

SERVCORP LIMITED
ABN 97 089 222 506

APPENDIX 4D

Interim Financial Report
For the six months ended
31 December 2019

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 2019, the 2019 Annual Report and public announcements made during the period in accordance with continuous disclosure obligations arising under Corporations Act 2001 and ASX Listing Rules.

Servcorp Limited
ABN 97 089 222 506
Interim Financial Report
31 December 2019

Reporting Period

Current period: 1 July 2019 to 31 December 2019
Previous corresponding period: 1 July 2018 to 31 December 2018

Results for announcement to the market

				\$ million
Revenue and other income from ordinary activities	up	9%	to	178.8
Profit from ordinary activities before tax	up	407%	to	18.9
Net profit after tax for the period attributable to members	up	216%	to	14.8

Dividends	Total amount \$ million	Amount per security (cents per share)	Franked amount per security (cents per share)
<i>Current period</i>			
Interim dividend declared	10.7	11.00c	2.75c
<i>Previous corresponding period</i>			
Interim dividend paid	12.6	13.00c	5.20c

Record date for determining entitlements to the dividend	10 March 2020
Dividend payment date	2 April 2020

There is no foreign conduit income attributed to this dividend.

	31 December 2019	30 June 2019
	\$	\$
Net tangible asset backing		
Net tangible asset backing per ordinary security	2.13	2.32

Additional 4D disclosures can be found in the Notes to the Servcorp Consolidated Interim Financial Report for the six months ended 31 December 2019 lodged with the ASX on 25 February 2020.

Management Discussion & Analysis

Headline

Resilient 1H20 performance with all key metrics up on the prior corresponding period:

- Revenue and other income up 9%
- Underlying NPBT up 47%
- Free Cash up 20%
- Occupancy up 3 percentage points to 76%

Operating performance

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

	1H20	1H19
AUD million		
Statutory NPBT / (NLBT)	18.9	(6.1)
<i>(Less) / Add:</i>		
Restricted earnings and provisions ¹	2.1	(0.3)
Restructure costs and write-offs	-	1.9
Impairment of assets and goodwill	-	18.7
Underlying NPBT²	21.0	14.2
<i>(Less):</i>		
Underlying tax expense	(4.1)	(2.6)
Underlying NPAT	16.9	11.6
<i>(Less) / Add:</i>		
Restricted earnings and provisions (after tax)	(2.1)	0.2
Restructure costs and write-offs (after tax)	-	(1.4)
Impairment of assets and goodwill	-	(18.7)
Non-cash tax adjustment relating to deferred tax assets	-	(4.5)
Statutory NPAT / (NLAT)	14.8	(12.8)

- Statutory NPBT \$18.9 million, up \$25.0 million or 407%
- Underlying NPBT \$21.0 million excluding \$0.1 million of losses and \$2.0 million of provisions related to a politically restricted country, up \$6.8 million on 1H19 Underlying NPBT of \$14.2 million
- Free Cash of \$36.7 million, up \$6.0 million or 20%
- Statutory cash flows generated from operations of \$100.7 million, up \$77.1 million in 1H20 compared to 1H19 principally as a result of disclosure requirements stemming from the new accounting standard *AASB16 – Leases* (adopted 1 July 2019)

Strong balance sheet

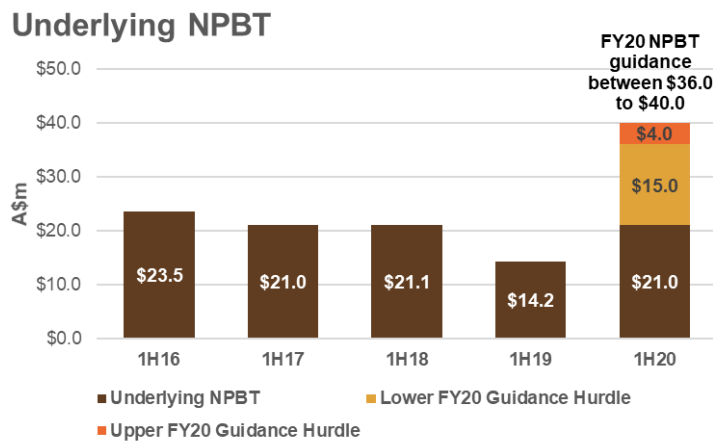
- Cash balances of \$75.9 million, up \$9.7 million from 30 June 2019; driven by improved operating performance in most regions offset by the USA
- Free Cash 175% of Underlying 1H20 NPBT of \$21.0 million, supporting self-funded capital expenditure and increased dividends in FY20
- No external net debt
- 1H20 interim dividend of 11.00 cps confirmed (up 10% on previous forecast), 25% franked
- 2H20 final dividend of 11.00 cps forecast (up 10% on previous forecast); franking levels are uncertain

