105	307,845	42,375	11,221,045	259,003	76,907,478	96,507,032
Additions	5,193,611	-	4,012,772	1,658,028	64,071	14,658,186	62,895	30,444,035	56,093,598
Disposals - written down value	-	(243,947)	-	-	-	-	-	-	(243,947)
Depreciation expense	(272,943)	(56,359)	(946,972)	(186,760)	(18,460)	(2,073,775)	(2,792)	(9,346,429)	(12,904,490)
Balance at 30 June 2019	6,028,543	-	9,426,905	1,779,113	87,986	23,805,456	319,106	98,005,084	139,452,193

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 TRADE AND OTHER PAYABLES

	2019 $	2018 $
Current		
Trade payables	2,325,017	2,339,691
GST and PAYG withholding payable	527,006	968,725
Accrued expenses	74,435	34,654
	2,926,458	3,343,070
Non-Current		
Amounts due to related parties	9,067,512	7,323,678
Related party income tax payable	2,030,751	6,689,669
	11,098,263	14,013,347

ACCOUNTING POLICY - TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the consolidated entity 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 amounts are unsecured and are usually paid within 30 days of recognition.

10 PROVISIONS

	2019 $	2018 $
Current		
Provision for annual leave	336,775	194,423
	336,775	194,423
Non - current		
Provision for make good on leased premises	1,047,108	648,005
	1,047,108	648,005
Movement in provision for make good on leased premises		
Carrying amount at the start of the year	648,005	348,553
Additional provisions recognised	399,103	299,452
Amounts used	-	-
Carrying amount at the end of the year	1,047,108	648,005

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 PROVISIONS (CONTINUED)

ACCOUNTING POLICY - PROVISIONS

MAKE GOOD

The provision for make good on leased premises represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

EMPLOYEE BENEFITS

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 BORROWINGS

	2019 $	2018 $
Current		
Hire purchase (current)	-	83,880
	-	83,880
Non-current		
Hire purchase (noncurrent)	-	210,235
	-	210,235

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.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- finance lease charges; and
- certain exchange differences arising from foreign currency borrowings.

12 OTHER LIABILITIES

	2019 $	2018 $
Current		
Client deposits	2,615,540	2,137,681
Contractual liabilities	296,359	146,036
	2,911,899	2,283,717
Non-current		
Client deposits	354,776	389,241
	354,776	389,241

ACCOUNTING POLICY - OTHER LIABILITIES

CLIENT DEPOSITS

Deposits received are security bonds payable at the commencement of the lease to insure against any potential damage to properties. Bonds are repayable upon final inspection of the premise at the end of the lease term.

CONTRACTUAL LIABILITIES

Income received in advance is recognised as revenue over the life of the lease as services are rendered in accordance with the terms of the lease agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 CONTRIBUTED EQUITY

	2019 SHARES	2018 SHARES	2019 $	2018 $
Ordinary shares	40,900,000	2	28,164,585	2
Movements in Share Capital				
Opening Balance	2	2	2	2
Share split - 12 June 2019(i)	25,899,998	-	-	-
Shares issued at $2.00 each - 12 June 2019	15,000,000	-	30,000,000	-
Capital raising costs, net of tax	-	-	(1,835,417)	-
Closing Balance	40,900,000	2	28,164,585	2

(i) Share split prior to the IPO at $nil value.

ACCOUNTING POLICY - CONTRIBUTED EQUITY

ORDINARY SHARES

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

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.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

DIVIDENDS

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

CAPITAL RISK MANAGEMENT

The consolidated entity's objectives 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.

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

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 EARNINGS PER SHARE

	2019 $	2018 $
Earnings per share for profit from continuing operations		
Profit after income tax	9,596,498	5,742,519

	NUMBER	NUMBER
Weighted average number of ordinary shares	26,680,822	25,900,000

	CENTS	CENTS
Basic earnings per share	35.97	22.17
Diluted earnings per share	35.97	22.17

ACCOUNTING POLICY - EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the owners of Victory Offices Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

