

Victory Offices Limited (ACN 616 060 022)
Appendix 4E - Preliminary Final Report

For the year ended 30 June 2020

2. Result for announcement to the market		2020	2019
		\$	\$
Revenue from ordinary activities	Down 8% to	43,764,142	47,622,697
Profit (loss) from ordinary activities after tax attributable to owners of Victory Offices Limited	Down 184% to	(8,069,375)	9,596,498
Comprehensive income (loss) for the year attributable to owners of Victory Offices Limited	Down 184% to	(8,069,375)	9,596,498

Dividends

There were no dividends paid, recommended or declared during the financial year.

Commentary

Refer to Commentary and Review of Operations attached.

3. Statement of comprehensive income together with notes to the statement

Refer attached.

4. Statement of financial position together with notes to the statement

Refer attached.

5. Statement of cash flows together with notes to the statement

Refer attached.

6. Statement of changes in equity

Refer attached.

7. Dividends

There were no dividends paid, recommended or declared during the financial year.

8. Dividend reinvestment plans

There are no dividend reinvestment plans in operation.

9. Net tangible assets

	2020	2019
	\$	\$
Net tangible assets per security (cents)	0.90	1.09

10. Control gained or loss of control over entities

Not applicable.

11. Details of associates and joint venture entities

Not applicable.

14. Commentary on the results for the period

Refer to Commentary and Review of Operations attached.

15. Audit

The Appendix 4E is based on the Annual Report which are in the process of being audited.

Commentary and Review of Operations

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*. 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 favourably 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 from October 2020 onwards.

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Commentary and Review of Operations

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. The board remains cautiously optimistic that the business will begin to see a recovery commencing from October 2020 onwards as people slowly return to office buildings. 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 and is anticipating that the 2022 financial year will see a return to profitability.

The Company currently has 23 locations that are (or have been) open for business. Of these 15 are Victorian locations that are currently closed for business 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.

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.

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Preliminary 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	1	42,309,916	46,985,383
Other revenue	1	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	2	(17,528,483)	(12,904,490)
Other administration expenses		(4,661,705)	(3,845,562)
Occupancy costs		(4,264,176)	(3,200,903)
Impairment of receivables	2	(3,899,687)	-
Impairment of assets	2	(8,525,253)	-
Finance costs	2	(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)	6	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 per share	13	(19.73)	35.97
Diluted earnings per share	13	(19.73)	35.97

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

Victory Offices Limited
Appendix 4E - Preliminary Final Report
Preliminary Consolidated Statement of Financial Position
As at 30 June 2020

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

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

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Preliminary 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
Issued share capital, net of costs	12	28,164,583	-	28,164,583
Balance as at 30 June 2019		<u>28,164,585</u>	<u>16,518,669</u>	<u>44,683,254</u>
Balance as at 1 July 2019		28,164,585	16,518,669	44,683,254
Total Comprehensive Income (loss)		-	(8,069,375)	(8,069,375)
Balance as at 30 June 2020		<u>28,164,585</u>	<u>8,449,294</u>	<u>36,613,879</u>

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

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Preliminary 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)		(18,002,834)	(19,260,901)
Interest received		21,005	35,765
Interest paid (including leases)		(7,024,533)	(5,722,424)
Net cash inflow from operating activities	15	14,910,413	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		(2,528,104)	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	3	670,702	3,198,805

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

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Preliminary Selected Notes to the Financial Statements
For the year ended 30 June 2020

a) Basis of Preparation

This preliminary financial report has been prepared in accordance with ASX Listing Rules as they relate to the Appendix 4E and in accordance with the recognition and measurement requirements of the Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

As such, this preliminary financial report does not include all the notes of the type included in an annual financial report and accordingly, should be read in conjunction with the annual report for the year ended 30 June 2019 and any ASX announcements made by the Company during the period.

The principal accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year.

1 Revenue

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

2 Expenses

	2020	2019
	\$	\$
<i>Depreciation</i>		
Right-of-use asset	11,994,206	9,346,429
Motor vehicles	-	56,359
Plant, equipment and other assets	5,534,277	3,501,701
	<u>17,528,483</u>	<u>12,904,490</u>
<i>Finance costs</i>		
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 14)	8,674,515	7,046,424
	<u>8,904,306</u>	<u>7,292,811</u>
<i>Trade receivables</i>		
Impairment of receivables	3,899,687	-
<i>Plant and equipment</i>		
Impairment of assets	8,525,253	-

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3 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	-
	<u>670,702</u>	<u>3,198,805</u>