¹ Earnings generated and provisions recorded by a member of the consolidated entity operating in a politically restricted country with exchange controls

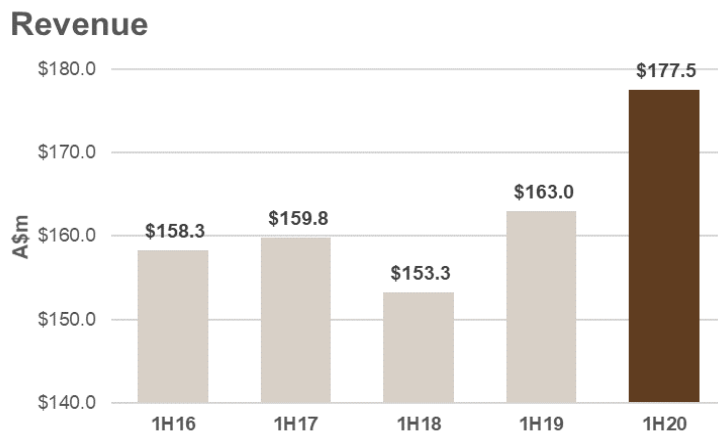
² Underlying 1H19 NPBT restated for earnings generated by a member of the consolidated entity operating in a politically restricted country with exchange controls

1H20 – Overview

1H20 Underlying NPBT of \$21.0 million (up 47% on 1H19) was underpinned by a strong EME result, a solid contribution from parts of North Asia offset by USA losses.



We produced record revenue of \$177.5 million, up 9% on 1H19.

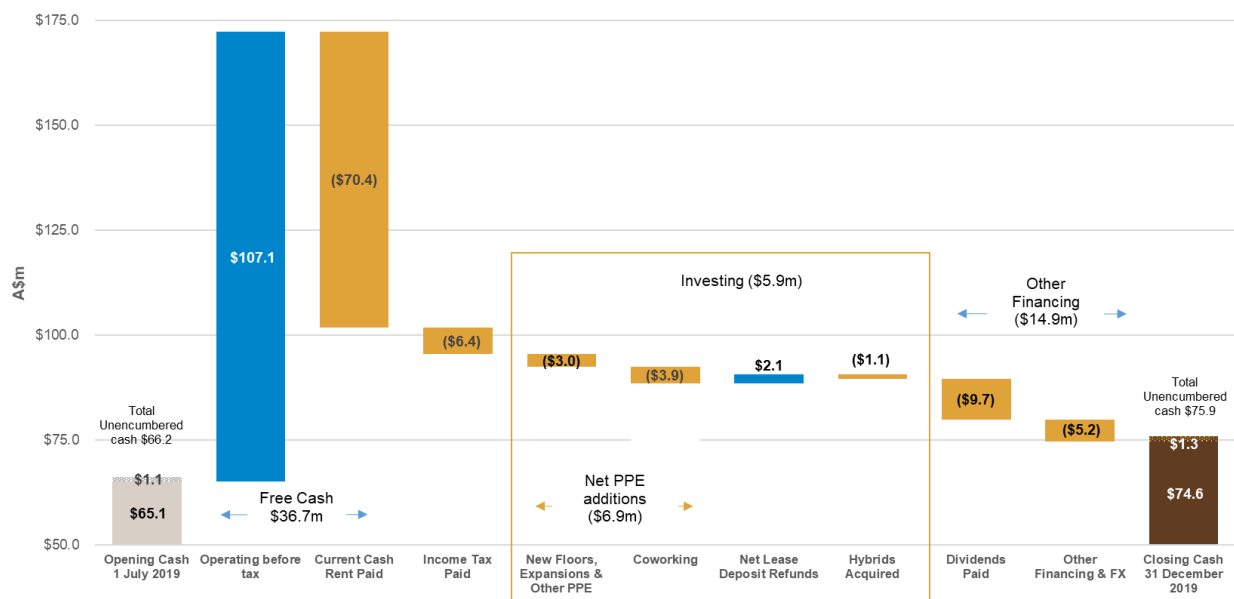


Cash flow & Liquidity

Cash flows generated from operations of \$100.7 million, up \$77.1 million in 1H20 compared to 1H19 principally as a result of disclosure requirements stemming from the new accounting standard *AASB16 – Leases* (adopted 1 July 2019). From 1 July 2019, payments and prepayments to our landlords' (i.e. Cash Rent) is disclosed in financing activities.

