# SERVCORP LIMITED
# ABN 97 089 222 506

# APPENDIX 4D

## Interim Financial Report
## For the six months ended
## 31 December 2018

The information in this document should be read in conjunction with Servcorp Limited's Directors' Report and Financial Report for the six months ended 31 December 2018, the 2018 Annual Report and public announcements made during the period in accordance with continuous disclosure obligations arising under Corporations Act 2001 and ASX Listing Rules.

## Reporting Period

| | |
|---|---|
| Current period: | 1 July 2018 to 31 December 2018 |
| Previous corresponding period: | 1 July 2017 to 31 December 2017 |

## Results for announcement to the market

| | | | | $'000 |
|---|---|---|---|---|
| Revenue and other income from ordinary activities | up | 5% | to | 164,160 |
| Loss from ordinary activities before tax | down | 132% | to | (6,138) |
| Net loss after tax for the period attributable to members | down | 595% | to | (12,822) |

| **Dividends** | **Total amount**<br><br>**$'000** | **Amount per security**<br><br>**(cents per share)** | **Franked amount per security**<br>**(cents per share)** |
|---|---|---|---|
| *Current period*<br>Interim dividend declared | 12,586 | 13.00c | 5.20c |
| *Previous corresponding period*<br>Interim dividend paid | 12,796 | 13.00c | 0.98c |

| | |
|---|---|
| Record date for determining entitlements to the dividend | 7 March 2019 |
| Dividend payment date | 3 April 2019 |

There is no foreign conduit income attributed to this dividend.

| | **31 December 2018**<br>**$** | **30 June 2018**<br>**$** |
|---|---|---|
| **Net tangible asset backing** | | |
| Net tangible asset backing per ordinary security | 2.25 | 2.43 |

Additional 4D disclosures can be found in the Notes to the Servcorp Consolidated Interim Financial Report for the six months ended 31 December 2018 lodged with the ASX on 21 February 2019.

# Management Discussion & Analysis

## Introduction

The flexible workspace industry continues to see unprecedented change as commercial real estate experiences significant disruption. Despite these headwinds, we remain confident that we can navigate these challenges to remain a dominant premium provider in a rapidly expanding market. We have been through significant changes over the past year, which have necessitated an extensive assessment of our operations and management structure. While this has impacted our results, we believe it will position us to improve our strengths, address our weaknesses, and move forward. We are encouraged by our recently stabilised performance, but are aware of our industry's continued challenges.

## Business operational review

With the recent changes in senior management, it was considered appropriate for a detailed review of all aspects of the Servcorp business to be undertaken by the CEO. It involved a review of all operations and has led to a revised strategy for the coming year to achieve market growth and improve financial performance. A number of personnel changes have been implemented in the period, and there have been various one-off operating expenses incurred. The efforts of the past 3 months have shown encouraging improvements, with a strong trading performance in January 2019.

The makeover of many floors to incorporate coworking has also improved floor commerce, and there are early indications we are countering the pressure from other recent market entrants who are focused on market share, and not profitability or positive cash flow.

In conjunction with the operational review, the Board also undertook its periodic review of the Company's detailed financial position, in particular the carrying value of leasehold improvements, goodwill, and deferred tax assets. As a result, the Board determined that it is appropriate to take a non-cash write down of leasehold improvements amounting to $17.7 million and goodwill impairment of $1.0 million in 1H19. The main contributors to this decision were planned floor closures and uncertainty surrounding profit potential of certain centres. The geographies most affected were New York City and Abu Dhabi. The leasehold improvement impairments are subject to re-evaluation at each reporting date and can be reversed if performance of those geographies significantly improves.

The results of these impairments are detailed below.

## Operating performance

Reconciliation of Statutory NLBT and NLAT to Underlying NPBT and NPAT:

| | 1H19 | 1H18 |
|---|---|---|
| | | AUD million |
| **Statutory (NLBT) / NPBT** | **(6.1)** | **19.2** |
| *Add:* | | |
| Restructure costs and write-offs | 1.9 | - |
| Impairment of assets and goodwill | 18.7 | - |
| Strategic initiative expenses | - | 1.9 |
| **Underlying NPBT** | **14.5** | **21.1** |
| *Less:* | | |
| Underlying tax expense | 2.7 | 3.6 |
| **Underlying NPAT** | **11.8** | **17.5** |
| *Less:* | | |
| Restructure costs and write-offs (after tax) | 1.4 | - |
| Impairment of assets and goodwill | 18.7 | - |
| Strategic initiative expenses | - | 1.9 |
| Non-cash tax adjustment relating to deferred tax assets | 4.5 | 13.0 |
| **Statutory (NLAT) / NPAT** | **(12.8)** | **2.6** |

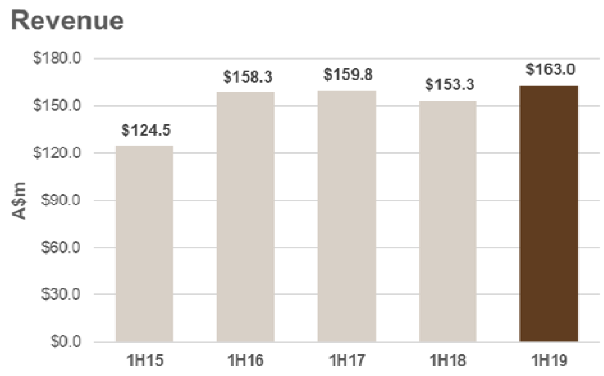
- Net operating cash flows $23.6 million, up $3.7 million
- Statutory NLBT $6.1 million, down $25.3 million
- Underlying NPBT $14.5 million before $1.9 million in one-off, unbudgeted restructure costs and write-offs and $18.7 million of asset and goodwill impairment (Underlying NPBT 1H18: $21.1 million)
- The tax expense of $6.7 million includes a $4.5 million non-cash, de-recognition of tax losses and timing differences linked to the review of leasehold improvements
- 2H19 NPBT guidance of between $14.0 million and $18.0 million, 2H19 new floor operating losses of $4.0 million and FY19 net operating cash flows exceeding $50.0 million

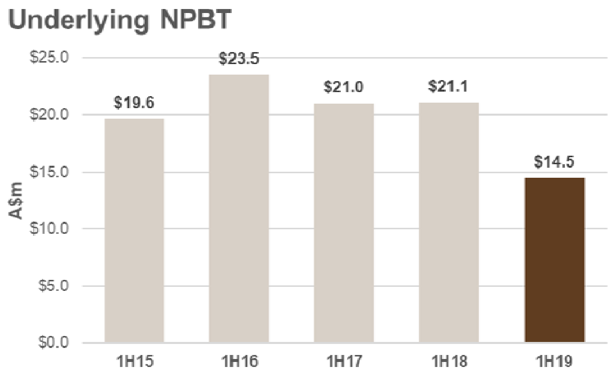
## Strong balance sheet

- Cash balances of $71.8 million, down $21.6 million from 30 June 2018; driven by investment in reshaping our portfolio to modernise current fit-outs to incorporate coworking and new floors and expansions
- Net operating cash flows before tax 172.8% of Underlying 1H19 NPBT, supporting self-funded capital expenditure (in particular the coworking program) and dividends
- No external net debt
- 1H19 interim dividend of 13.00 cps confirmed, 40% franked
- 2H19 final dividend of 8.00 cps forecast; franking levels are uncertain

