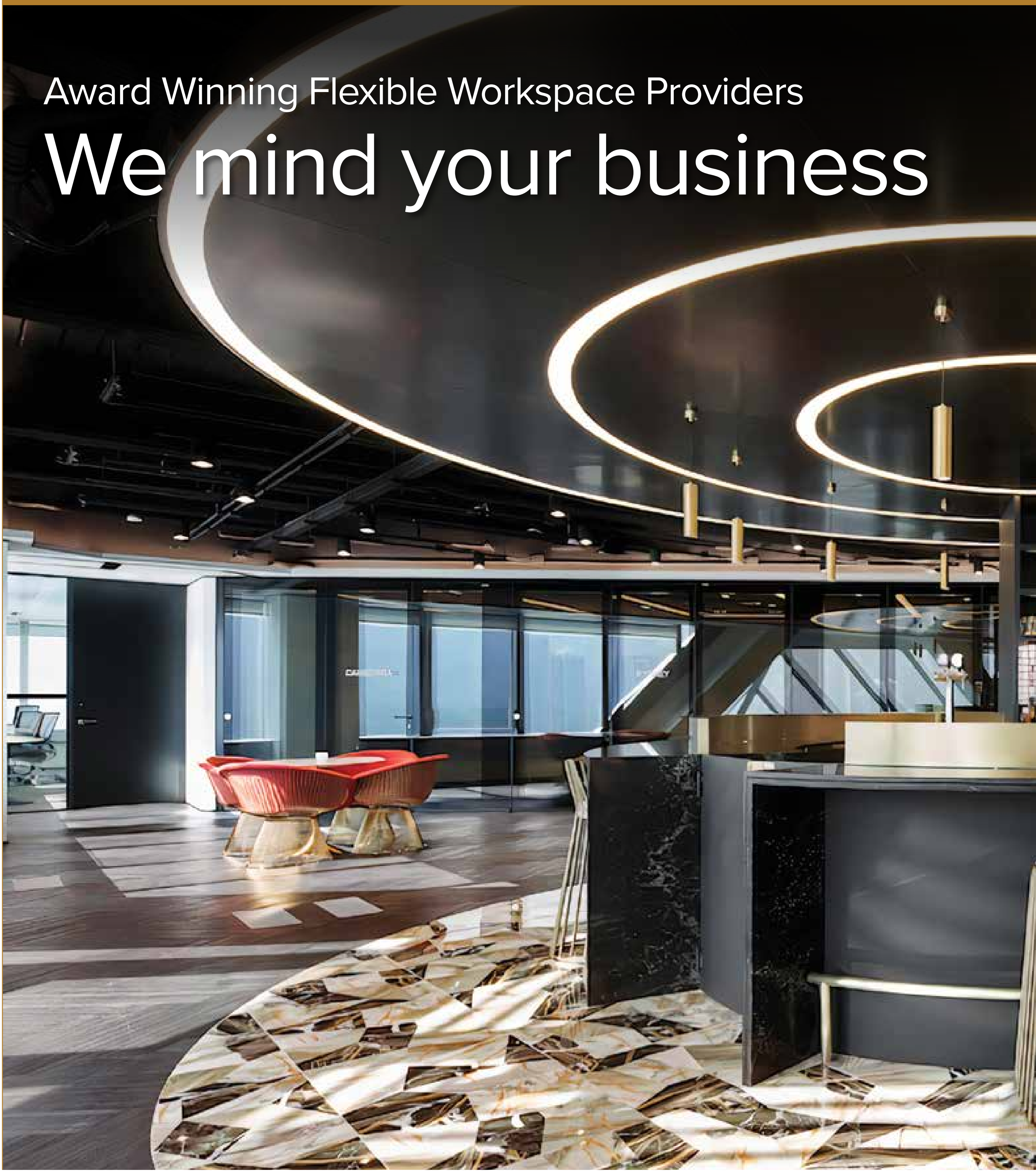
Victory Offices

ANNUAL REPORT 2020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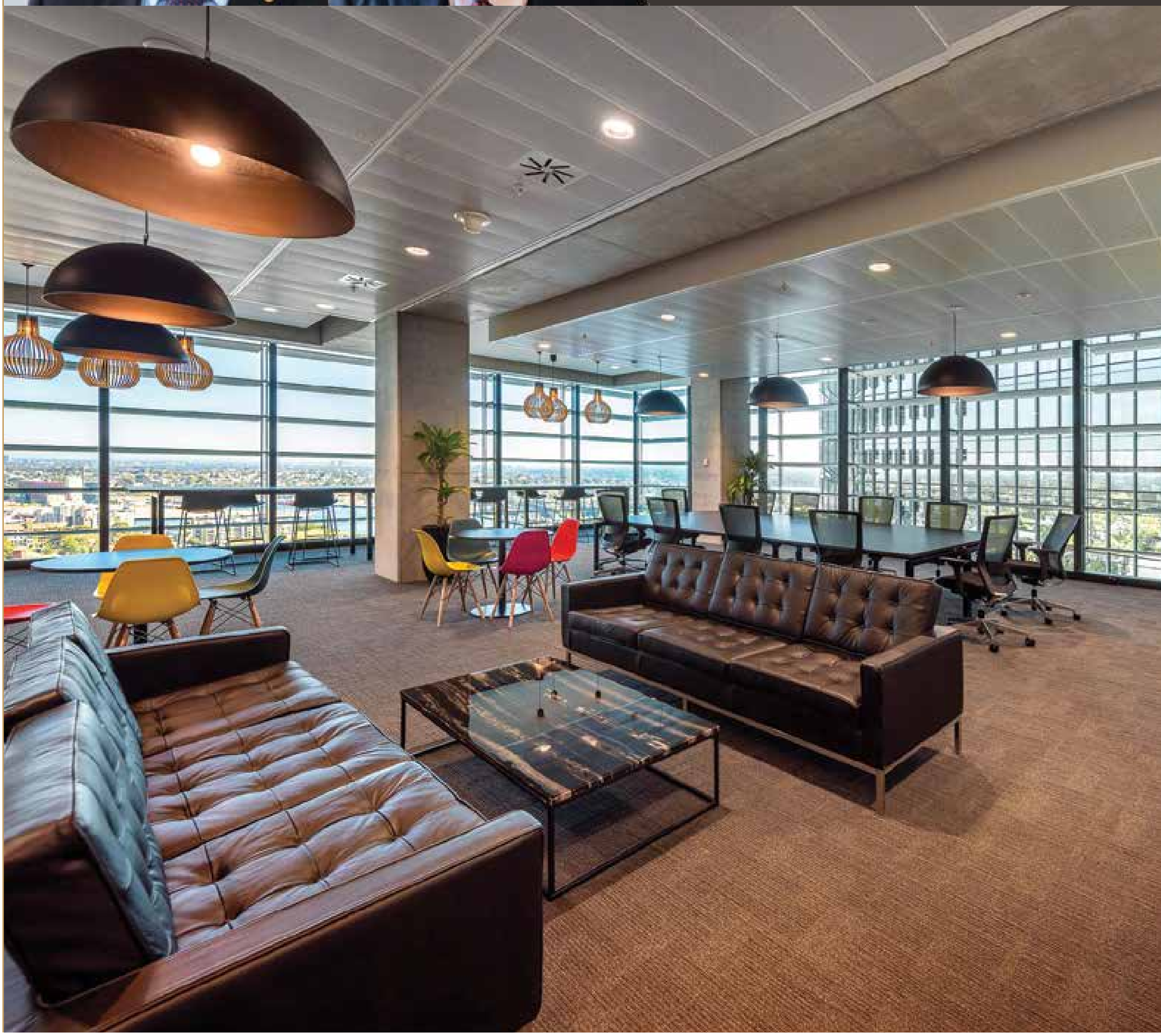
CHAIRMAN AND MANAGING DIRECTOR'S REVIEW

For the 2020 Financial Year



Dear shareholders,

We are pleased to present the Victory Offices Limited Annual Report for the year ended 30 June 2020.

It is no surprise that the 2020 financial year has been a challenging one for the Company. Victory Offices performed well up until early March 2020 and was then significantly impacted by the COVID-19 pandemic. In spite of the COVID impact, the strong results up until March 2020 meant the Company only recorded an underlying loss after tax of $0.4 million for the 2020 financial year.