Free Cash for 1H20 is \$36.7 million, up \$6.0 million on 1H19 of \$30.7 million.

Cash flow & Liquidity



Net capital expenditure was \$6.9 million, down \$26.7 million from \$33.6 million in 1H19 reflecting our near completion of our investment in reshaping our portfolio to modernise current fit-outs to incorporate Coworking.

We received \$2.1 million in net lease deposit refunds, acquired \$1.1 million of hybrid securities and paid the final FY19 dividend of \$9.7 million during 1H20.

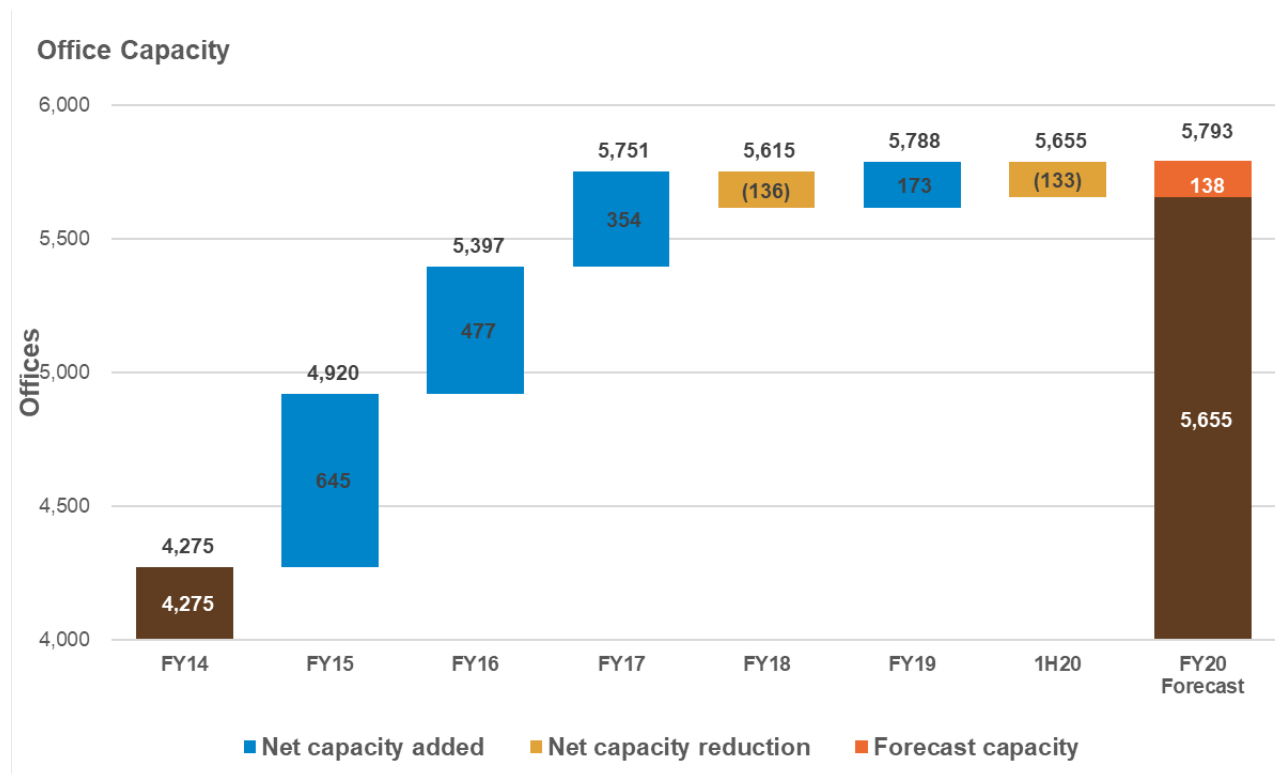
Other financing and foreign exchange includes prepayment of Cash Rent of \$6.3 million offset by cash incentives received for fit-out of \$0.8 million and effects of exchange rate changes of \$0.3 million.