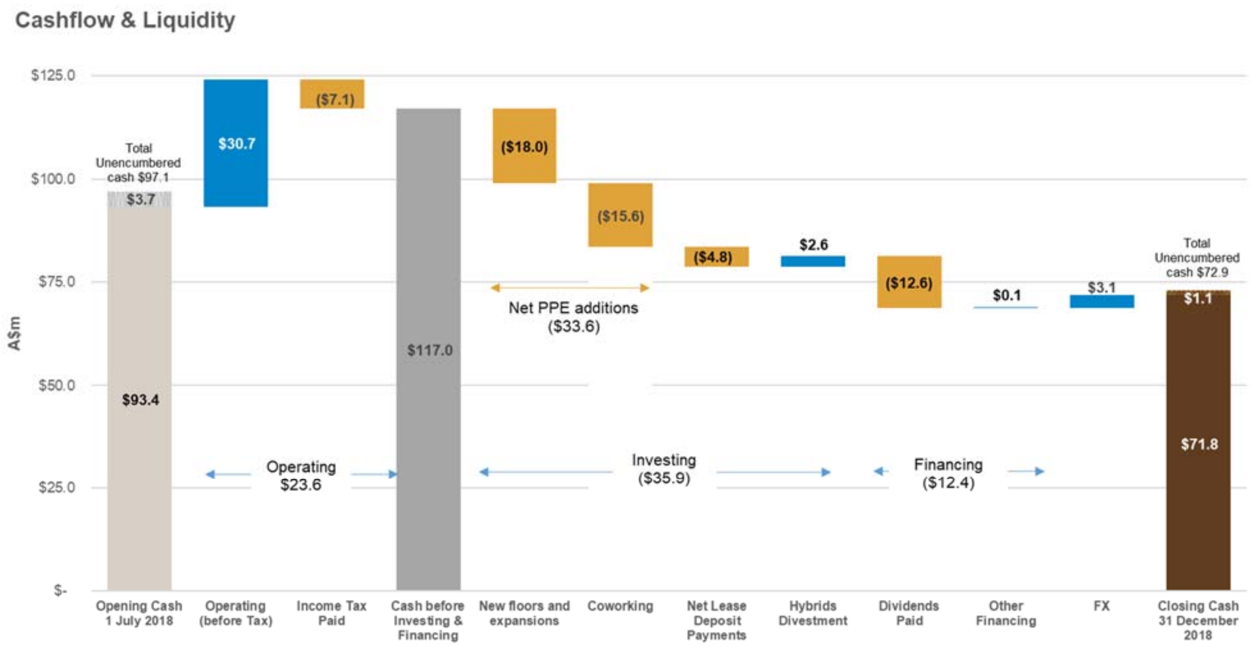
## 1H19 – Overview

1H19 Underlying NPBT of $14.5 million was underpinned by a strong North Asia result partially offset by a poor result from EME. While the USA continues to produce losses, it has performed in line with 1H19 forecasts.




Like for Like floors occupancy was 68% at 31 December 2018 (30 June 2018: 72%). All floors occupancy was 67% at 31 December 2018 (30 June 2018: 71%).




Cash flows generated from operations of $23.6 million, up $3.7 million in 1H19 compared to 1H18.

Capital expenditure was $33.6 million, up $24.9 million from $8.7 million in 1H18 representing our investment in reshaping our portfolio to modernise current fit-outs to incorporate coworking ($15.6 million) and new floors and expansions ($18.0 million).

We paid $4.8 million in net lease deposits, divested $2.6 million of hybrid securities and paid the final FY18 dividend of $12.6 million during 1H19.

After the impact of foreign exchange rates overall cash decreased by $24.2 million from 30 June 2018 to $72.9 million.

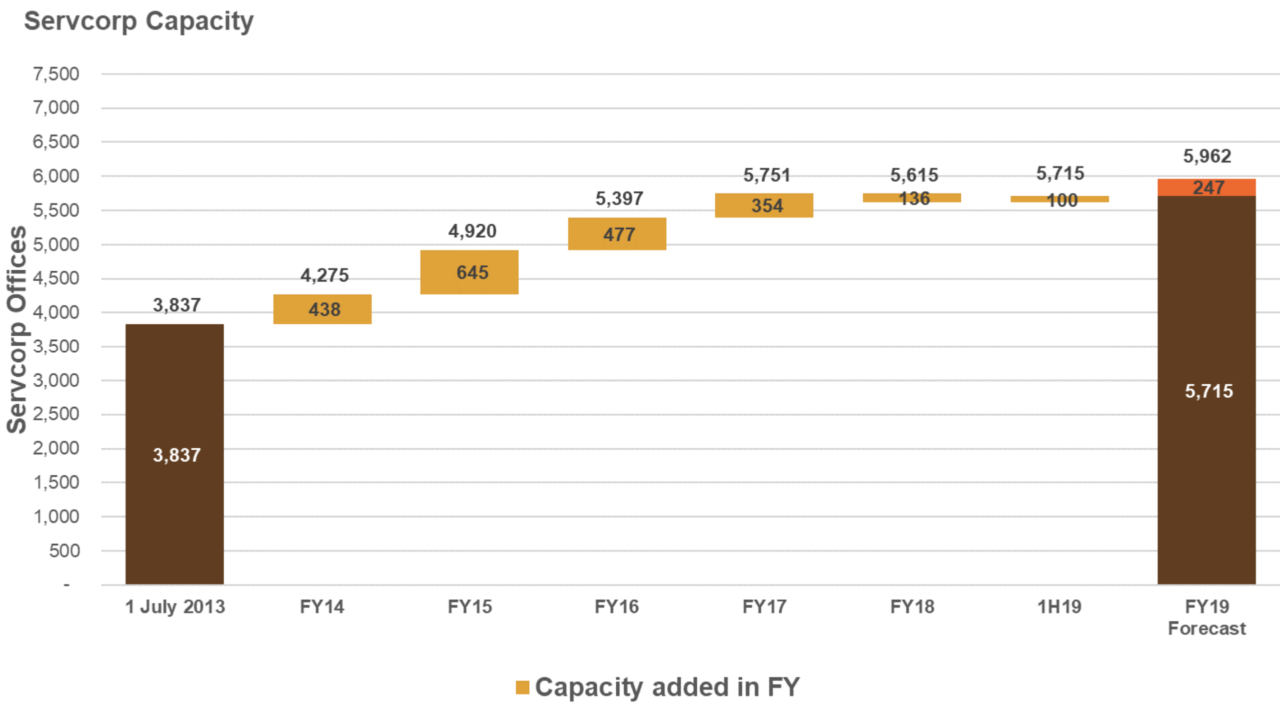
## Servcorp Capacity

During 1H19 we opened expansions of our Mayfair and Canary Wharf locations in London and a new floor, Honmachi Garden City in Osaka.

Further locations are opening in the third quarter of FY19; namely, Berlin, Riyadh and Tokyo. Once all locations are open capacity will increase from 5,615 offices in FY18 to 5,962 offices in FY19.

Our initial planned investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is almost complete. To date we have completed 76 of the previously identified locations and are committed to complete a further 7 locations during 2H19.