Victory Offices has witnessed a similar impact to what is being seen across the economy. The pandemic has been particularly challenging for our team and clients. Although office buildings remained open in March 2020 when the pandemic first hit, the government directive to work from home wherever possible, impacted heavily. This resulted in revenue falling immediately to approximately 20% of pre-COVID levels.

Pleasingly, the Victory Offices team has managed to adapt quickly to the changing circumstances that vary across Australia, according to each state government restrictions. Since March 2020, COVID-safe practices have been a high priority in each location. Safe practices have been implemented across the portfolio effectively and in-line with regulations. All Victory Offices employees, regardless of position from top to bottom, have been working for reduced pay (with most on reduced hours) and we are very grateful for their support of the business during this period.

In response to the pandemic impact, we ensured that there was a strong focus on capital management and were pleased to close a well supported entitlement offer in early July 2020. The entitlement offer raised $14.6 million (net of costs) and has strengthened the balance sheet and will fund working capital requirements as we navigate through continued pandemic restrictions.

We remain cautiously optimistic of a steady increase in occupancy during the 2021 financial year. We are cognisant that this might be a 'two speed' increase. States less affected by the pandemic are witnessing encouraging steady growth as they slowly return towards normal business. Victorian locations will most likely open in a meaningful way post-Christmas 2020. We are anticipating a gradual increase in occupancy in line with industry studies that draw attention to modified work environments and flexible employment attitudes.

As the economy adjusts to working with COVID-19, so too will Victory Offices also adjust. International and domestic studies completed during the COVID era support the view that flexible workspaces will become more strategically significant. The service offering from Victory Offices will become a more attractive and efficient model as businesses decide their future workplace options.

We are committed to the challenge of navigating through the remainder of the 2021 financial year with a view to returning to profitability in the 2022 financial year.

Hon Steve Bracks AC
Chairman

30 September 2020

Dan Baxter
Managing Director / CEO

30 September 2020

DIRECTORS' REPORT

For the Year Ended 30 June 2020

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 2020.

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

Tadeusz Chwasta

Shane Tanner

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 loss of the consolidated entity for the financial year after provision for income tax was $8,069,375 (2019: $9,596,498 profit).

DIVIDENDS

There were no dividends paid during the year ended 30 June 2020.

REVIEW OF OPERATIONS

Refer to the detailed comments in the Operating and Financial Review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The consolidated entity has been significantly impacted by COVID-19, refer to detailed comments in the Operating and Financial Review.

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 10 July 2020, the Company settled an entitlement offer to raise $15,337,500 by issuing 40,900,000 ordinary shares at 37.5 cents per share. Net of costs the entitlement offer raised $14,558,213.

Since the end of the financial year and up until the date of this report the consolidated entity has negotiated further rent relief in relation to its leases. As a result of these negotiations the following will be impacted within the 2021 financial year pursuant to 'AASB 2020-4 Covid-19-Related Rent Concessions': rent concession income of $413,202 will be recognised; and lease modifications resulting in an increase to right-of-use assets of $1,666,258 and corresponding increase to lease liabilities of $1,253,056 will be recognised.

In response to the ongoing COVID-19 pandemic, the Victorian Government introduced stage 4 lockdowns in August 2020 forcing the closure of the consolidated entities' Victorian locations. The impact of the COVID-19 pandemic remains ongoing and it is not practicable to estimate and quantify the potential impact after the reporting date as it is dependent on many factors outside of the control of the consolidated entity including the length of the Victorian restrictions.

No other matters or circumstance has arisen since 30 June 2020 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

The consolidated entity 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. Given the impact of COVID-19 there have been delays in the roll-out of new locations, as noted in the Operating and Financial Review.

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 two 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; a non-executive Director of Jardine Lloyd Thomson Australia and 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. 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: 25,967,042

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 Cronos Australia Limited (ASX: CAU). Formerly he was Chairman of Vision Eye Institute (ASX: VEI), Funtastic Limited (ASX: FUN) and Rhythm Biosciences Limited (ASX: RHY), 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
Cronos Australia Limited

Former directorships (in the last 3 years):
Zenitas Healthcare Limited (delisted 12 December 2018)
Funtastic Limited (resigned 31 July 2019)
Rhythm Biosciences Limited (resigned 25 October 2019)

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

Interests in shares: Nil

COMPANY SECRETARY

Mr Geoff Hollis

Company Secretary

Geoff previously spent 8 years with a fast growing ASX listed provider of residential accommodation for over 50's. Geoff is experienced in capital and debt raisings along with ongoing investor relations function in addition to other CFO and Company Secretarial experience required for an ASX listed entity on a growth journey. Geoff is also a member of the Corporate Governance Institute and Chartered Accountants Australia and New Zealand.

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 2020, 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	8	8	n/a	n/a	n/a	n/a
Dan Baxter	8	8	n/a	n/a	n/a	n/a
Alan Jones	8	8	2	2	2	2
Ted Chwasta	8	8	2	2	2	2
Shane Tanner	8	8	2	2	2	2

CORPORATE GOVERNANCE

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

OPERATING AND FINANCIAL REVIEW

Revenue from suite services was $42.3 million in the 2020 financial year (2019: $47.0 million). The impact of COVID-19 had a significant impact on revenues in the fourth quarter of the 2020 financial year. Over 90% of revenues for the 2020 financial year were incurred prior to 31 March 2020.

Net loss after tax for the 2020 financial year was $8.1 million (2019: $9.6 million profit).

Underlying net loss after tax for the 2020 financial year was $0.4 million (2019: $9.6 million profit). Underlying net loss after tax excludes the impact of impairment of receivables and impairment of assets as well as adjusting for Jobkeeper subsidy and rent concession income.

A provision for impairment of assets has been identified for $8.5 million ($6.0 million after tax) across the portfolio after performing value-in-use calculations. The impairment provision is non-cash and will result in a reduced depreciation charge going forward. The impairment provision was required, in part, due to having reflected a significant right of use asset pursuant to the requirements of AASB 16 Leases and AASB 136 Impairment. All locations are providing a positive value-in-use however a very small number of locations have a value not in excess of the carrying value of the cash generating unit due to, in part, the current and forecast short-term trading conditions.

Cash balances were $0.7 million as at 30 June 2020. On 10 July 2020, the Company settled an entitlement offer to raise $15.34 million by issuing 40.9 million ordinary shares at 37.5 cents per share. Net of costs the entitlement offer raised $14.56 million to strengthen the balance sheet and provide working capital for the 2021 financial year.

The Board was pleased with the support provided by existing and new shareholders in the recent entitlement offer. The entitlement offer has strengthened the balance sheet and will fund working capital requirements throughout the 2021 financial year.

COVID-19

COVID-19 has had a significant and unprecedented impact on the flexible workspace industry. While the first three quarters of the 2020 financial year were profitable the impact of COVID-19 was felt from late March. Since late March occupancy and revenues have been severely impacted.

The Company has been proactive in managing the impact of COVID-19 by implementing various measures:

- The Company completed a capital raising providing funds, net of costs, of $14.56 million on 10 July 2020 to strengthen the balance sheet and provide working capital;
- The Company took immediate steps to introduce a number of cost saving measures, including reducing the workforce, introduction of salary reduction (from the CEO down) of approximately 40%, reduction in discretionary spending and a focus on cost control;
- Utilisation of various government legislative support measures such as Jobkeeper subsidy and waiver and / or deferrals of lease rentals. Negotiations are continuing with landlords, with approximately 60% of locations resolved favorably to date; and
- The Company has delayed any planned capital expenditure until economic and trading conditions show an appropriate level of improvement.

The Company has been working closely with our customers and providing them with the necessary support to manage through the impacts of COVID-19. Despite the ongoing challenges of COVID-19 the Company is cautiously optimistic of a steady increase in occupancy during the remainder of the 2021 financial year.

The Company currently has 23 locations that are (or have been) open for business. Of these 15 are Victorian locations that are currently in hibernation due to lockdown measures. There are two locations yet to be opened where fit-out works have been substantially completed. A further five locations are leased with minimal or no fit-out works yet to be completed. The Company has been successful in negotiating some rent deferrals in relation to these locations however is considering whether any rationalisation of any of these locations is appropriate. The Company will take a cautious approach in commencing any fit-out capital expenditure in the 2021 financial year.