DILUTED EARNINGS PER SHARE

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 LEASE LIABILITIES

	2019 $	2018 $
As a lessee		
Right-of-use assets	98,005,084	76,907,478
	98,005,084	76,907,478
The right-of-use assets comprises leased offices.		
Information about leases for which the consolidated entity is a lessee is presented below:		
Right-of-use assets		
Balance at 1 July 2018	76,907,478	33,454,638
Additions	30,444,035	50,284,700
Depreciation charge for the year	(9,346,429)	(6,831,860)
Balance at 30 June 2019	98,005,084	76,907,478
Lease liabilities		
Maturity analysis - contractual undiscounted cash flows		
Less than one year	13,413,820	8,698,995
One to five years	80,339,831	55,681,961
More than five years	76,008,494	68,922,187
Total undiscounted lease liabilities	169,762,145	133,303,143
Lease liabilities included in the statement of financial position	116,521,987	88,126,893
Current ((Lease liability)	5,888,004	3,029,657
Non-current (Lease liability)	110,633,983	85,097,236
Amounts recognised in profit or loss		
Interest on lease liabilities	7,046,424	5,190,167
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	(10,121,514)	(4,150,393)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 LEASE LIABILITIES (CONTINUED)

ACCOUNTING POLICY - LEASES

The consolidated entity has early adopted AASB 16 lease standard from 1 July 2016. Leasing expenses are recognised as operating costs on a straight line basis over the term of the lease. The adoption of the new lease standard results in costs being capitalised as a lease liability and unwound over the term of the lease. In addition a right to use asset is to be recognised and depreciated over the term of the lease.

LEASED OFFICES

The consolidated entity has numerous commercial office leases include leases of shared office spaces. The consolidated entity classified these as operating leases under AASB 16.

The non-cancellable period of the leases varies between 2 and 10 years and the consolidated entity has an option to extend the leases up to an additional term of the lease and in many cases it is up to the discretion of the lessor. The lease payments are adjusted every year, based on either a fixed annual rate increase or a change in the consumer price index in the preceding year. The lease payments also include reimbursement of the lessor's taxes and insurance payments which are annually adjusted. If the consolidated entity exercises the renewal option, then the lease payments in the renewal period will reflect the then market rate or an equivalent index dependent on the terms of the lease agreement.

At inception of a contract, the consolidated entity assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the consolidated entity assess whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the consolidated entity has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the consolidated entity has the right to direct the use of the asset. The consolidated entity has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the consolidated entity has the right to direct the use of the asset if either:
- the consolidated entity has the right to operate the asset; or
- the consolidated entity designed the asset in a way that predetermines how and for what purpose it will be used. At inception or on reassessment of a contract that contains a lease component, the consolidated entity allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the lease of land and buildings in which it is a lessee, the consolidated entity has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.
- the consolidated entity has the right to direct the use of the asset. The consolidated entity has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the consolidated entity has the right to direct the use of the asset if either:
- the consolidated entity has the right to operate the asset; or
- the consolidated entity designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the consolidated entity allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the lease of land and buildings in which it is a lessee, the consolidated entity has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 LEASE LIABILITIES (CONTINUED)

ACCOUNTING POLICY - LEASES (CONTINUED)

AS A LESSEE

The consolidated entity recognise a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which compromises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the consolidated entity incremental borrowing rate. Generally, the consolidated entity use its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability compromise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or a rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the consolidated entity is reasonably certain to exercise, lease payments in an optional renewal period if the consolidated entity is reasonably to exercise an extension option, and penalties for early termination of a lease unless the consolidated is reasonably certain to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the consolidated entity estimate of the amount expected to be payable under a residual value guarantee, or if the consolidated entity changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss in the carrying amount of the right-of-use asset has been reduced to zero.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

The consolidated entity has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that has a lease term of 12 months or less and leases of low-value assets, including IT equipment. The consolidated entity recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 RECONCILIATION OF THE NET PROFIT TO THE NET CASH FLOW FROM OPERATIONS

	2019 $	2018 $
Net Profit from continuing activities after income tax		
Operating profit after income tax	9,596,498	5,742,519
Non-cash expense items:		
- Depreciation	12,904,490	7,897,471
- Rent free incentive periods	1,570,387	2,669,200
Changes to assets and liabilities relating to operating activities:		
(Increase)/decrease in trade and other receivables	(130,933)	934,951
(Increase)/decrease in prepayments	(282,561)	(383,433)
(Increase)/decrease in tax assets and liabilities	3,883,512	(2,365,946)
Increase/(decrease) in trade and other payables	(416,612)	3,042,801
Increase/(decrease) in contractual liabilities	150,323	23,418
Increase/(decrease) in other liabilities	443,394	1,270,795
Increase/(decrease) in provisions	142,352	93,115
Net Cash Flow from Operating Activities	27,860,850	18,924,891
Non-cash investing and financing activities:		
Acquisition of right-of-use lease assets	30,444,035	50,284,700
Disposal of motor vehicles	243,947	-

ACCOUNTING POLICY - STATEMENT OF CASH FLOWS

The following is the definition of the terms used in the Statement of Cash Flows:

- Operating activities are the principal revenue producing activities of the consolidated entity and other activities that are not investing or financing activities;
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents; and
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES

The consolidated entity's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and price risks and ageing analysis for credit risk.