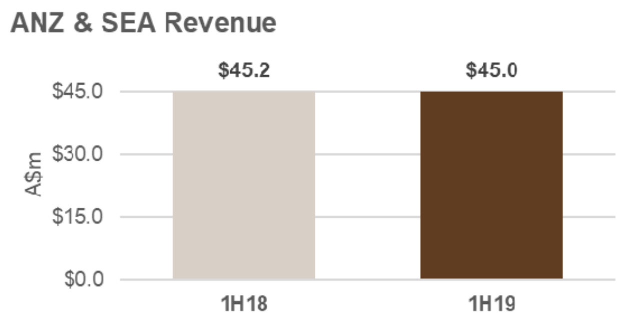
This new flexible coworking space category continues to sell and has created an important new revenue stream. Given this success, approximately 25 additional floors have been identified for modernisation and more floors are being evaluated. Depending on the final selection of floors, we estimate an additional investment of between $10 million and $20 million over the next 12 months.

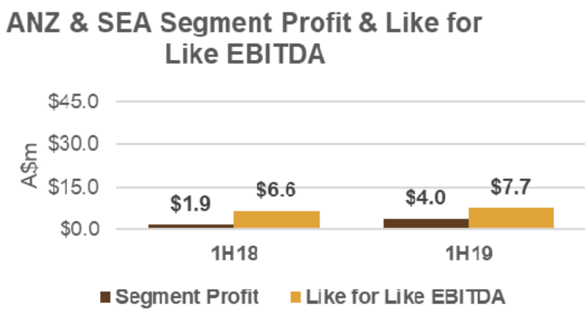



Our global footprint encompasses 155 floors, in 54 cities across 24 countries.

## Operating Summary by Region

### ANZ & South East Asia

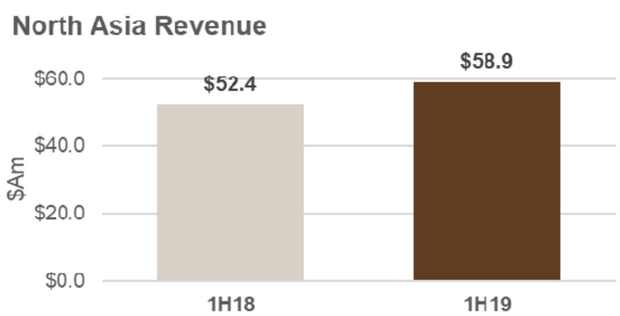


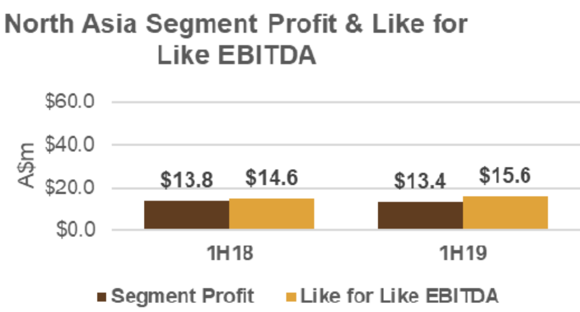




Segment performance in ANZ / SEA increased by 111% driven largely by a positive turnaround in SEA generally. Like for Like EBITDA increased 17% for the same period.

In 1H19 ANZ & SEA impaired $2.9 million of leasehold improvements relating to Indonesia and Singapore.

### North Asia



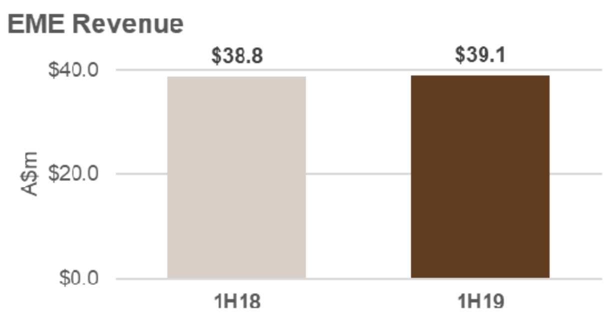



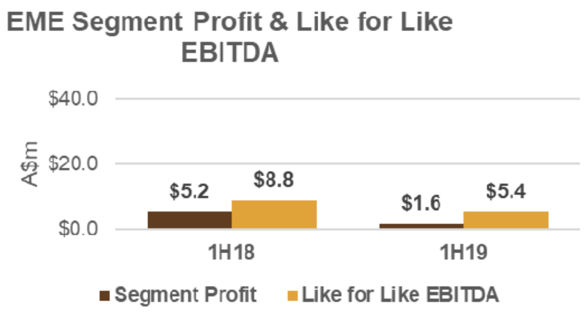

North Asia as a whole produced an outstanding result. Revenue for 1H19 was up 12% from $52.4 million compared to 1H18. Like for Like EBITDA increased 7% for the same period.

In 1H19 China impaired $1.0 million of leasehold improvements.

## Operating Summary by Region (continued)

### Europe & Middle East



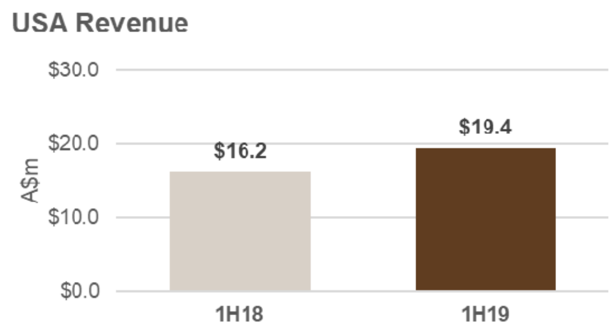



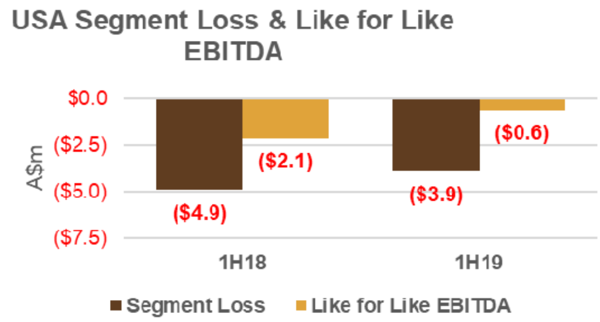

Like for Like floors in the EME segment produced a weak result in 1H19 mainly due to tough markets in Saudi Arabia and Abu Dhabi. Despite geo-political difficulties Qatar continues to perform.

Management undertook some restructuring of resources in 2Q19 which will see a lower cost base moving into 2H19. The restructuring resulted in two senior executives leaving the business.

In 1H19 EME impaired $6.2 million of leasehold improvements relating to the UAE and Saudi Arabia. In addition, goodwill of $1.0 million relating to France was impaired.

### USA




The USA remains a primary focus for the Management team and Directors. While the USA continues to produce losses, it has made inroads in major centres such as New York City and Chicago, reflecting some of the strategies that have been implemented.

However, as this improvement has been less than expected in certain centres, the Board considered it necessary to address the potential impairment of certain USA assets. In 1H19 the USA impaired $7.6 million of leasehold improvements relating to New York City.

Like for Like negative EBITDA in 1H19 is $0.6 million, improving $1.5 million from negative $2.1 million in 1H18.

We remain confident in our ability to compete profitably with improved market awareness and understanding of our offering, and by leveraging our existing systems advantages and experience, but time and patience is required. Other competitors continue to have limited focus on profitability and this creates a challenging environment but one that we believe will eventually normalise.