OUTLOOK AND RISKS

OUTLOOK

The 2021 financial year is expected to be challenging. The current lockdown restrictions in Victoria are having an adverse effect on short-term revenue both in Victoria and the rest of Australia as all Australians assess the 'second wave' of COVID-19. Previously, the board was optimistic that the business will begin to see a recovery (Australia wide) commencing from October 2020. Recent announcements in Victoria suggest that there may not be a meaningful return of workers to office buildings for the remainder of 2020. The board remains cautiously optimistic that non-Victorian locations will begin to see a recovery from October 2020. The timing of the re-opening of Victorian locations remains uncertain although we are expected to be open prior to December based on current guidelines.

The board is cognisant that there is likely to be resistance from some employers and employees to return to 'the office' as well as the impact of social distancing restrictions. The Company is forecasting a gradual recovery in trading during the 2021 financial year (particularly in the second-half) and is anticipating that the 2022 financial year will see a return to profitability.

As COVID-19 becomes more manageable and better controlled, the Directors of Victory Offices Limited are of the view that flexible workspaces will become more strategically important to the way the world does business. Victory's service offering will become more attractive to businesses when they decide how to establish a more efficient workplace environment as workers return from working from home.

KEY RISKS

The Company's key risks include:

COVID-19

The COVID-19 pandemic has had a significant impact on Victory Offices business and the serviced offices industry. The Government's measures to limit the transmission of the virus (including social distancing, quarantine and self-isolation policies and the prohibition on non-essential services) have had a material adverse impact on Victory Offices' operations and will continue to do so in the near future, in that businesses are unable to utilise Victory Offices services while the restrictions remain in place.

While the board considers that demand for serviced offices may increase after the restrictions are lifted and the spread of the virus is eliminated or contained, on the basis that businesses may look for more flexible and shorter term rental options to limited their exposure in future crises, it is also possible that businesses may seek to promote and utilise working from home options which could result in decreased demand for commercial office space.

FUTURE CAPITAL NEEDS

Victory Offices cannot be certain how long the impact of COVID-19 will continue to limit its ability to operate. Victory Offices Office's ability to raise further capital (equity or debt) within an acceptable time, of a sufficient amount and on terms acceptable to Victory Offices, will vary according to a number of factors including the stock market, industry conditions, government measures to limit the transmission of COVID-19, Victory Offices' relationship with customers and the financial position of Victory Offices' customers. A consequence of the current economic downturn is that it is more difficult to access capital (equity and debt). No assurance can be given that future funding will be available to Victory Offices on favourable terms (or at all).

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.

PERSONNEL RISK

Victory Offices relies upon the performance and expertise of its key management personnel and employees. Any loss or changes to the quantity or quality of the operational services provided by these key personnel, or an inability to attract qualified and motivated personnel to provide these services, could adversely affect Victory Offices financial performance.

The COVID-19 pandemic has resulted in a large proportion of the global workforce working remotely, including Victory Offices' employees and executives. In many jurisdictions in which Victory Offices operates, employees working in non-essential services have already been mandated to work from home by government authorities. It is difficult to determine how long this shift towards working from home will continue, as this will depend to a large extent on factors beyond the Company's control, including the incidence and spread of COVID-19, government policy, health authority recommendations and community sentiment. While having its employee work from home allows Victory Offices to continue operations during the global pandemic, it can have implications on productivity, morale, collaboration and ability to retain and hire staff. The shift to working from home can also impact Victory Offices' relationships with its customers.

Any breakout of COVID-19 within the workforce of Victory Offices or its customers or disruption caused to operations as a result of the Company's remote working arrangements could have an adverse effect on the operating and financial performance of the Company.

INABILITY TO SECURE NEW LOCATIONS

Victory Offices ability to achieve future growth will depend 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 financial position of Victory Offices.

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

Victory Offices does not own freehold land, Rather, Victory Offices 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. This risk has materialised as a result of COVID 19 outbreak and could materialise again in the future as a result of other events or factors.

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; and
- 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

Whilst there are incentives in place for wider employees, remuneration for executives is not currently linked to the performance of the consolidated entity. The HR and Remuneration Committee has commenced a review of industry standards and the potential to implement an incentive plan consistent with practices amongst other ASX companies of a similar size.

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:

- **Stephen Bracks** – Non-Executive Chairman
- **Dan Baxter** – Managing Director & Chief Executive Officer
- **Alan Jones** – Non-Executive Director
- **Ted Chwasta** – Non-Executive Director
- **Shane Tanner** – Non-Executive Director

And the following persons:

- **Manisha Angirish** – Chief Operating Officer
- **Geoff Hollis** – Chief Financial Officer
- **George Paolucci** – Chief Information Officer

	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	
2020	**CASH SALARY AND FEES $**	**ANNUAL LEAVE $**	**NON-MONETARY $**	**SUPER-ANNUATION $**	**LONG SERVICE LEAVE $**	**TOTAL $**
Non-Executive Directors:						
S Bracks	45,662	-	-	4,338	-	50,000
A Jones	35,388	-	-	3,362	-	38,750
T Chwasta	35,388	-	-	3,362	-	38,750
S Tanner	41,096	-	-	3,904	-	45,000
Executive Director:						
D Baxter *	438,492	18,556	-	24,782	37,673	519,613
Other Key Management Personnel:						
M Angirish *	271,158	11,645	-	25,760	8,587	317,150
G Hollis *	222,347	(1,450)	-	21,107	1,369	243,372
G Paolucci *	144,716	(1,289)	-	13,748	5,220	162,395
	1,234,247	27,572	-	100,363	52,849	1,415,031

* Remuneration was reduced from 1 April 2020 to 30 June 2020 to provide support to the Company due to the impacts of COVID-19

DETAILS OF REMUNERATION (CONTINUED)

AMOUNTS OF REMUNERATION (CONTINUED)

	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	
2019	CASH SALARY AND FEES $	ANNUAL LEAVE $	NON-MONETARY $	SUPER-ANNUATION $	LONG SERVICE LEAVE $	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

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:

	2020 $	2019 $	2018 $
Sales revenue	42,309,916	46,985,383	29,402,818
EBITDA	14,837,822	33,641,546	21,429,159
EBIT	(2,690,660)	20,737,056	13,531,688
Profit (loss) after tax	(8,069,375)	9,596,498	5,742,519

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	25,901,500	65,542	-	25,967,042
A Jones	50,000	-	-	50,000
T Chwasta	-	-	-	-
S Tanner	-	-	-	-
M Angirish	-	-	-	-
G Hollis	-	-	-	-
G Paolucci	29,500	-	-	29,500
	25,981,000	65,542	-	26,046,542

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

Refer to Note 22 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 has paid insurance premiums in respect of Directors' and officers' liability and legal expenses insurance contracts, for current and former Directors, secretaries and officers of the Company and its controlled entities. The insurance policies prohibit disclosure of the nature of the liability insured against and the amount of the premiums.

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 $7,000 (2019: $ 81,500) and are outlined in note 23 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 23 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 15 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

30 September 2020

AUDITOR'S INDEPENDENCE DECLARATION

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
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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 2020, 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: 30 September 2020
Melbourne, Victoria

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FINANCIAL STATEMENTS

For the year ended 30 June 2020

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	NOTE	2020 $	2019 $
Revenue			
Revenue from continuing activities	3	42,309,916	46,985,383
Other revenue	3	1,433,221	17,456
Interest income		21,005	35,765
Service charges		-	584,093
		43,764,142	**47,622,697**
Operating Expenses			
Employee benefits expense		(7,554,493)	(6,898,921)
Depreciation and amortisation expense	4	(17,528,483)	(12,904,490)
Other administration expenses		(4,661,705)	(3,845,561)
Occupancy costs		(4,264,176)	(3,200,903)
Impairment of receivables	4	(3,899,687)	-
Impairment of assets	4	(8,525,253)	-
Finance costs	4	(8,904,306)	(7,292,811)
		(55,338,103)	**(34,142,687)**
Profit (loss) before Income Tax Expense		**(11,573,961)**	**13,480,010**
Income tax expense (benefit)	8	3,504,586	(3,883,512)
Profit (loss) after Income Tax Expense		**(8,069,375)**	**9,596,498**
Other comprehensive income		-	-
Total Comprehensive Income (loss) for the year Attributable to the Owners		**(8,069,375)**	**9,596,498**

		CENTS	CENTS
Basic earnings (loss) per share	15	(19.73)	35.97
Diluted earnings (loss) per share	15	(19.73)	35.97