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 consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

MARKET RISK

FOREIGN CURRENCY RISK

The consolidated entity's exposure to currency risk is minimal at this stage of the operations.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the consolidated entity uses. Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets and investment decisions are governed by the monetary policy.

The consolidated entity's cash and cash equivalents and term deposits were $25,074,483 as at 30 June 2019 (2018: $2,336,572). Borrowings and lease liabilities were $116,521,987 as at 30 June 2019 (2018: $88,421,008). An official increase/decrease in interest rates of 100 (2018: 100) basis points would have an adverse/favourable effect on profit before tax of $(914,475) (2018: $860,844) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

It is the consolidated entity's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances.

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does hold a security deposit (refer to note 12) which acts as a form of collateral.

LIQUIDITY RISK

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

REMAINING CONTRACTUAL MATURITIES

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK (CONTINUED)

2019	1 YEAR OR LESS $	BETWEEN 1 AND 2 YEARS $	BETWEEN 2 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivatives					
Non-interest bearing					
Trade payables	2,926,458	-	-	-	2,926,458
Other payables	2,911,899	354,776	-	-	3,266,675
Interest-bearing - fixed rate					
Borrowings	-	-	-	-	-
Lease liability	13,413,820	14,786,406	65,553,425	76,008,494	169,762,145
Total non-derivatives	19,252,177	15,141,182	65,553,425	76,008,494	175,955,278

As at 30 June 2019 the weighted average interest discount rate for lease liabilities was 6.9% (2018: 6.7%)

2018	1 YEAR OR LESS $	BETWEEN 1 AND 2 YEARS $	BETWEEN 2 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivatives					
Non-interest bearing					
Trade payables	3,343,070	-	-	-	3,343,070
Other payables	2,283,717	-	-	-	2,283,717
Interest-bearing - fixed rate					
Borrowings	83,880	210,235	-	-	294,115
Lease liability	3,029,657	10,491,609	22,100,898	52,504,729	88,126,893
Total non-derivatives	8,740,324	10,701,844	22,100,898	52,504,729	94,047,795

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 CONSOLIDATED ENTITIES

GROUP ACCOUNTING POLICY

The Group consolidation comprises all subsidiaries controlled by the consolidated entity. Control exists when the consolidated entity:

- Has the power to direct the relevant activities such as key operating, financial and investing decisions;
- Has exposure or rights to variable returns from its involvement with the investee such as dividends, loans and fees; and
- Has the ability to use its power over the investee to affect the amount of returns.

In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. Management uses accounting judgement in determining whether the consolidated entity controls an entity by applying the above control criteria and reviewing the substance of its relationship with the entity.

The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies with adjustments made to bring into line any dissimilar accounting policies that may exist.

External non controlling interests are allocated their share of total comprehensive income and are presented within equity in the consolidated Statement of Financial Position, separately from the equity of securityholders.

The material consolidated entities of the Group are listed below.

Parent Entity:

Victory Offices Limited

	2019	2018
Subsidiaries:		
Victory Management Services Pty Ltd	100%	100%
Victory Equipment & Leasing Pty Ltd	100%	100%
Victory Offices (420 Collins) Pty Ltd	100%	100%
Victory Offices (35 Collins) Pty Ltd	100%	100%
Victory Offices (600 Bourke) Pty Ltd	100%	100%
Victory Offices (727 Collins) Pty Ltd	100%	100%
Victory Offices (200 George) Pty Ltd	100%	100%
Victory Offices (175 Eagle) Pty Ltd	100%	100%
Victory Offices (Box Hill) Pty Ltd	100%	100%
Victory Offices (Chadstone) Pty Ltd	100%	100%
Victory Offices (Barangaroo) Pty Ltd	100%	100%
Victory Offices (333 Collins) Pty Ltd	100%	100%
Victory Offices (2 Esplanade) Pty Ltd	100%	-
Victory Offices (Dandenong) Pty Ltd	100%	-
Victory Offices (Sunshine) Pty Ltd	100%	-
Victory Offices (420 George) Pty Ltd	100%	-
Victory Offices (St Kilda) Pty Ltd	100%	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 PARENT ENTITY INFORMATION

Set out below is the supplemented information about the parent entity.