## Financial Summary

1H19 revenue and other income was up 5.1% to $164.2 million (1H18: $156.2 million). 1H19 generally witnessed an overall weaker Australian dollar against the currencies in which we transact. 1H19 revenue expressed in constant currency terms (i.e. at 1H19 exchange rates) increased by 1.7% compared to 1H18.

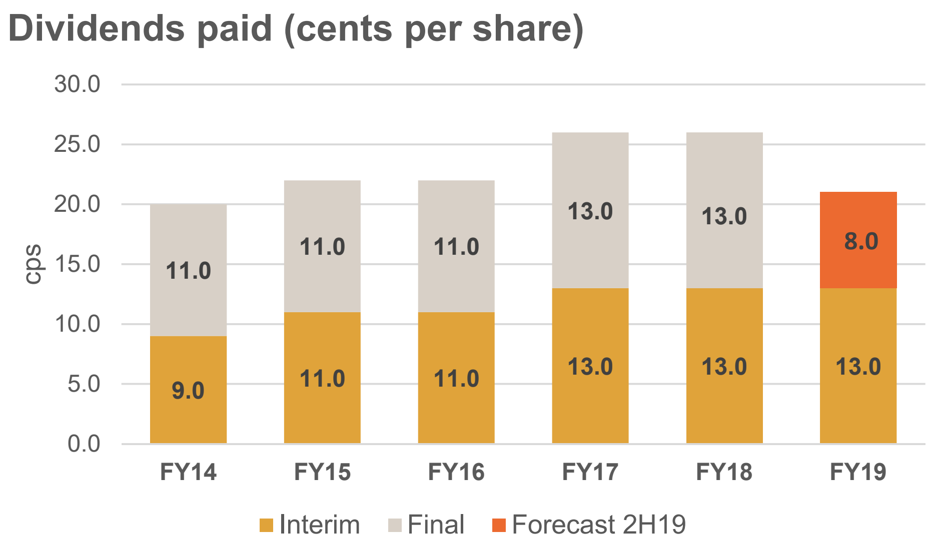
1H19 NLBT was $6.1 million, down $25.3 million from 1H18 NPBT of $19.2 million. Excluding restructure costs and write-offs of $1.9 million and $18.7 million of asset and goodwill impairment, Underlying NPBT was $14.5 million, down 31.4% on 1H18 Underlying NPBT.

Net Tangible Assets per share is down to $2.25 per share from $2.43 per share at 30 June 2018 owing to the $17.7 million impairment of assets.

Cash and cash equivalents as at 31 December 2018 remained healthy at $72.9 million (30 June 2018: $97.1 million).

Other financial assets includes mark-to-market investments in bank hybrid variable rate securities of $8.8 million (30 June 2018: $11.4 million).

## Dividends




The Directors have declared an interim dividend of 13.00 cps, 40% franked, payable on 3 April 2019.

A final dividend of 8.00 cps is anticipated to be paid in relation to FY19; franking levels remain uncertain.

***Future dividends are subject to currencies remaining constant, global financial markets remaining stable and no unforeseen circumstances.***

## Outlook

The Board now expects 2H19 NPBT guidance of between $14.0 million and $18.0 million, including new floor operating losses of $4.0 million. This represents our view that the overall business has stabilised, and while certain areas remain weak, others are outperforming. We reaffirm FY19 operating cash flow exceeding $50.0 million.

The flexible workspace industry continues to undergo unprecedented transition and the global market for shared workspaces remains highly competitive.

We continue to focus on staying ahead of this changing competitive landscape with strategic initiatives such as the extension of our unparalleled technology platform, and our investment in reshaping our global portfolio. Our modernisation of fit-outs and enhancement of our coworking offering continues to show encouraging results.

Our operational and strategic initiatives continue to be designed to position Servcorp to take advantage of significant growth in the sector over the medium term. Meanwhile in the short term our focus is on improving our weaker regions. Despite these challenges, we remain optimistic due to our unique strategic positioning, global reach, technology platform, longstanding track record, impressive cash generation and strong net cash position; all of which reinforce our confidence in Servcorp's potential to drive healthy returns for our shareholders.

***This forecast is subject to currencies remaining constant, global financial markets remaining stable and no further unforeseen circumstances.***

## Key

| | |
|---|---|
| **FY** | Financial year |
| **1H** | First half of financial year - six months to 31 December |
| **2H** | Second half of financial year - six months to 30 June |
| **NPBT** | Net Profit Before Tax |
| **NLBT** | Net Loss Before Tax |
| **NPAT** | Net Profit After Tax |
| **NLAT** | Net Loss After Tax |
| **Statutory NPBT/NLBT** | Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Interim Financial Report |
| **Statutory NPAT/NLAT** | Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Interim Financial Report |
| **Underlying NPBT** | Is the Statutory NPBT or NLBT adjusted for significant items that are one-off in nature and that do not reflect the underlying performance of our business |
| **Underlying NPAT** | Is the Statutory NPAT or NLAT adjusted for significant tax adjustments that are one-off in nature and that do not reflect the underlying tax expense |
| **Segment Profit/(Loss)** | Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Interim Financial Report |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **cps** | Cents per share |
| **Like for Like** | Like for Like include results for floors that were open in both the current and comparative reporting periods i.e. it excludes new floor openings in the current reporting period and closed floors. |
| **ANZ** | Australia & New Zealand |
| **SEA** | South East Asia |
| **EME** | Europe & Middle East |
| **USA** | United States of America |

# SERVCORP LIMITED

## AND ITS CONTROLLED ENTITIES

# INTERIM FINANCIAL REPORT

## FOR THE SIX MONTHS ENDED
## 31 DECEMBER 2018

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Australia Bahrain Belgium China France Germany Hong Kong India Indonesia Japan Kuwait Lebanon
Malaysia New Zealand Philippines Qatar Saudi Arabia Singapore Thailand Turkey UAE UK USA

# INTERIM FINANCIAL REPORT

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## DIRECTORS' REPORT

The Directors of Servcorp Limited ('the Company') submit herewith the condensed Consolidated financial report for the six months ended 31 December 2018. In order to comply with the provisions of the Corporations Act 2001 the Directors' report as follows:

The names of the Directors of the Company during or since the end of the six months ended 31 December 2018 are:

| Name | Date Appointed |
|---|---|
| Mr Alf Moufarrige (Managing Director and CEO) | August 1999 |
| Mr Bruce Corlett (Chairman and Independent Non-Executive Director) | October 1999 |
| Mr Rick Holliday-Smith (Independent Non-Executive Director) | October 1999 |
| Mr Taine Moufarrige (Executive Director) | Resigned November 2018 |
| The Hon Mark Vaile (Independent Non-Executive Director) | June 2011 |
| Mrs Wallis Graham (Independent Non-Executive Director) | October 2017 |

**Review of operations**

Revenue and other income from operating activities was up 5.1% to $164.2 million for the half year ended 31 December 2018 (31 December 2017: $157.0 million).

Net loss before tax for the half year ended 31 December 2018 was $6.1 million, down 132.0% from $19.2 million net profit before tax for the half year ended 31 December 2017. Excluding unbudgeted expenses relating to restructure costs and write-offs of $1.9 million and $18.7 million of asset and goodwill impairment, underlying net profit before tax was $14.5 million (31 December 2017: $21.1 million).

Operating net loss after tax was $12.8 million (31 December 2017: $2.6 million operating net profit).

Cash and cash equivalents as at 31 December 2018 remained healthy at $72.9 million (30 June 2018: $97.1 million).