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTE	2020 $	2019 $
Current Assets			
Cash and cash equivalents	5	670,702	3,198,805
Trade and other receivables	6	4,618,626	1,080,232
Other financial assets	7	2,041,864	20,135,903
Total Current Assets		7,331,192	24,414,940
Non-Current Assets			
Other financial assets	7	28,904,258	10,795,496
Deferred tax assets	8	11,320,992	5,374,869
Plant and equipment	9	180,639,619	139,452,193
Total Non-Current Assets		220,864,869	155,622,558
Total Assets		**228,196,061**	**180,037,498**
Current Liabilities			
Trade and other payables	10	4,392,682	2,926,458
Provisions	11	323,527	336,775
Other liabilities	13	3,207,404	2,911,899
Lease liabilities	16	12,371,506	5,888,004
Current tax liabilities	8	2,598,515	156,978
Total Current Liabilities		**22,893,634**	**12,220,114**
Non-Current Liabilities			
Trade and other payables	10	13,160,127	11,098,263
Provisions	11	2,402,984	1,047,108
Borrowings	12	2,566,085	-
Other liabilities	13	302,257	354,776
Lease liabilities	16	150,257,095	110,633,983
Total Non-Current Liabilities		**168,688,548**	**123,134,130**
Total Liabilities		**191,582,182**	**135,354,244**
Net Assets		**36,613,879**	**44,683,254**
Equity			
Issued capital	14	28,164,585	28,164,585
Retained earnings		8,449,294	16,518,669
Total Equity		**36,613,879**	**44,683,254**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	NOTE	ORDINARY SHARES $	RETAINED EARNINGS $	TOTAL $
Balance as at 1 July 2018		2	6,922,171	6,922,173
Total Comprehensive Income		-	9,596,498	9,596,498
Transactions with owners in their capacity as owners				
Issued share capital, net of costs	14	28,164,583	-	28,164,583
Balance as at 30 June 2019		**28,164,585**	**16,518,669**	**44,683,254**
Balance as at 1 July 2019		28,164,585	16,518,669	44,683,254
Total Comprehensive Loss		-	(8,069,375)	(8,069,375)
Transactions with owners in their capacity as owners		-	-	-
Balance as at 30 June 2020		**28,164,585**	**8,449,294**	**36,613,879**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	NOTE	2020 $	2019 $
Cash Flows from Operating Activities			
Receipts from customers (inc GST)		39,916,774	52,808,410
Jobkeeper subsidy		667,500	-
Payments to suppliers and employees (inc GST)		(18,670,331)	(19,260,901)
Interest received		21,005	35,765
Interest paid (includes leases)		(7,024,533)	(5,722,424)
Net cash inflow from operating activities	17	**14,910,415**	**27,860,850**
Cash Flows from Investing Activities			
Proceeds / (payments) for term deposits		18,079,314	(20,985,780)
Payments for bank guarantees		(18,094,037)	(1,371,741)
Purchase of plant and equipment		(17,173,607)	(26,225,730)
Net cash outflow from investing activities		**(17,188,330)**	**(48,583,251)**
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		(450,694)	(4,963,531)
Receipt of funds from related parties		5,036,317	1,975,015
Proceeds from incentives received from landlords		-	1,755,033
Payment of hire purchase liabilities		-	(57,478)
Payments for lease liabilities		(4,835,810)	(4,399,090)
Net cash inflow (outflow) from financing activities		**(250,187)**	**22,474,532**
Net increase (decrease) in cash and cash equivalents		(2,528,103)	1,752,131
Cash and cash equivalents at start of year		3,198,805	1,446,674
Cash and Cash Equivalents at end of year	5	**670,702**	**3,198,805**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

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 yearspresented, unless otherwise stated.

The financial statements of Victory Offices Limited & Controlled Entities (the "consolidated entity") for 30 June 2020 were authorised for issue by the Directors on 30 September 2020.

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) GOING CONCERN

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

The impact of COVID-19 has resulted in significant restrictions and impacts on economic activity and the ability for workers to access offices. There has been a fall in demand for serviced offices with uncertainty surrounding the timing of the rebound which has and is continuing to impact the consolidated entity's operations.

As disclosed in the financial statements, the consolidated entity incurred a loss of $8,069,375 for the year ended 30 June 2020. As at that date the consolidated entity had net current liabilities of $15,562,442.

Whilst the economic impacts of COVID-19 have been significant and are still uncertain, the Directors remain confident that the consolidated entity will be able to continue as a going concern. This assumes that the consolidated entity will be able to meet its debt as and when they fall due for a period of 12 months from the date of signing the financial statements.

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- the consolidated entity completed a capital raising providing funds, net of costs, of $14,598,213 on 10 July 2020;
- the consolidated entity has delayed any planned capital expenditure until economic and trading conditions show an appropriate level of improvement;
- the consolidated entity took immediate steps to introduce a number of cost saving measures, including reducing the workforce; introduction of salary reductions in the form of unpaid leave days; reduction in discretionary spending and a focus on cost control; and
- there have been various government legislative support measures such as Jobkeeper subsidy and waiver and/or deferrals of lease liabilities to further assist with their cashflow management.

C) 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. For other standards not adopted early and the impact of these on the consolidated entity refer to note 26 for managements interpretations of the new or amended standards.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Victory Offices Limited as at 30 June 2020 and the results of all subsidiaries for the year then ended. Victory Offices Limited 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.

E) GOODS AND SERVICES TAX

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 thesecircumstances the GST is recognised as part ofthecost 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.

F) 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.

G) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

H) OPERATING SEGMENTS

Identification of reportable 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.

I) FAIR VALUE MEASUREMENT

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

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

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

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

No assets are held at fair value.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(iii) Useful lives of plant and equipment

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its 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) Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

(vi) Impairment of non-financial assets

In assessing impairment an estimate is made of the recoverable amount of each asset or cash-generating unit based on a discounted cashflow analysis of expected cashflows over the life of the asset. Estimation uncertainty relates to assumptions about future operating results and the determination of an appropriate discount rate.

As a consequence of COVID-19 significant judgement has been exercised in determining key assumptions for impairment testing.

Refer to Note 9 for further discussion and assumptions relating to impairment of assets.

(vii) 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.

(viii) Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates.

(ix) Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 6, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 REVENUE

	2020 $	2019 $
Revenue from continuing operations:		
Suite services	42,309,916	46,913,383
Hire of plant and equipment	-	72,000
	42,309,916	46,985,383
Other revenue:		
Jobkeeper subsidy	667,500	-
Rent concession income	756,834	-
Other income	8,887	17,456
	1,433,221	17,456
	43,743,137	**47,002,838**

DISAGGREGATION OF REVENUE

The disaggregation of revenue from contracts with customers is as follows:

	2020 $	2019 $
Timing of revenue recognition		
Services transferred over time	38,755,509	42,148,555
Services transferred at a point in time	3,554,407	4,836,828
	42,309,916	**46,985,383**

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.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of goods was recognised when the significant risks and rewards of ownership and been transferred to the customer, recovery of the consideration was probably, the associated costs and possible return of goods could be estimated reliably, there was no continuing management involvement with the goods and the amount of revenue could be measured reliably. Revenue from rendering of services was recognised in proportion to the stage of completion of the work performed at the reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ACCOUNTING POLICY - REVENUE (CONTINUED)

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.

JOBKEEPER SUBSIDY

Jobkeeper subsidy revenue is recognised when it is received.

RENT CONCESSION INCOME

Rent concession income is recorded pursuant to 'AASB 2020-4 Covid-19-Related Rent Concessions', which has been early adopted. The practical expedient in paragraph 46A has been applied to each relevant lease where a rental concession was agreed prior to 30 June 2020.

OTHER REVENUE

Other revenue is recognised when it is received or when the right relevant performance obligations 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 EXPENSES

	2020 $	2019 $
Depreciation		
Right-of-use asset	11,994,206	9,346,429
Motor vehicles	-	56,359
Plant, equipment and other assets	5,534,277	3,501,703
	17,528,483	12,904,490
Finance costs		
Interest and finance charges	187,465	246,387
Interest payable on related party loan	42,326	-
Unwinding of the lease liability interest (refer to note 16)	8,674,515	7,046,424
	8,904,306	7,292,811
Trade receivables		
Impairment of receivables	3,899,687	-
Plant and equipment		
Impairment of assets	8,525,253	-

ACCOUNTING POLICY - EXPENSES

Depreciation, finance costs, impairment of receivables and impairment of assets accounting policies refer to notes 6, 9, 12 and 16 respectively for further details.