	2019 $	2018 $
Statement of profit or loss and other comprehensive income		
Loss after income tax	-	-
Total comprehensive income	-	-
Statement of financial position		
Total current assets	-	-
Total assets	28,166,097	1,114
Total current liabilities	-	-
Total liabilities	1,512	1,112
Total net assets	28,164,585	2
Total equity	28,164,585	2

CONTINGENT LIABILITIES

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

CAPITAL COMMITMENTS

The parent entity had no capital commitments as at 30 June 2019 and 30 June 2018.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the parent entity are consistent with those of the consolidated entity.

20 KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel remuneration included within employee expenses for the year is shown below:

	2019 $	2018 $
Short term employee benefits	1,049,019	540,193
Post employment benefits	73,137	30,000
	1,122,156	570,193

For details of other transactions with key management personnel, refer to Note 21.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 RELATED PARTIES TRANSACTIONS

PARENT ENTITY

The ultimate parent entity, which exercises control over the group, is Victory Group Holdings which is incorporated in Australia and owns 63.3% (2018: 100%) of Victory Offices Limited & Controlled Entities. Refer to note 18.

KEY MANAGEMENT PERSONNEL

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

For details of remuneration disclosures relating to key management personnel, refer to note 20.

Other transactions with KMP and their related parties are shown below. Other related parties include close family members of key management personnel and entities that are controlled.

TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties of Mr Dan Baxter:

2019	PURCHASES $	SALES $	OTHER TRANSACTIONS $	RECEIVABLE $	PAYABLE $
KMP related parties					
Dan Baxter	-	-	-	-	9,067,512
Controlling entities					
Victory Group Holdings Pty Ltd	-	-	-	-	2,030,751
Other related parties					
Victory Aluminium Pty Ltd	-	503,760	-	-	-
Victory Constructions Pty Ltd	-	150,000	-	-	-
Victory Realty Pty Ltd	-	210,000	-	-	-
Victory Metals Australia Pty Ltd	-	-	243,947	-	-

2018	PURCHASES $	SALES $	OTHER TRANSACTIONS $	RECEIVABLE $	PAYABLE $
KMP related parties					
Dan Baxter	-	87,273	-	-	7,092,496
Controlling entities					
Victory Group Holdings	-	-	-	-	6,689,517
Other related parties					
Victory Aluminium	-	1,040,882	1,380,441	3,237,304	35,832
Victory Constructions	-	744,993	374,670	1,587,459	-
Victory Realty	-	28,681	351,319	330,326	3,084

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 RELATED PARTIES TRANSACTIONS (CONTINUED)

LOANS TO/FROM RELATED PARTIES

Unsecured loans are made to the ultimate parent entity, subsidiaries, directors, key management personnel and other related parties on an arm's length basis. There are no set repayment terms and no interest is charged. Loans are unsecured and repayable in cash. No interest is paid on loans to key management personnel and there are no set repayment terms.

During the 2019 financial year Dan Baxter paid $2,778,907 (2018: $571,846) for bank guarantees (included on the Statement of Financial Position in Note 6) for new leases with the amount recorded as a related party loan.

During the 2019 financial year Victory Group Holdings Pty Ltd paid $4,283,512 (2018: $nil) in settlement of tax liabilities on behalf of the consolidated entity with the amount recorded as a related party loan.

OTHER RELATED PARTIES - SALES

Sales relate to the use of suite services and cost recharges in the normal course of business.

OTHER RELATED PARTIES - OTHER TRANSACTIONS

Other transactions in Victory Metals Australia Pty Ltd includes the sale of a motor vehicle for $243,947 (2018: $ nil) which represented its book carrying value at the time of sale.

LEASES WITH RELATED PARTIES

The consolidated entity has four leases with the lessors being related entities of Dan Baxter. The consolidated entity considers that all leases are on arm's length terms which reflect customary provisions commonly found in commercial leases of a similar nature.

Each lease has the following consistent material terms: on termination the lessee is responsible for make good of the premises; rent is payable in advance by monthly instalments; and the lessee is responsible for maintaining appropriate insurance coverage.