The business produced net operating cash flows during the half year ended 31 December 2018 of $23.6 million (31 December 2017: $19.9 million), an increase of 18.6%.

The Directors have declared an interim dividend of 13.00 cents per share, 40.0% franked, payable on 3 April 2019.

**Business Overview**

With the recent changes in senior management, it was considered appropriate for a detailed review of all aspects of the Servcorp business to be undertaken by the Chief Executive Officer. It involved a review of all operations and has led to a revised strategy for the coming year to achieve market growth and improve financial performance. A number of personnel changes have been implemented in the period, and there have been various one-off operating expenses incurred. The efforts of the past 3 months have shown encouraging improvements, with a strong trading performance in January 2019.

The makeover of many floors to incorporate coworking has also improved floor commerce, and there are early indications we are countering the pressure from other recent market entrants who are focused on market share, and not profitability or positive cash flow.

In conjunction with the operational review, the Board also undertook its periodic review of the Company's detailed financial position, in particular the carrying value of leasehold improvements, goodwill, and deferred tax assets. As a result, the Board determined that it is appropriate to take a non-cash write down of leasehold improvements amounting to $17.7 million and goodwill impairment of $1.0 million during the half year ended 31 December 2018. The main contributors to this decision were planned floor closures and uncertainty surrounding profit potential of certain centres. The geographies most affected were New York City and Abu Dhabi. The leasehold improvement impairments are subject to re-evaluation at each reporting date and can be reversed if performance of those geographies significantly improves.

**Servcorp Capacity**

During the half year ended 31 December 2018 Servcorp opened expansions of the Mayfair and Canary Wharf locations in London and a new floor, Honmachi Garden City in Osaka.

Further locations will open in the third quarter of the financial year ending 30 June 2019; namely, Berlin, Riyadh and Tokyo. Once all locations are open capacity will increase from 5,615 offices in the financial year ended 30 June 2018 to 5,962 offices in the financial year ending 30 June 2019.

Servcorp's initial planned investment in reshaping its portfolio to modernise current fit-outs and enhance the coworking offering is almost complete. To date Servcorp has completed 76 of the previously identified locations and is committed to complete a further 7 locations during the second half of the year ending 30 June 2019.

This new flexible coworking space category continues to sell and has created an important new revenue stream. Given this success, approximately 25 additional floors have been identified for modernisation and more floors are being evaluated.

Servcorp's global footprint encompasses 155 floors, in 54 cities across 24 countries.

## DIRECTORS' REPORT (CONT.)

**Australia, New Zealand and Southeast Asia**

Segment performance increased by 111% driven largely by a positive turnaround in South East Asia. Like for Like earnings before interest tax depreciation and amortisation increased 17% for the same period.

Indonesia and Singapore impaired $2.9 million of leasehold improvements.

**North Asia**

North Asia as a whole produced an outstanding result. Revenue for 31 December 2018 was up 12% from $52.4 million compared to 31 December 2018. Like for Like earnings before interest tax depreciation and amortisation increased 7% for the same period.

China impaired $1.0 million of leasehold improvements.

**Europe and the Middle East**

Like for Like floors produced a weak result during the half year ended 31 December 2018 mainly due to tough markets in Saudi Arabia and Abu Dhabi. Despite geo-political difficulties Qatar continues to perform.

Management undertook some restructuring of resources which will see a lower cost base moving into 30 June 2019. The restructuring resulted in two senior executives leaving the business.

UAE and Saudi Arabia impaired $6.2 million of leasehold improvements. In addition, goodwill of $1.0 million relating to France was impaired.

**USA**

The USA remains a primary focus for the Management team and Board. While the USA continues to produce losses, it has made inroads in major centres such as New York City and Chicago, reflecting some of the strategies that have been implemented.

However, as this improvement has been less than expected in certain centres, the Board considered it necessary to address the potential impairment of certain USA assets. During the half year ended 31 December 2018 the USA impaired $7.6 million of leasehold improvements relating to New York City.

Like for Like negative earnings before interest tax depreciation and amortisation in was $0.6 million for the half year ended 31 December 2018, improving $1.5 million from negative $2.1 million during the half year ended 31 December 2017.

Servcorp remains confident in its ability to compete profitably with improved market awareness and understanding of our offering, and by leveraging our existing systems advantages and experience, but time and patience is required. Other competitors continue to have limited focus on profitability and this creates a challenging environment but one that will eventually normalise.

**State of affairs**

During the half year ended 31 December 2018 there were no significant changes in the state of affairs of the Company.

**Auditor's independence declaration**

The auditor's independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 4 and forms part of this report.

**Rounding off**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of Directors made pursuant to s 306(3) of the Corporations Act 2001.

On behalf of the Directors

**A G Moufarrige**
**Managing Director and CEO**
Dated at Sydney this 21st day of February 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Servcorp Limited
Level 63, MLC Centre
Martin Place
SYDNEY NSW 2000

21 February 2019

Dear Board Members

**Auditor's Independence Declaration to Servcorp Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Servcorp Limited.

As lead audit partner for the review of the financial statements of Servcorp Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

S C Gustafson
Partner
Chartered Accountants

## DIRECTORS' DECLARATION

The Directors declare that:

a. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

b. In the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity.

Signed in accordance with a resolution of Directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors

**A G Moufarrige**
**Managing Director and CEO**

Sydney, 21st day of February 2019

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2018

| | Note | 6 months ended 31 December 2018 $'000 | 6 months ended 31 December 2017 $'000 |
|---|---|---|---|
| Revenue | 2 | 162,952 | 153,267 |
| Other revenue and income | 2 | 1,208 | 2,944 |
| | | 164,160 | 156,211 |
| | | | |
| Service expenses | | (40,027) | (38,577) |
| Marketing expenses | | (10,237) | (8,776) |
| Occupancy expenses | | (84,117) | (79,352) |
| Rent - fixed annual impact | 2 | (179) | (489) |
| Administrative expenses | 2 | (15,152) | (10,576) |
| Share of losses of joint venture | | (51) | (66) |
| Borrowing expenses | | (5) | (14) |
| Net foreign exchange (loss)/gain (realised and unrealised) | | (871) | 1,064 |
| Impairment of goodwill | 2 | (1,030) | - |
| Impairment of property, plant and equipment | 2 | (17,679) | - |
| Other expenses | | (950) | (251) |
| **Total expenses and losses** | | (170,298) | (137,037) |
| | | | |
| **(Loss)/ profit before income tax expense** | | (6,138) | 19,174 |
| Income tax expense | 4 | (6,684) | (16,585) |
| **(Loss)/ profit for the period** | | (12,822) | 2,589 |
| | | | |
| **Other comprehensive income/ (loss)** | | | |
| Translation of foreign operations (Item may be reclassified subsequently to profit or loss) | | 7,914 | (1,927) |
| **Other comprehensive income/ (loss) for the period (net of tax)** | | 7,914 | (1,927) |
| | | | |
| **Total comprehensive (loss)/ income for the period** | | (4,908) | 662 |
| | | | |
| **Earnings per share** | | | |
| Basic and diluted earnings per share | | ($0.132) | $0.026 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