4 Trade and Other Receivables

	2020	2019
	\$	\$
Trade receivables	6,933,556	272,660
Impairment of receivables	(3,899,687)	-
Sundry debtors and prepayments	1,584,757	807,572
	<u>4,618,626</u>	<u>1,080,232</u>

5 Other Financial Assets

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

6 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)
Under/(over) provision in prior years	224,170	(321,632)
Income Tax expense	<u>(3,504,586)</u>	<u>3,883,512</u>
(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 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)	<u>(3,504,586)</u>	<u>3,883,512</u>

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6 Income Tax Reconciliation (continued)

	2020	2019
	\$	\$
(c) Recognised deferred tax asset		
Employee benefits	132,451	101,032
Make good provision	685,503	-
Lease liability	47,578,365	34,956,598
Provision for impairment	2,557,576	-
Provision 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
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

7 Plant and Equipment

	2020	2019
	\$	\$
<i>Office furniture</i>		
Cost	7,301,328	6,528,358
Accumulated depreciation	(1,188,551)	(499,815)
	6,112,777	6,028,543
<i>Office equipment</i>		
Cost	10,991,908	10,525,955
Accumulated depreciation	(2,349,051)	(1,099,050)
	8,642,857	9,426,905
<i>Computer equipment</i>		
Cost	2,551,341	2,156,859
Accumulated depreciation	(782,330)	(377,746)
	1,769,011	1,779,113
<i>Computer software</i>		
Cost	202,722	141,849
Accumulated depreciation	(96,502)	(53,863)
	106,220	87,986
<i>Leasehold Improvements</i>		
Cost	41,265,630	26,773,214
Accumulated depreciation	(5,943,190)	(2,967,758)
	35,322,440	23,805,456
<i>Artwork</i>		
Cost	405,451	325,414
Accumulated depreciation	(10,506)	(6,308)
	394,945	319,106
<i>Right-of-use asset</i>		
Cost	167,505,608	116,625,486
Accumulated depreciation	(30,688,986)	(18,620,402)
	136,816,622	98,005,084
Impairment of assets	(8,525,253)	-
	180,639,619	139,452,193

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8 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
	<u>4,392,682</u>	<u>2,926,458</u>
Non-current		
Amounts due to related parties	11,109,376	9,067,512
Related party income tax payable	2,050,751	2,030,751
	<u>13,160,127</u>	<u>11,098,263</u>

9 Provisions

	2020	2019
	\$	\$
Current		
Provision for annual leave	323,527	336,775
	<u>323,527</u>	<u>336,775</u>
Non-current		
Provision for long service leave	117,975	-
Provision for make good on leased premises	2,285,009	1,047,108
	<u>2,402,984</u>	<u>1,047,108</u>

10 Borrowings

	2020	2019
	\$	\$
Non-current		
Loan payable to related party	2,566,085	-
	<u>2,566,085</u>	<u>-</u>

11 Other Liabilities

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

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12 Contributed Equity

	2020	2019	2020	2019
	Shares	Shares	\$	\$
Ordinary shares	<u>40,900,000</u>	<u>40,900,000</u>	<u>28,164,585</u>	<u>28,164,585</u>
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	<u>40,900,000</u>	<u>40,900,000</u>	<u>28,164,585</u>	<u>28,164,585</u>

13 Earnings Per Share

	2020	2019
	\$	\$
<i>Earnings per share for profit (loss) from continuing operations</i>		
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 per share	(19.73)	35.97
Diluted earnings per share	(19.73)	35.97

14 Lease Liabilities

As a lessee

	2020	2019
	\$	\$
Right-of-use assets	136,816,622	98,005,084
	<u>136,816,622</u>	<u>98,005,084</u>

The right-of-use asset comprises 23 leased premises with varying terms between 5 and 11 years. Information about leases for which the consolidated entity is a lessee is presented below:

Right-of-use assets

	2020	2019
	\$	\$
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)
Balance at end of financial year	<u>136,816,622</u>	<u>98,005,084</u>
	162,628,601	116,521,987
Lease liabilities included in the statement of financial position		
Current	12,371,506	5,888,004
Non-current	<u>150,257,095</u>	<u>110,633,983</u>
<i>Amounts recognised in profit or loss</i>		
Interest on lease liabilities	8,674,515	7,046,424
<i>Amounts recognised in the statement of cash flows</i>		
Total cash outflow for leases	(11,672,878)	(10,121,514)

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15 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	1,517,662	(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	14,910,413	27,860,850
Non-cash investing and financing activities:		
Acquisition and adjustments of right of use lease assets	50,805,744	30,444,035
Disposal of plant and equipment	291,184	243,947

16 Contingent liabilities

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

17 Events after the reporting period

On 10 July 2020, the Company 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 \$14,558,213.

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.