5 CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Cash at bank	654,487	3,195,246
Cash on hand	8,879	3,559
Term deposits	7,336	-
	670,702	**3,198,805**

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

	2020 $	2019 $
Trade receivables	6,933,556	272,660
Less: Allowance for expected credit losses	(3,899,687)	-
Sundry debtors and prepayments	1,584,757	807,572
	4,618,626	1,080,232

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The consolidated entity has recognised a loss of $3,899,687 in profit or loss in respect of the expected credit losses for the year ended 30 June 2020. This is the first year the consolidated entity has recognised an allowance for expected credit losses.

The ageing of receivables and allowance for expected credit losses ('ECL') provided for above are as follows:

	ECL RATE %	CARRYING AMOUNT $	ALLOWANCE FOR ECL $
Consolidated - 2020			
Current	11%	148,450	16,101
30-90 days	35%	197,718	68,535
90+ days	58%	6,587,388	3,815,051
Total		6,933,556	3,899,687

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. There have been no debts written off in the current of previous financial year.

ACCOUNTING POLICY - 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 (impairment). 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 OTHER FINANCIAL ASSETS

	2020 $	2019 $
Current		
Term Deposits	2,041,864	20,135,903
Non - current		
Term Deposits for bank guarantees	28,904,258	10,795,496

ACCOUNTING POLICY - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 INCOME TAX RECONCILIATION

		2020 $	2019 $
(a)	**The major components of tax expense (benefit) comprise:**		
	Current tax expense	2,217,367	4,440,790
	Deferred tax expense	(5,946,123)	(235,646)
	(Over) under provision for income tax in prior year	224,170	(321,632)
	Income Tax expense (benefit)	(3,504,586)	3,883,512
(b)	**Reconciliation of income tax to accounting profit (loss)**		
	Profit (loss) before income tax expense	(11,573,961)	13,480,010
	Prima facie income tax on profit (loss) before tax @ 30%	(3,472,188)	4,044,003
	Add / deduct		
	Non-deductible expenses	1,860	5,325
	Capital gains	-	155,816
	Deferred tax adjustments	(258,428)	-
	(Over) under provision for income tax in prior year	224,170	(321,632)
	Income Tax expense (benefit)	(3,504,586)	3,883,512
(c)	**Recognised deferred tax asset**		
	Employee benefits provision	132,451	101,032
	Make good provision	685,503	-
	Lease liability	47,578,365	34,956,598
	Impairment of assets	2,557,576	-
	Allowance for expected credit losses	1,169,906	-
	Black hole expenditure	241,821	361,061
	Other	357	973
	Deferred tax asset balance	52,365,979	35,419,664
(d)	**Recognised deferred tax liabilities**		
	Right of use asset	41,044,987	29,401,525
	Plant and equipment	-	643,270
	Deferred tax liabilities balance	41,044,987	30,044,795
	Net deferred tax assets	11,320,992	5,374,869

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 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	(2,144,233)	-	(643,270)
Right of use asset / Lease liability	(499,142)	(13,307,269)	11,643,462
Impairment of assets	(8,525,253)	(2,557,576)	-
Allowance for expected credit losses	(3,899,687)	(1,169,906)	-
Black hole expenditure	397,466	119,240	-
Employee benefits provision	(104,729)	(31,419)	-
Other	2,052	616	-
		(16,946,315)	11,000,192
Net impact of movements in deferred tax balances on income tax expense (benefit)			(5,946,123)

ACCOUNTING POLICY - INCOME TAX RECONCILIATION

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)

9 PLANT AND EQUIPMENT

	2020 $	2019 $
Office furniture		
Cost	7,301,328	6,528,358
Accumulated depreciation	(1,188,551)	(499,815)
Impairment	(275,490)	-
	5,837,287	6,028,543
Office equipment		
Cost	10,991,908	10,525,955
Accumulated depreciation	(2,349,051)	(1,099,050)
Impairment	(389,515)	-
	8,253,342	9,426,905
Computer equipment		
Cost	2,551,341	2,156,859
Accumulated depreciation	(782,330)	(377,746)
Impairment	(79,726)	-
	1,689,285	1,779,113
Computer software		
Cost	202,722	141,849
Accumulated depreciation	(96,502)	(53,863)
Impairment	(4,787)	-
	101,433	87,986
Leasehold Improvements		
Cost	41,265,629	26,773,214
Accumulated depreciation	(5,943,190)	(2,967,758)
Impairment	(1,591,906)	-
	33,730,533	23,805,456
Artwork		
Cost	405,451	325,414
Accumulated depreciation	(10,506)	(6,308)
Impairment	(17,799)	-
	377,146	319,106
Right-of-use asset		
Cost	167,505,608	116,625,486
Accumulated depreciation	(30,688,986)	(18,620,402)
Impairment	(6,166,030)	-
	130,650,592	98,005,084
	180,639,619	139,452,193

The consolidated entity leases offices under agreements of between five to eleven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal (if leases are renewed), the terms of the lease will be renegotiated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 PLANT AND EQUIPMENT (CONTINUED)

IMPAIRMENT OF ASSETS

The total written down value for right-of-use assets (pre-impairment) is $136.8 million. The total written down value for all other plant and equipment (pre-impairment) is $52.3 million.

Cash-generating-units have been identified for the purposes of impairment testing representing the location of a lease or a combination of leases (if at the same address).

Value-in-use calculations have been used as the basis for the assessment of impairment. Value-in-use calculations are based on a discounted cashflow analysis of expected cash inflows and cash outflows over the remaining expected use of the cash-generating-units (remaining lease terms with an assessment as to the likelihood of exercising an option if applicable). No terminal values have been used.

The key assumptions used in the value-in-use calculations are:

- no growth in revenue rates in FY2021 and FY2022;
- gradual increase in occupancy in FY2021 growing to between 55-75% (depending on location) by June 2021 (below pre-COVID levels);
- occupancy between 60% and 85% (depending on location) in FY2022 (below pre-COVID levels);
- occupancy between 60% and 95% (depending on location) from FY2023 onwards (pre-COVID levels);
- revenue growth of 3% per annum from FY2023 onwards;
- growth in lease costs as per lease agreements (between 3-4% per annum), growth in other costs at 3% per annum; and
- pre-tax discount rates between 4.5% and 6.3% depending on location.

An impairment loss of $8.5 million (in relation to plant and equipment) has been recognised in profit or loss during the year. This is the first reporting period where an impairment of assets has been evident.

The impairment loss recognised of $8.5 million relates to two cash-generating-units being:

- 180 St Kilda Road, St Kilda (impairment of $7.6 million); and
- 100 Mount St, North Sydney (impairment of $1.0 million).

The recognition of an impairment loss as both cash-generating-units is mainly due to the impact on short-term cash flows of the COVID-19 pandemic.

The recoverable amounts of each cash-generating-units are: 180 St Kilda Road, St Kilda (recoverable amount of $9.6 million) and 100 Mount St, North Sydney ($25.3 million).

The discount rates used to determine the value in use were 4.8% (180 St Kilda Rd, St Kilda) and 4.5% (100 Mount St, North Sydney).

SENSITIVITIES

Based on the assumptions above the total value-in-use calculations has a positive (net) amount of $193.3 million. Impairment in this scenario was $8.5 million relating to the two locations referred to above. The key input into the value-in-use models is revenue and sensitivites have been presented below.

Revenue +10%

If revenues year-on-year were 10% higher (whether due to occupancy or price increases) the total value-in-use calculations has a positive (net) amount of $240.6 million. Impairment in this scenario would be $5.1 million and confined to the St Kilda location only.

Revenue -10%

If revenues year-on-year were 10% lower (whether due to occupancy or price decreases) the total value-in-use calculations has a positive (net) amount of $139.0 million. Impairment in this scenario would be $14.7 million relating to the two locations as per above.