| | Note | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 71,809 | 93,444 |
| Trade and other receivables | | 47,408 | 43,937 |
| Other financial assets | | 9,396 | 11,981 |
| Current tax assets | | 2,274 | 469 |
| Prepayments and other assets | | 18,309 | 17,288 |
| **Total current assets** | | 149,196 | 167,119 |
| **Non-current assets** | | | |
| Other financial assets | | 47,240 | 41,135 |
| Property, plant and equipment | 6 | 137,357 | 134,145 |
| Deferred tax assets | | 20,582 | 24,466 |
| Goodwill | 7 | 13,775 | 14,805 |
| **Total non-current assets** | | 218,954 | 214,551 |
| **Total assets** | | 368,150 | 381,670 |
| **Current liabilities** | | | |
| Trade and other payables | | 63,853 | 58,597 |
| Other financial liabilities | 8 | 32,945 | 31,477 |
| Current tax liabilities | | - | 3,153 |
| Provisions | | 7,374 | 7,610 |
| **Total current liabilities** | | 104,172 | 100,837 |
| **Non-current liabilities** | | | |
| Trade and other payables | | 28,675 | 28,935 |
| Other financial liabilities | 8 | 869 | - |
| Provisions | | 781 | 739 |
| Deferred tax liabilities | | 937 | 994 |
| **Total non-current liabilities** | | 31,262 | 30,668 |
| **Total liabilities** | | 135,434 | 131,505 |
| **Net Assets** | | 232,716 | 250,165 |
| **Equity** | | | |
| Contributed equity | 9 | 151,594 | 151,594 |
| Reserves | | (3,347) | (11,306) |
| Retained earnings | | 84,469 | 109,877 |
| **Equity attributable to equity holders of the parent** | | 232,716 | 250,165 |
| **Total equity** | | 232,716 | 250,165 |

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2018

| Consolidated | Issued capital | Foreign currency translation reserve | Share Buy -Back Reserve | Employee Equity Settled Benefits Reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 July 2017 | 154,122 | (12,465) | - | 111 | 125,407 | 267,175 |
| Profit for the period | - | - | - | - | 2,589 | 2,589 |
| Translation of foreign operations (net of tax) | - | (1,927) | - | - | - | (1,927) |
| Total comprehensive income for the period | - | (1,927) | - | - | 2,589 | 662 |
| Share based payment | - | - | - | 45 | - | 45 |
| Payment of dividends | - | - | - | - | (12,796) | (12,796) |
| Balance at 31 December 2017 | 154,122 | (14,392) | - | 156 | 115,200 | 255,086 |
| | | | | | | |
| Balance at 1 July 2018 | 151,594 | (6,772) | (4,733) | 199 | 109,877 | 250,165 |
| Loss for the period | - | - | - | - | (12,822) | (12,822) |
| Translation of foreign operations (net of tax) | - | 7,914 | - | - | - | 7,914 |
| Total comprehensive loss for the period | - | 7,914 | - | - | (12,822) | (4,908) |
| Share based payment | - | - | - | 45 | - | 45 |
| Share buy back | - | - | - | - | - | - |
| Payment of dividends | - | - | - | - | (12,586) | (12,586) |
| Balance at 31 December 2018 | 151,594 | 1,142 | (4,733) | 244 | 84,469 | 232,716 |

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2018

| | 6 months ended 31 December 2018 $'000 | 6 months ended 31 December 2017 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from customers | 173,250 | 164,870 |
| Payments to suppliers and employees | (144,277) | (140,363) |
| Franchise fees received | 288 | 307 |
| Income tax paid | (7,095) | (6,108) |
| Interest and other costs of finance paid | (4) | (14) |
| Interest and other items of similar nature received | 1,449 | 1,254 |
| **Net operating cash flows** | 23,611 | 19,946 |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | (33,635) | (8,697) |
| Proceeds from sale of property, plant and equipment | - | 6,048 |
| Payments for lease deposits | (5,092) | (182) |
| Proceeds from sale of variable rate bonds | 2,598 | 3,078 |
| Proceeds from refund of lease deposits | 270 | - |
| **Net investing cash flows** | (35,859) | 247 |
| **Cash flows from financing activities** | | |
| Dividends paid | (12,586) | (12,796) |
| Landlord capital incentives received | 139 | - |
| Borrowings | - | (273) |
| **Net financing cash flows** | (12,447) | (13,069) |
| **Net (decrease)/ increase in cash and cash equivalents** | (24,695) | 7,124 |
| **Cash and cash equivalents at the beginning of the period** | 93,444 | 104,376 |
| Effect of exchange rate changes on cash transactions in foreign currencies | 3,060 | (1,602) |
| **Cash and cash equivalents at the end of the period** | 71,809 | 109,898 |

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 1 SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The half year financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001* and AASB134 *Interim Financial Reporting*. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS34 Interim Reporting. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

**Basis of preparation**

The condensed financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments which are recognised at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Consolidated Entity's 2018 annual financial report for the financial year ended 30 June 2018, except for the impact of the Standards and interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and, in accordance with that Instrument, amounts in the Financial Report and the Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Comparative Information**

Where applicable, comparative information has been reclassified or restated where there has been a retrospective restatement, or reclassification of items in the financial statements in order to comply with current period disclosure requirements.

**Critical accounting estimates and judgements**

In the application of the Consolidated Entity's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements that management has made in the process of applying the Consolidated Entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

*Impairment*

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

*Tax losses and uncertain tax matters*

Deferred tax assets for the carry forward tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised. This is assessed at each reporting date.

The Group operates across many tax jurisdictions. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes. Judgements are required about the application of income tax legislation and its interaction with income tax accounting principles.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of tangible and intangible assets excluding goodwill**

At each reporting date the Consolidated Entity reviews the carrying values of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of the impairment loss is recognised in the statement of comprehensive income immediately.

**Goodwill**

Goodwill arising on acquisition is recognised as an asset and initially recognised at cost, representing the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised, but is tested for impairment at each reporting date and whenever there is an indication that goodwill may be impaired. Any impairment of goodwill is recognised immediately in the statement of comprehensive income and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Consolidated Entity's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs) and then to the other assets of the CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or group of CGUs). An impairment loss for goodwill is immediately recognised in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Adoption of new and revised Accounting Standards**

In the current year, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period, including AASB 9 'Financial Instruments' and AASB 15 'Revenue From Contracts With Customers'. The adoption of these new accounting standards did not have any material impact.

At the date of authorisation of the financial report, the following Standards and Interpretations relevant to the Consolidated Entity were on issue but not yet effective:

– AASB 16 'Leases'. Effective for annual reporting periods beginning 1 January 2019. The extent of the impact has not been determined.

The Directors are currently in the process of assessing the future period impact of AASB 16 'Leases' on the financial statements. AASB 16 will result in the leases where Servcorp is the lessee being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, a depreciating non-financial asset ( the right to use the leased item) and the associated payable, under the lease, will be recognised.

In addition, the nature of the expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The only exceptions will be short term and low value leases.

The new leasing standard will have a material impact on the Consolidated Entity's financial statements, particularly with the inclusion of new assets and liabilities associated with lease recognition. In addition, there may be a significant impact on the way that the expenses associated with lease accounting will be reported in the consolidated statement of profit or loss and other comprehensive income.

Initial assessment activities have been undertaken on the Consolidated Entity's current leases to determine the impact of AASB 16. The transition to AASB 16 will be applied using the modified retrospective approach, using certain practical expedients. A detailed review of contracts, financial reporting impacts and system requirements will continue. The Consolidated Entity does not intend to adopt the standard before its effective date 1 July 2019 (the date of initial application of the standard).