Other material terms of each lease have been disclosed below:

Ground floor, 416-420 Collins Street, Melbourne – The lessor is DB CLS-G1 Pty Ltd, a related entity of Dan Baxter. This lease commenced on 1 July 2018 with an initial term of ten years plus a five year option.

Level 1, 416-420 Collins Street, Melbourne – The lessor is DB CLS-1 Pty Ltd, a related entity of Dan Baxter. This lease commenced on 4 August 2014 with an initial term of five years plus two, five year options. The first five year option was exercised on 4 August 2019.

Level 2, 416-420 Collins Street, Melbourne – The lessor is DB CLS-2 Pty Ltd, a related entity of Dan Baxter. This lease commenced on 4 August 2014 with an initial term of five years plus two, five year options. The first five year option was exercised on 4 August 2019.

Level 9, 416-420 Collins Street, Melbourne – The lessor is DB CLS-9 Pty Ltd, a related entity of Dan Baxter. This lease commenced on 1 July 2018 with an initial term of ten years plus a five year option.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by the auditor of the consolidated entity:

	2019 $	2018 $
Audit services		
Audit or review of the financial statements	162,280	40,000
	162,280	40,000
Other services		
Corporate finance fees related to IPO	77,000	-
Taxation advice	4,500	2,250
	81,500	2,250
Total fees	243,780	42,250

23 CAPITAL COMMITMENTS

The consolidated entity had capital commitments of $588,438 relating to future fit-out expenditure at 30 June 2019 (2018: $nil). Refer also to note 15 for lease liability commitments.

24 CONTINGENT LIABILITIES

The consolidated entity has no contingent liabilities at 30 June 2019 or 2018.

25 NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

STANDARDS ISSUED NOT YET EFFECTIVE

The Consolidated entity has adopted AASB 16 Leases early from the period commencing 1 July 2016. Other Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting year ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, is no significant impact.

26 EVENTS AFTER THE REPORTING PERIOD

On 16 July 2019, the Company announced to the ASX the execution of a new lease for an office location in Fortitude Valley, Brisbane. A further location in St Kilda Road, Melbourne was opened on 23 August 2019.

No other matters or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

DIRECTORS' DECLARATION

For the year ended 30 June 2019

Victory Offices

In the directors' opinion:

- the attached financial statements and notes and the remuneration disclosures that are contained within the Remuneration report within the Directors' report comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

Hon Steve Bracks AC
Chairman

Dan Baxter
Managing Director/CEO

29 August 2019

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2019

RSM

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT
To the Members of Victory Offices Limited

Opinion

We have audited the financial report of Victory Offices Limited (the Company) and its subsidiaries (the Consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Consolidated entity is in accordance with the Corporations Act 2001, including:

I. giving a true and fair view of the Consolidated entity's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

II. 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 Consolidated entity in accordance with the auditor independence requirements of 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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

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

RSM

Key Audit Matters (Continued.)

Key Audit Matter	How our audit addressed this matter
Recognition of Revenue Refer to Note 3 in the financial statements	
The Consolidated entity generates income from providing a range of services with the main revenue driver being the licencing of serviced and coworking offices with a typical licence term of 12 to 18 months. Some of the contracts that account for revenue include rent free periods. There is a risk that inappropriate revenue recognition will lead to a material misstatement of income and related receivables. The risk is heightened due to the timing of invoicing.	Our audit procedures in relation to the recognition of revenue included: • Assessing whether the Consolidated entity's revenue recognition policies were in compliance with AASB 15 *Revenue from Contracts with Customers*; • Evaluating the operating effectiveness of management's controls related to revenue recognition; • Performing substantive analytical review procedures on suite revenue; • Performing detailed testing on a sample of suite revenue recognised and assessing the allocation of revenue to various elements in the contracts with customers; and • Reviewing sales transactions before and after year-end to ensure that revenue is recognised in the correct period.
Leases Refer to Note 15 in the financial statements	
The Group has entered into 21 material leases for each of their leased office spaces across Australia, the new *AASB 16 Leases* standard has a material impact on the Consolidated entity. Whilst the Consolidated entity early adopted this standard, applying it from the year ended 30 June 2017, the complexity of the standard, and the extent of judgements and estimates involved means that the application of *AASB 16 Leases*, and the valuation of both the lease liability and right-of-use asset are considered a significant risk.	Our audit procedures in relation to leases included: ▪ Reviewing the leasing model used by management to calculate the right-of-use assets and lease liabilities, including reviewing the accuracy of key inputs into the model, and the operation of the model; ▪ Reviewing any new material lease agreements entered during the year and ensure that all clauses including any incentives and make-good provisions have been correctly captured in the leasing model; and ▪ Review all leasing disclosures within the financial statements to ensure the completeness and accuracy, and overall compliance with *AASB 16 Leases.*