Revenue -20%

If revenues year-on-year were 20% lower (whether due to occupancy or price decreases) the total value-in-use calculations has a positive (net) amount of $88.2 million. Impairment in this scenario would be $20.9 million. Impairment would be across three locations in this scenario.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 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)	Useful Life (prior year)
Office furniture	10	10
Office equipment	5 & lease	5
Computer equipment	4 to 5	5
Computer software	4	3
Leasehold Improvements	Life of lease	Life of lease
Artwork	100	40
Right-of-use asset	Life of lease	Life of lease

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. The useful lives were amended during the financial year to better reflect the expected use of the plant and equipment and to provide more consistency within the fixed asset classes. This results in a lower depreciation charge in the 2020 financial year.

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.

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

RIGHT-OF-USE ASSETS

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 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 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
Balance at 1 July 2019	6,028,543	-	9,426,905	1,779,113	87,986	23,805,456	319,106	98,005,084	-
Additions	776,500	-	475,599	398,800	60,873	14,934,793	80,037	50,805,744	67,532,346
Disposals - written down value	(3,530)	-	(8,798)	(4,141)	-	(274,715)	-	-	(291,184)
Impairment	(275,490)	-	(389,515)	(79,726)	(4,787)	(1,591,906)	(17,799)	(6,166,030)	(8,525,253)
Depreciation expense	(688,736)	-	(1,250,849)	(404,761)	(42,639)	(3,143,094)	(4,197)	(11,994,206)	(17,528,483)
Balance at 30 June 2020	5,837,287	-	8,253,342	1,689,286	101,433	33,730,533	377,146	130,650,592	180,639,619

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 TRADE AND OTHER PAYABLES

	2020 $	2019 $
Current		
Trade payables	3,295,857	2,325,017
GST and PAYG withholding payable	779,909	527,006
Accrued expenses	316,916	74,435
	4,392,682	2,926,458
Non-Current	11,109,376	9,067,512
Amounts due to related parties	2,050,751	2,030,751
Related party income tax payable	13,160,127	11,098,263

ACCOUNTING POLICY - TRADE AND OTHER PAYABLES

CURRENT

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.

NON-CURRENT

These amounts represent liabilities payable to related parties. Refer to notes 18 'Financial Instruments' and 22 'Related Party Transactions' for further information.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 PROVISIONS

	2020 $	2019 $
Current		
Provision for annual leave	323,527	336,775
	323,527	336,775
Non - current		
Provision for long service leave	117,975	-
Provision for make good on leased premises	2,285,009	1,047,108
	2,402,984	1,047,108
Movement in provision for make good on leased premises		
Carrying amount at the start of the year	1,047,108	648,005
Additional provisions recognised	659,029	399,103
Change in discount rates	578,872	-
Carrying amount at the end of the year	2,285,009	1,047,108

ACCOUNTING POLICY - PROVISIONS

PROVISIONS

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)

12 BORROWINGS

	2020 $	2019 $
Non-current		
Loan payable to related party	2,566,085	-

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.

Non-current borrowings are unsecured loans and have been provided to a director related entity and subsidiaries on an arm's length basis. The loan has a coupon of 5% p.a. accruing monthly and capitalising until repayment commence. Quarterly repayments will commence on 1 July 2021 amortising over 24 months. Interest of $42,326 was capitalised against this loan in FY2020. Loans are unsecured and repayable in cash. The loan of $2,523,759 was provided in March 2020 to fund capital expenditure commitments.

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; and
- finance lease charges.

13 OTHER LIABILITIES

	2020 $	2019 $
Current		
Client deposits	3,092,015	2,615,540
Contractual liabilities	115,389	296,359
	3,207,404	2,911,899
Non current		
Client deposits	302,257	354,776
	302,257	354,776

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)

14 CONTRIBUTED EQUITY

	2020 SHARES	2019 SHARES	2020 $	2019 $
Ordinary shares	40,900,000	40,900,000	28,164,585	28,164,585
Movements in Share Capital				
Opening Balance	40,900,000	2	28,164,585	2
Share split - 12 June 2019	-	25,899,998	-	-
Shares issued at $2.00 each - IPO	-	15,000,000	-	30,000,000
Capital raising costs, net of tax	-	-	-	(1,835,417)
Closing Balance	40,900,000	40,900,000	28,164,585	28,164,585

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 2019 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 EARNINGS (LOSS) PER SHARE

	2020 $	2019 $
Earnings (loss) per share for profit (loss) from continuing operations		
Profit (loss) after income tax	(8,069,375)	9,596,498

	NUMBER	NUMBER
Weighted average number of ordinary shares	40,900,000	26,680,822

	CENTS	CENTS
Basic earnings (loss) per share	(19.73)	35.97
Diluted earnings (loss) per share	(19.73)	35.97

ACCOUNTING POLICY - EARNINGS (LOSS) PER SHARE

BASIC EARNINGS (LOSS) PER SHARE

Basic earnings (loss) 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 (LOSS) PER SHARE

Diluted earnings (loss) per share adjusts the figures used in the determination of basic earnings (loss) 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)

16 LEASE LIABILITIES

	2020 $	2019 $
As a lessee		
Right-of-use assets	130,650,592	98,005,084
	130,650,592	98,005,084

The right-of-use asset comprises 23 leased premieses with varying terms between 5 and 11 years.

Information about leases for which the consolidated entity is a lessee is presented below:

	2020 $	2019 $
Right-of-use assets		
Balance at beginning of financial year	98,005,084	76,907,478
Additions	45,604,781	30,444,035
Lease modifications and discount rate adjustments	5,200,963	-
Depreciation charge for the year	(11,994,206)	(9,346,429)
Impairment	(6,166,030)	-
Balance at end of financial year	130,650,592	98,005,084
Lease liabilities		
Maturity analysis - contractual undiscounted cash flows		
Less than one year	21,898,862	13,413,820
One to five years	107,352,607	80,339,831
More than five years	98,326,080	76,008,494
Total undiscounted lease liabilities	227,577,549	169,762,145
Lease liabilities included in the statement of financial position	162,628,601	116,521,987
Current	12,371,506	5,888,004
Non-current	150,257,095	110,633,983
Amounts recognised in profit or loss		
Interest on lease liabilities	8,674,515	7,046,424
Amounts recognised in the statement of cash flows		
Total cash outflow for leases	(11,632,760)	(10,121,514)

The consolidated entity has committed to leases during the year ended 30 June 2020, which have not been reflected within right-of-use assets or lease liabilities as at 30 June 2020 as the locations were not open as at 30 June 2020.

One location has opened in July 2020 whilst it is not certain on the opening dates of other locations due to the impact of COVID-19.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 LEASE LIABILITIES (CONTINUED)

The expected future cash outflows to which the consolidated entity is committed to relating to the leases not yet commenced, that are not reflected in the measurement of the lease liability are as follows:

	2020 $	2019 $
Less than one year	8,127,968	13,413,820
One to five years	53,371,890	80,339,831
More than five years	87,177,382	79,008,494
Total expected future cash outflows	148,677,240	172,762,145

ACCOUNTING POLICY - LEASE LIABILITIES

LEASED OFFICES

The consolidated entity has numerous commercial office leases include leases of shared office spaces.

The non-cancellable period of the leases varies between 1 and 11 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 LEASE LIABILITIES (CONTINUED)

ACCOUNTING POLICY - LEASE LIABILITIES (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.

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using an 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 certain to exercise and extension option, and penalties for early termination of a lease unless the consolidated entity 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 a rate, if there is a change in the consolidated entity's 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 if 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)

17 RECONCILIATION OF THE NET PROFIT (LOSS) TO THE NET CASH FLOW FROM OPERATIONS

	2020 $	2019 $
Net Profit (loss) from continuing activities after income tax	(8,069,375)	9,596,498
Non-cash expense items:		
- depreciation	17,528,483	12,904,490
- rent free incentive periods	-	1,570,387
- rent concession income	(756,834)	-
- interest	1,879,773	-
- impairment of receivables	3,899,687	-
- impairment of assets	8,525,253	-
Changes to assets and liabilities relating to operating activities:		
(Increase)/decrease in trade and other receivables	(6,660,896)	(130,933)
(Increase)/decrease in prepayments and other assets	203,532	(282,561)
(Increase)/decrease in tax assets and liabilities	(3,504,586)	3,883,512
Increase/(decrease) in trade and other payables	1,517,663	(416,612)
Increase/(decrease) in contractual liabilities	(180,970)	150,323
Increase/(decrease) in other liabilities	423,956	443,394
Increase/(decrease) in provisions	104,728	142,352
Net Cash Flow from Operating Activities	**14,910,415**	**27,860,850**
Non-cash investing and financing activities:		
Acquisition of right-of-use lease assets	50,765,626	30,444,035
Disposal of plant and equipment	291,184	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)

18 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 andageing analysisforcreditrisk.