The remaining Standards and Interpretations on issue not yet effective will not have a material impact on the financial statements of the entity.

The Consolidated Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 2 PROFIT FROM OPERATIONS

| | 6 months ended 31 December 2018 $'000 | 6 months ended 31 December 2017 $'000 |
|---|---|---|
| **a. Revenue** | | |
| Revenue from continuing operations consisted of the following: | | |
| Revenue from the rendering of services | 162,664 | 152,960 |
| Franchise fee income | 288 | 307 |
| | 162,952 | 153,267 |
| **b. Other revenue and income** | | |
| Interest income - bank deposits | 1,183 | 1,337 |
| Other income | 25 | 1,607 |
| Total other revenue and income | 1,208 | 2,944 |
| **c. Expenses** | | |
| Rent - fixed annual impact (i) | 179 | 489 |
| Impairment of goodwill (ii) | 1,030 | - |
| Impairment of property, plant and equipment (iii) | 17,679 | - |
| Make good provision | 701 | - |
| Strategic Initiatives (iv) | - | 1,864 |
| Restructure costs (v) | 1,167 | - |

Note:
(i) The rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 3.00% to 4.25% per annum in accordance with AASB 117 'Leases', and represents the difference between the actual cash paid and the rent expensed.
(ii) The Consolidated Entity assessed the recoverable amount of goodwill and determined that $1.0M of the full goodwill for France was impaired. Refer to Note 7 for further details.
(iii) During the half year ended 31 December 2018, the Group carried out a review of the recoverable amount of property, plant and equipment. The review led to the recognition of an impairment loss of $17.7M. Refer to Note 5 for further details.
(iv) During the half year ended 31 December 2017, Servcorp assessed strategic initiatives to enhance shareholder value. These included investigations into growth markets, assessing external sources of capital to aid global expansion and unlocking value inherent in the company's footprint and technology platform.
(v) Key personnel resigned during the half year ended 31 December 2018. These were one-time voluntary attrition expenses.

## 3 DISTRIBUTIONS PAID AND PROPOSED

Dividends paid (recognised) during the six month period or proposed (unrecognised) in respect of the period by the Company are:

| | Cents per share | Total amount $'000 | Date of payment | Tax rate for franking credit | Percentage franked |
|---|---|---|---|---|---|
| **Recognised amounts** | | | | | |
| **2018** | | | | | |
| Final - fully paid ordinary shares | 13.00 | 12,586 | 4 Oct 2018 | 30% | 25% |
| Interim - fully paid ordinary shares | 13.00 | 12,796 | 5 Apr 2018 | 30% | 7.50% |
| **2017** | | | | | |
| Final - fully paid ordinary shares | 13.00 | 12,796 | 5 Oct 2017 | 30% | 50% |
| Interim - fully paid ordinary shares | 13.00 | 12,796 | 5 Apr 2017 | 30% | 50% |
| **Unrecognised amounts** | | | | | |
| **2019** | | | | | |
| Interim - fully paid ordinary shares | 13.00 | 12,586 | 3 Apr 2019 | 30% | 40% |

In determining the level of future dividends, the directors will seek to balance growth objectives and rewarding shareholders with income. This policy is subject to the cash flow requirements of the Company and its investment in new opportunities aimed at growing earnings. The directors cannot give any assurances concerning the extent of future dividends, or the franking of such dividends, as they are dependent on future profits, the financial and taxation position of the Company and the impact of taxation legislation.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 4 INCOME TAXES

| | 6 months ended 31 December 2018 $'000 | 6 months ended 31 December 2017 $'000 |
|---|---|---|
| **Income tax recognised in the Condensed consolidated statement of comprehensive income** | | |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the Condensed consolidated financial report as follows: | | |
| (Loss)/ profit before income tax expense | (6,138) | 19,174 |
| Income tax (benefit)/ expense calculated at 30% | (1,841) | 5,752 |
| Deductible local taxes | (339) | (220) |
| Effect of different tax rates on overseas income | 3,204 | (1,888) |
| Other non-deductible/ (assessable) | 262 | (628) |
| Derecognition of previously recognised deferred tax assets | 4,470 | 5,405 |
| Effect of change in tax rates (i) | - | 7,560 |
| Income tax (over)/ under provision in prior years | (2,713) | (515) |
| Unused tax losses and tax offsets not recognised as deferred tax assets (ii) | 3,641 | 1,119 |
| Income tax expense | 6,684 | 16,585 |

Note:
(i) During the half year ended 31 December 2017, the US reduced the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations.
(ii) During the half year ended 31 December 2018, the Group carried out a review of the recoverable amount of property, plant and equipment. The review led to the recognition of an impairment loss of $17.7M. The Consolidated Entity also assessed the recoverable amount of goodwill and determined that $1.0M of the full goodwill for France in the Europe and Middle East segment was impaired . No deferred tax asset has been recognised in respect of the accounting impairment expense. Refer to Note 5 and 6 for further details.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 5 SEGMENT INFORMATION

Servcorp Serviced Offices are fully-managed, fully-furnished CBD office suites in prime locations, with a receptionist, meeting rooms, IT infrastructure and support services available. Servcorp Virtual Office provides the services, facilities and IT to businesses without the cost of a physical office.

The Group's information reported to the Board of Directors is based on each segment manager directly responsible for the functioning of the operating segment. The segment manager has regular contact with members of the Board of Directors to discuss operating activities, forecasts and financial results. Segment managers are also responsible for disseminating management planning materials as directed by the Chief Operating Decision Maker. The segment manager motivates and rewards team members who meet or exceed sales targets. Four reportable operating segments have been identified: Australia, New Zealand and Southeast Asia (ANZ/SEA); USA; Europe and Middle East (EME); North Asia and other which reflect the segment requirements under AASB 8.

The Group's reportable operating segments under AASB 8 are presented below. The accounting policies of the reportable operating segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under audit:

| | Revenue | | Segment Profit / (Loss) | |
|---|---|---|---|---|
| | 31 December 2018 $'000 | 31 December 2017 $'000 | 31 December 2018 $'000 | 31 December 2017 $'000 |
| **Continuing operations** | | | | |
| Australia, New Zealand & Southeast Asia | 44,980 | 45,163 | 4,039 | 1,868 |
| USA | 19,353 | 16,222 | (3,871) | (4,873) |
| Europe & Middle East | 39,119 | 38,778 | 1,619 | 5,170 |
| North Asia | 58,903 | 52,393 | 13,395 | 13,838 |
| Other | 308 | 345 | 126 | (63) |
| | 162,663 | 152,901 | 15,308 | 15,940 |
| Finance costs | - | - | (4) | (14) |
| Interest revenue | 1,183 | 1,337 | 1,183 | 1,337 |
| Foreign exchange (losses)/ gains | - | - | (871) | 1,064 |
| Over-recovered head office overheads | - | - | 151 | 1,280 |
| Franchise fees | 288 | 307 | 288 | 307 |
| Rent - fixed annual increase (i) | - | - | (179) | (489) |
| Share of losses of joint venture | - | - | (51) | (66) |
| Loss on asset disposal | - | (90) | (520) | (90) |
| Restructure costs (ii) | - | - | (1,167) | - |
| Impairment of goodwill (iii) | - | - | (1,030) | - |
| Impairment of Property, Plant & Equipment (iv) | - | - | (17,679) | - |
| Make-good provision | - | - | (701) | - |
| Unallocated | 26 | 1,756 | (866) | (95) |
| (Loss)/ profit before tax | | | (6,138) | 19,174 |
| Income tax expense (v) | | | (6,684) | (16,585) |
| Consolidated segment revenue and (loss)/ profit for the period | 164,160 | 156,211 | (12,822) | 2,589 |

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full for the six months ended 31 December 2018. The Group's Virtual Office revenue and Serviced Office revenue were $45.4M and $117.3M respectively (31 December 2017: $40.1M and $112.8M, respectively).