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated entity's annual report for the year ended 30 June 2019 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 accordingly 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 ability of the Consolidated entity 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 Consolidated entity 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/ar2.pdf.
This description forms part of our auditor's report.

RSM

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Victory Offices Limited, for the year ended 30 June 2019, 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.

RSM

RSM AUSTRALIA PARTNERS

Miano

R B MIANO
Partner

Dated: 29 August 2019
Melbourne, Victoria

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 28 August 2019.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	26
1,001 to 5,000	71
5,001 to 10,000	70
10,001 to 100,000	116
100,001 and over	14
	297
Holding less than a marketable parcel	1

EQUITY SECURITY HOLDERS

TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Victory Group Holdings Pty Ltd	25,900,000	63.33
HSBC Custody Nominees (Australia) Limited	3,828,632	9.36
National Nominees Limited	3,433,024	8.39
CS Third Nominees Pty Ltd	875,559	2.14
Sargon CT Pty Ltd	577,514	1.41
BNP Paribas Noms Pty Ltd <DRP>	500,000	1.22
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	402,594	0.98
BNP Paribas Nominees Pty Ltd <IOOF INSMT MGMT LTD DRP>	400,000	0.98
UBS Nominees Pty Ltd	256,059	0.63
BNP Paribas Nominees Pty Ltd <HUB24 Custodial Serv Ltd DRP>	221,000	0.54
BNP Paribas Nominees Pty Ltd <IB AU NOMS RetailClient DRP>	212,046	0.52
Mr John and Mrs Jennifer Bamford	143,001	0.35
J P Morgan Nominees Australia Pty Ltd	132,313	0.32
NDPM Pty Ltd <Morris Family Super Fund A/C>	110,000	0.27
Ossum Holdings Pty Ltd <Tanton Super Fund A/C>	80,000	0.20
Mrs Wendi Louise Dawson	79,500	0.19
Bramscorp Pty Ltd <Gilbert Family S/Fund A/C>	74,230	0.18
Mrs Leora Shamgar	70,000	0.17
Citicorp Nominees Pty Ltd	63,250	0.15
Formula Properties Pty Ltd <Formula Prop Trading A/C>	62,500	0.15
	37,421,222	91.49

SUBSTANTIAL HOLDERS

Substantial shareholders in the company registered as at 28 August 2019 are set out below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Victory Group Holdings Pty Ltd	25,900,000	63.33
IOOF Holdings Limited	3,696,556	9.04
Perpetual Limited	2,250,000	5.50

VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

ORDINARY SHARES

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

RESTRICTED SECURITIES – ESCROW ARRANGEMENTS

Victory Group Holdings Pty Ltd and Dan Baxter as a controller of Victory Group Holdings Pty Ltd (Escrowed Persons) agreed to enter into a voluntary restriction deed in respect of the Shares they own or control for a maximum period of two years following completion of the IPO. This deed prevents them from dealing with their escrowed Shares for the applicable escrow periods. 25.9 million Shares (100% of the holding) will be escrowed until Victory Offices lodges with the ASX its Appendix 4E for FY2020 and 19.4 million Shares (75% of the holding) will be escrowed until Victory Offices lodges with the ASX its Appendix 4E for FY2021.

CLASS	EXPIRY DATES	NUMBER OF SHARES
Ordinary shares	As described above.	25,900,000

CORPORATE DIRECTORY

DIRECTORS

Hon Steve Bracks AC	(Chairman, Non-Executive Director)
Dan Baxter	(Chief Executive Officer, Managing Director)
Alan Jones	(Non-Executive Director)
Ted Chwasta	(Non-Executive Director)
Shane Tanner	(Non-Executive Director)

COMPANY SECRETARY

Fady Said

REGISTERED OFFICE

Level 2, Victory Tower
416-420 Collins Street
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ACN: 616 150 022

LEGAL ADVISORS

Hall & Wilcox
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