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 monthlybasis.

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. Interest bearing liabilities comprise hire purchase and lease liabilities.

The consolidated entity's cash and cash equivalents and term deposits were $2,712,566 as at 30 June 2020 (2019: $25,074,483). Borrowings and lease liabilities were $165,194,686 as at 30 June 2020 (2019: $116,521,987). An official increase/decrease in interest rates of 100 (2019: 100) basis points would have an (adverse)/favourable effect on profit before tax of $(1,624,821) (2019: ($914,475)) 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 13) 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)

18 FINANCIAL INSTRUMENTS (CONTINUED)

2020	INTEREST RATE %	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		4,392,682	2,050,751	11,109,376	-	17,552,809
Other payables		3,207,404	302,257	-	-	3,509,661
Interest-bearing-fixed rate						
Borrowings	5.0%	-	1,251,065	1,315,020	-	2,566,085
Lease liability	6.3%	21,898,862	20,310,368	87,042,239	98,326,080	227,577,549
Total non-derivatives		29,498,948	23,914,441	99,466,635	98,326,080	251,206,104

As at 30 June 2020 the weighted average interest discount rate for lease liabilities was 6.3% (2019: 6.9%)

2019	INTEREST RATE %	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	-	9,067,512	-	11,993,970
Other payables		2,911,899	354,776	-	-	3,266,675
Interest-bearing-fixed rate						
Borrowings		-	-	-	-	-
Lease liability	6.9%	13,413,820	14,786,406	65,553,425	76,008,494	169,762,145
Total non-derivatives		19,252,177	15,141,182	74,620,937	76,008,494	185,022,790

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)

19 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 subsidiaries of the consolidated entity are listed below.

PARENT ENTITY

Victory Offices Limited

	2020	2019
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%	100%
Victory Offices (Dandenong) Pty Ltd	100%	100%
Victory Offices (Sunshine) Pty Ltd	100%	100%
Victory Offices (420 George) Pty Ltd	100%	100%
Victory Offices (St Kilda) Pty Ltd	100%	100%
Victory Offices (Projects) Pty Ltd	100%	0%
Victory Offices (900 Ann) Pty Ltd	100%	0%
Victory Offices (85 Castlereagh) Pty Ltd	100%	0%
Victory Offices (900 Ann) Pty Ltd	100%	0%
Victory Offices (100 Mount) Pty Ltd	100%	0%
Victory Offices (600 Church) Pty Ltd	100%	0%
Victory Offices (73 Northbourne) Pty Ltd	100%	0%
Victory Offices (254 George) Pty Ltd	100%	0%
Victory Offices (275 George - B) Pty Ltd	100%	0%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 PARENT ENTITY INFORMATION

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

	2020 $	2019 $
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	28,166,097
Total current liabilities	-	-
Total liabilities	1,512	1,512
Total net assets	28,164,585	28,164,585
Total equity	28,164,585	28,164,585

CONTINGENT LIABILITIES

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

CAPITAL COMMITMENTS

The parent entity had no capital commitments as at 30 June 2020 and 30 June 2019.

SIGNIFICANT ACCOUNTING POLICIES

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

21 KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	2020 $	2019 $
Short term employee benefits	1,261,819	1,049,019
Other long term benefits	52,849	-
Post employment benefits	100,363	73,137
	1,415,031	1,122,156

For details of other transactions with key management personnel, refer to Note 22.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 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% (2019: 63.3%) of Victory Offices Limited & Controlled Entities as at 30 June 2020. Refer to note 19. Upon completion of a capital raising in July 2020 Victory Group Holdings ownership percentage reduced to 48.0%.

Interests in subsidiaries are set out in note 19.

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 21.

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:

2020	PURCHASES $	SALES $	OTHER $	RECEIVABLE $	PAYABLE $
KMP related parties					
Dan Baxter - non-interest bearing	-	-	-	-	9,067,512
Dan Baxter - interest bearing	-	-	2,566,085	-	2,566,085
Controlling entities					
Victory Group Holdings Pty Ltd	-	-	20,000	-	2,050,751
Other related parties					
Victory Petroleum	-	-	2,041,864	-	2,041,864
Victory Realty	-	-	450,694	-	-

2019	PURCHASES $	SALES $	OTHER $	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	-	503,760	-	-	-
Victory Constructions	-	150,000	-	-	-
Victory Realty	-	210,000	-	-	-
Victory Metals Australia	-	-	243,947	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 RELATED PARTIES TRANSACTIONS (CONTINUED)

LOANS FROM RELATED PARTIES - NON-INTEREST BEARING

Unsecured loans have been provided from the KMP related parties, controlling entities and other related parties on an arm's length basis. There are no set repayment terms. Loans are unsecured and repayable in cash. No interest is charged due to: $2,050,751 loan from Victory Group Holdings relates to tax liabilities when the consolidated entity was part of the Victory Group Holdings tax consolidated group and is expected to be repaid in 1-2 years with the nature of the loan being a parent subsidiary nature so no interest is considered; $2,041,864 loan from Victory Petroleum relates to working capital and is expected to be repaid in 1-3 years so interest would otherwise have been immaterial; and $9,067,512 loan from Dan Baxter relates to funding of bank guarantees prior to the IPO of the consolidated entity in June 2019 and is considered as part of the founders contribution to initial capital requirements of the consolidated entity with no interest considered.

LOANS FROM KMP RELATED PARTIES - INTEREST BEARING

Unsecured loans have been provided to the ultimate parent entity and subsidiaries on an arm's length basis. The loan has a coupon of 5% p.a. accruing monthly and capitalising until repayment commence. Quaterly repayments will commence on 1 July 2021 amortising over 24 months. Interest of $42,326 was capitalised against this loan in FY2020. Loans are unsecured and repayable in cash. The loan of $2,523,759 was provided in March 2020 to fund capital expenditure commitments.

During the 2020 financial year Dan Baxter paid $nil (2019: $2,778,907) for Bank Guarantees (included on the Statement of Financial Position in Note 7) for new leases with the amount recorded as a related party loan.

OTHER RELATED PARTIES - OTHER TRANSACTIONS

Other transactions during the year with Victory Realty include a short-term transfer of funds and subsequent repayment during the period. Funds ($20,000) were received by the Consolidated entity on behalf of Victory Group Holdings during the period. Funds ($2,041,864) were received by the Consolidated entity from Victory Petroleum to fund cash flow requirements during the year. There were no other transactions with other related parties during the year.

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)

23 REMUNERATION OF AUDITORS

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

	2020 $	2019 $
Audit services		
Audit or review of the financial statements	165,605	162,280
	165,605	162,280
Other services		
Corporate finance fees related to IPO	-	77,000
Taxation advice	7,000	4,500
	7,000	81,500
Total fees	172,605	243,780

24 CAPITAL COMMITMENTS

The consolidated entity had capital commitments of $1,400,625 relating to future fit-out expenditure at 30 June 2020 (2019: $588,438). Refer also to note 16 for lease liability commitments.

25 CONTINGENT LIABILITIES

The consolidated entity has no contingent liabilities at 30 June 2020 or 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

AASB 2018-7 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - DEFINITION OF MATERIAL

The amendments refine the definition of material in AASB 101 to clarify the definition of material and its application by improving the wording and aligning the definition across AASB standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material. The amendment is effective for annual reporting periods beginning on or after 1 January 2020. This amendment is unlikely to impact the financial statements.

AASB 2019-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - REFERENCES TO THE CONCEPTUAL FRAMEWORK

The revised conceptual framework: reintroduces the terms stewardship and prudence; introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces but does not change the distinction between a liability and an equity instrument; removes from the asset and liability definitions references to the expected flow of economic benefits - this lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement; discussed historical cost and current value measures and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability; states that the primary measure for financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability; and discussed uncertainty, derecognition, unit of account, the reporting entity and combined financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2020. The consolidated entity has not yet assessed the impact of the amendments.

AASB 2020-4 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - COVID-19 RELATED RENT CONCESSIONS

This standard amends AASB 16 to provide a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications. The amendment is effective for annual reporting periods beginning on or after 1 June 2020. The consolidated entity has adopted this amendment early within the 2020 financial year.