Note:
(i) Refer to Note 2 (c)
(ii) Key personnel resigned during the half year ended 31 December 2018. These were one-time voluntary attrition expenses.
(iii) The Consolidated Entity assessed the recoverable amount of goodwill and determined that $1.0M of the full goodwill for France in the Europe and Middle East segment was impaired. Refer to Note 7 for further details.
(iv) During the half year ended 31 December 2018, the Group carried out a review of loss making entities and the recoverable amount of property, plant and equipment. The review of the assets' value in use less net book value, led to the recognition of an impairment loss of $17.7M. The impairment impacted the following segments North Asia $1.0M, Australia, New Zealand and Southeast Asia $2.9M, Europe and Middle East $6.2M, USA $7.6M.
(v) During the half year ended 31 December 2017, the US reduced the corporate tax rate from 35% to 21%. The consequence of this change is a downward remeasurement of deferred tax assets of the USA operations.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 6 PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED

| | LAND AND BUILDINGS AT COST $'000 | LEASE-HOLD IMPROVE-MENTS OWNED AT COST $'000 | LEASE-HOLD IMPROVE-MENTS LEASED AT COST $'000 | OFFICE FURNITURE & FITTINGS OWNED AT COST $'000 | OFFICE FURNITURE & FITTINGS LEASED AT COST $'000 | OFFICE EQUIP-MENT & SOFT-WARE OWNED AT COST $'000 | OFFICE EQUIP-MENT LEASED AT COST $'000 | MOTOR VEHICLES OWNED AT COST $'000 | WIP AT COST $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| GROSS CARRYING AMOUNTS | | | | | | | | | | |
| Balance at 30 June 2018 | 8,167 | 232,506 | 1,174 | 36,842 | 136 | 54,528 | 118 | 464 | 5,165 | 339,100 |
| Additions | - | 19,069 | 73 | 3,131 | - | 6,221 | - | 2 | 5,139 | 33,635 |
| Disposals | - | (2,157) | - | (1,362) | - | (2,423) | - | (117) | - | (6,059) |
| Effect of foreign currency exchange differences | 447 | 7,296 | 60 | 1,091 | 5 | (422) | 6 | 18 | 1 | 8,502 |
| Balance at 31 December 2018 | 8,614 | 256,714 | 1,307 | 39,702 | 141 | 57,904 | 124 | 367 | 10,305 | 375,178 |
| ACCUMULATED DEPRECIATION | | | | | | | | | | |
| Balance at 30 June 2018 | 535 | 135,937 | 1,128 | 23,883 | 136 | 42,918 | 118 | 300 | - | 204,955 |
| Depreciation expense | 74 | 9,307 | - | 1,540 | - | 2,310 | 2 | 71 | - | 13,304 |
| Disposals | - | (2,396) | - | (1,332) | - | (1,598) | - | (119) | - | (5,445) |
| Impairment (i) | - | 17,679 | - | - | - | - | - | - | - | 17,679 |
| Effect of foreign currency exchange differences | 32 | 5,924 | 59 | 839 | 5 | 484 | 4 | (19) | - | 7,328 |
| Balance at 31 December 2018 | 641 | 166,451 | 1,187 | 24,930 | 141 | 44,114 | 124 | 233 | - | 237,821 |
| NET BOOK VALUE | | | | | | | | | | |
| Balance at 31 December 2018 | 7,973 | 90,263 | 120 | 14,772 | - | 13,790 | - | 134 | 10,305 | 137,357 |

Note:

(i)During the half year ended 31 December 2018, the Group carried out a review of loss making entities and the recoverable amount of property, plant and equipment. The review of the assets' value in use less net book value, led to the recognition of an impairment loss of $17.7M. Refer to Note 5 for further details.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

## 7 GOODWILL

| | 31 December 2018 $'000 | 30 June 2018 $'000 |
|---|---|---|
| **Gross carrying amount and net book value** | | |
| Balance at the beginning of the period | 14,805 | 14,805 |
| Impairment of goodwill - France | (1,030) | - |
| Balance at the end of the period | 13,775 | 14,805 |

Note:

(i) The Consolidated Entity assessed the recoverable amount of goodwill and determined that $1.0M of the full goodwill for France in the Europe and Middle East segment was impaired.

## 8 OTHER FINANCIAL LIABILITIES

| | | |
|---|---|---|
| **Current** | | |
| ***At amortised cost*** | | |
| Security deposits | 32,945 | 30,956 |
| External borrowings | - | 521 |
| | 32,945 | 31,477 |

| | | |
|---|---|---|
| **Non-current** | | |
| ***At fair value through profit or loss*** | | |
| Forward foreign currency exchange contracts | 869 | - |
| | 869 | - |

## 9 CONTRIBUTED EQUITY

| | | |
|---|---|---|
| Fully paid ordinary shares 96,817,888 (June 2018: 96,817,888) | 151,594 | 151,594 |

| | | |
|---|---|---|
| **Movements in issued capital** | | |
| Balance at the beginning of the financial year | 151,594 | 154,122 |
| Share buy-back 1,614,387 (i) | - | (7,261) |
| Share buy-back reserve | - | 4,733 |
| Balance at the end of the period | 151,594 | 151,594 |

Note:

(i) During the financial year ended 30 June 2018 Servcorp established an on-market buy-back program which enabled the purchase of 1,614,387 shares at an average price of $4.498 per share.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT

### 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Consolidated** | | | |
| **31 December 2018** | | | |
| Bank hybrid variable rate securities | 8,782 | - | - |
| Forward foreign currency exchange contracts | - | (869) | - |
| **31 December 2017** | | | |
| Bank hybrid variable rate securities | 11,440 | - | - |
| Forward foreign currency exchange contracts | - | 888 | - |

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets/ (liabilities) | Fair value as at 31 Dec 2018 $'000 | Fair value as at 31 Dec 2017 $'000 | Fair value hierarchy | Valuation tecnhique(s) and key input(s) |
|---|---|---|---|---|
| Bank hybrid variable rate securities | 8,782 | 11,440 | 1 | Quoted prices in an active market |
| Forward foreign currency exchange contracts | (869) | 888 | 2 | Future cash flows are estimated based on observable forward exchange rates |

### 11 SUBSEQUENT EVENTS

Other than the matters noted below, there has not arisen in the interval between reporting date and the date of this Financial Report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

#### Dividend

On 21 February 2019, the Directors declared an interim dividend of 13.00 cents per share, 40% franked, payable on 3 April 2019.

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# Independent Auditor's Review Report to the Members of Servcorp Limited

We have reviewed the accompanying half-year financial report of Servcorp Limited, which comprises the condensed statement of financial position as at 31 December 2018, the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 18.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Servcorp Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the

*Corporations Act 2001*, which has been given to the directors of Servcorp Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Servcorp Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

Stephen Gustafson
Partner
Chartered Accountants
Sydney, 21 February 2019