27 EVENTS AFTER THE REPORTING PERIOD

On 10 July 2020, the consolidated entity settled an entitlement offer to raise $15,337,500 by issuing 40,900,000 ordinary shares at 37.5 cents per share. Net of costs the entitlement offer raised $14,598,213.

Since the end of the financial year and up until the date of this report the consolidated entity has negotiated further rent relief in relation to its leases. As a result of these negotiations the following will be impacted within the 2021 financial year pursuant to 'AASB 2020-4 Covid-19-Related Rent Concessions': rent concession income of $413,202 will be recognised; and lease modifications resulting in an increase to right-of-use assets of $1,666,258 and corresponding increase to lease liabilities of $1,253,056 will be recognised.

In response to the ongoing COVID-19 pandemic, the Victorian Government introduced stage 4 lockdowns in August 2020 forcing the closure of the consolidated entities' Victorian locations. The impact of the COVID-19 pandemic remains ongoing and it is not practicable to estimate and quantify the potential impact after the reporting date as it is dependent on many factors outside of the control of the consolidated entity including the length of the Victorian restrictions.

No other matters or circumstance has arisen since 30 June 2020 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 2020

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 2020 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**

30 September 2020

INDEPENDENT AUDITOR'S REPORT

For the year ended 30 June 2020

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 2020, 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 2020 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.

RSM

Emphasis of Matter

We draw attention to Note 27 of the financial report, which describes the effect on the operations of the company of the COVID-19 virus and the actions taken by governments and others to contain its spread. Our opinion is not modified in respect of this matter.

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.

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 revenue contracts 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 and contracts having several complexities attached to them. Furthermore, there is a fraud risk as management has an incentive or is under pressure to engage in fraudulent financial reporting to meet board and shareholder expectations.	Our audit procedures in relation to the recognition of revenue included: • Reviewing the Group's terms and conditions of sales; • Ensuring that revenue has been recognised over the correct financial period; • Performing substantive analytical review procedures on suite revenue; • Assessing the recognition and measurement of revenue against the requirements of AASB 15 Revenue from Contracts with Customers; and • Reviewing any large or unusual transactions near year-end to test if cut-off has been applied appropriately.

Key Audit Matters (continued)

Valuation of Lease Liability and Right-of-Use Asset Refer to Note 16 in the financial statements	
Victory Offices Limited currently hold 23 material leases for each of their leased office spaces across Australia. As a result, the relevant accounting standard *AASB 16 Leases*, has a material impact on the Consolidated entity. Whilst the Consolidated entity adopted this standard early, 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, and the valuation of both the lease liability and right-of-use asset are considered a significant risk. The International Accounting Standards Board (Board) on 28 May 2020 issued an amendment to IFRS 16 Leases to make it easier for lessees to account for COVID-19 related rent concessions such as rent holidays and temporary rent reductions. Management have negotiated rent concessions for the Group's leased properties in response to COVID-19. These rent concessions needed to be assessed to determine if they are considered to be a lease modification under AASB 16, as either a change in the scope of the lease or change in the consideration for a lease, and ensure the rent concessions are appropriately treated in accordance with AASB 16 as at 30 June 2020. There is a complex process involved inensuring that each lease amendment has been applied correctly by management as at 30 June 2020. The current economic environment, and the restrictions imposed (particularly in Victoria) has had a detrimental effect on Victory's operations in the latter part of the financial year. As a result, this has triggered indicators of impairment in relation to value of the right- of-use assets for each of the individual leases. Consequently, management have prepared value-in-use calculations for each of the leases, representing the smallest cash generating unit to support the values held in the statement of financial position as at 30 June 2020.	Our audit procedures in relation to the 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 used in the model, and the operation of the model; • Reviewing any new lease agreements entered into during the year and ensure that all clauses including any incentives and make-good provisions have been correctly captured in the leasing model; • Reviewing all leasing disclosures within the financial statements to ensure the completeness and accuracy and overall compliance with AASB 16; and • Reviewing the financial impact of rental concessions Victory obtained in the financial period to ensure they have been accounted for in line with AASB 16. Our audit procedures in relation to management's assessment of impairment of the right-of use assets included: • Assessing the valuation methodology used; • Challenging the reasonableness of key assumptions, including the cash flow projections, discount rates, and sensitivities used; • Checking the mathematical accuracy of the cashflow model, and reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and • Reviewing the accuracy of disclosures of critical estimates and assumptions in the financial report in relation to the valuation methodologies.

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Key Audit Matters (continued)

Recoverability of Accounts receivable as a Result of COVID-19 Refer to note 6 of the financial statements	
Given the scale of the impact of COVID-19 and the resulting financial crisis, there is a hightened risk that suite revenue will decrease significantly and a risk that customers may not be able to pay their debts to Victory as and when they fall due. Management have assessed the recoverability of the receivable balances and recognised a provision for expected credit losses as at 30 June 2020. There is a risk that the expected credit loss provision calculated by management is not in compliance with *AASB 9 Financial Instruments*.	Our audit procedures in relation to trade receivables included: • Reviewing management's expected credit loss model to ensure compliance against *AASB 9* including all relevant disclosures; • Reviewing the accuracy of management's calculations as well as assessing the reasonableness of the of the significant assumptions applied within the model; and • Reviewing a sample of accounts receivable balances to test for both existence and valuation of a debt by agreeing to subsequent receipts testing and any other relevant documentation as proof of debt.

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 2020 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.

RSM

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.

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 2020.

In our opinion, the Remuneration Report of Victory Offices Limited, for the year ended 30 June 2020, 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 AUSTRALIA PARTNERS

R B MIANO
Partner

Dated: 30 September 2020
Melbourne, Victoria

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 18 September 2020.

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	59
1,001 to 5,000	146
5,001 to 10,000	72
10,001 to 100,000	229
100,001 and over	45
	551
Holding less than a marketable parcel	101

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	39,233,334	47.96
National Nominees Limited	7,802,108	9.54
CS Third Nominees Pty Ltd	7,188,214	8.79
Sandhurst Trustees Limited	6,400,000	7.82
BNP Paribas Noms Pty Ltd <DRP>	2,509,581	3.07
HSBC Custodian Nominees (Australian) Pty Ltd	1,432,080	1.75
NDPM Pty Ltd	730,000	0.89
BNP Paribas Nominees Pty Ltd	690,471	0.84
Mr Gregory Wayne Brown	674,275	0.82
R & R Brown Pty Ltd	617,777	0.76
Seno Investments Pty Ltd	600,000	0.73
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd	334,540	0.41
Mr Tyler John McMillan	278,000	0.34
Citicorp Nominees Pty Ltd	275,877	0.34
JP Morgan Nominees Australia Pty Ltd	266,767	0.33
Woodtop Pty Ltd	250,000	0.31
Jacoby Management Services Pty Ltd	240,000	0.29
Beebee Holdings Pty Ltd	235,000	0.29
Morgans Investments (NSW) Pty Ltd	200,000	0.24
Riverlee Family Pty Ltd	200,000	0.24
	70,158,024	85.77

SUBSTANTIAL HOLDERS

Substantial shareholders in the company registered as at 18 September 2020 are set out below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Victory Group Holdings Pty Ltd	39,233,334	47.96
Perennial Value Management	11,033,802	13.49
Regal Funds Management Pty Ltd	8,000,000	9.78
Collins St Asset Management	6,400,000	7.80

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. 19.4 million Shares (75% of the holding) will be escrowed until lodgement with the ASX the Appendix 4E for FY2021. 6.5 million shares (25% of the holding) were released from escrow upon lodgement with the ASX of the Appendix 4E for FY2020.

CLASS	EXPIRY DATES	NUMBER OF SHARES
Ordinary shares	As described above.	19,425,000

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

Geoff Hollis

REGISTERED OFFICE

Level 2, Victory Tower
416-420 Collins Street
Melbourne VIC 3000
ACN: 616 150 022

LEGAL ADVISORS

Hall & Wilcox
Level 11
525 Collins Street
Melbourne VIC 3000

AUDITOR

RSM Australia Partners
Level 21
55 Collins Street
Melbourne VIC 3000

SHARE REGISTRY

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Website: www.linkmarketservices.com.au

Victory Offices

ACN 616 150 022

www.victoryoffices.com.au