After the impact of foreign exchange rates overall cash balances increased by \$9.7 million from 30 June 2019 to \$75.9 million.

Office Capacity

During 1H20 we consolidated several locations closing floors in Auckland, Bangkok, Brisbane, Chengdu and Jakarta.

Net capacity at the end of FY20 is forecast to remain relatively flat on FY19 capacity.



Like for Like floors occupancy was 76% at 31 December 2019 (30 June 2019: 73%). All floors occupancy was 76% at 31 December 2019 (30 June 2019: 72%).

Two new floors are scheduled to open in Manilla and Shanghai in 2H20.

Our global footprint encompasses 145 floors, in 52 cities across 22 countries.

Coworking

Our investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is materially complete.

To date we have completed 90 of the previously identified locations and are committed to complete a further 5 locations during 2H20 and are assessing business cases for an additional 10 locations. In 1H20 we spent \$3.9 million and depending on any amendments to the selection of floors, we estimate an additional investment of approximately \$3.5 million in 2H20.

Operating Summary by Region

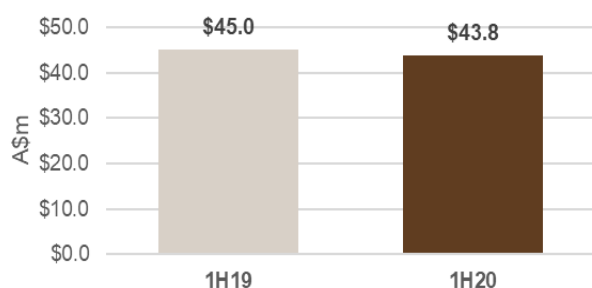
General

On 1 July 2019 we transitioned to the new accounting standard *AASB16 – Leases*. The transition to the new accounting standard has not had any commercial impact on our business, including cash. However, the new accounting standard has materially impacted the calculation of EBITDA from the transitional date. Therefore, from the transitional date, we have introduced “Cash Earnings” which is calculated as “EBITDA minus Cash Rent paid”. EBITDA still applies to the prior corresponding period.

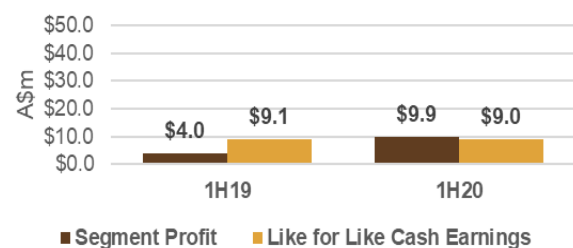
Supplementary information relating to the transition to the new accounting standard is set out in the Servcorp Consolidated Interim Financial Report for the six months ended 31 December 2019.

ANZ & South East Asia

ANZ & SEA Revenue



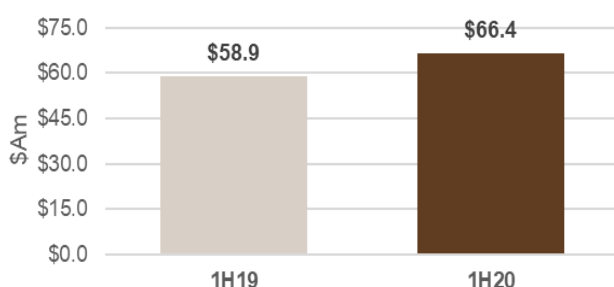
ANZ & SEA Segment Profit & Like for Like Cash Earnings



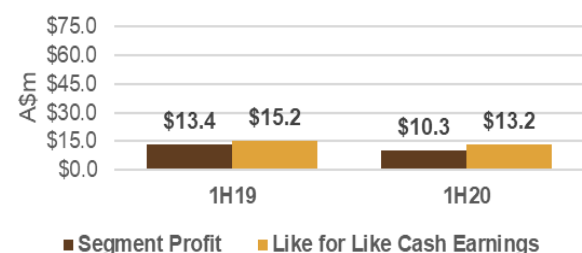
While revenue was down 3% on 1H19, segment performance in ANZ / SEA increased by 148% driven largely by continued improvement in SEA generally. Like for Like Cash Earnings³ decreased 2% for the same period stemming from floor closures during 1H20 in Auckland, Bangkok, Brisbane and Jakarta.

North Asia

North Asia Revenue



North Asia Segment Profit & Like for Like Cash Earnings



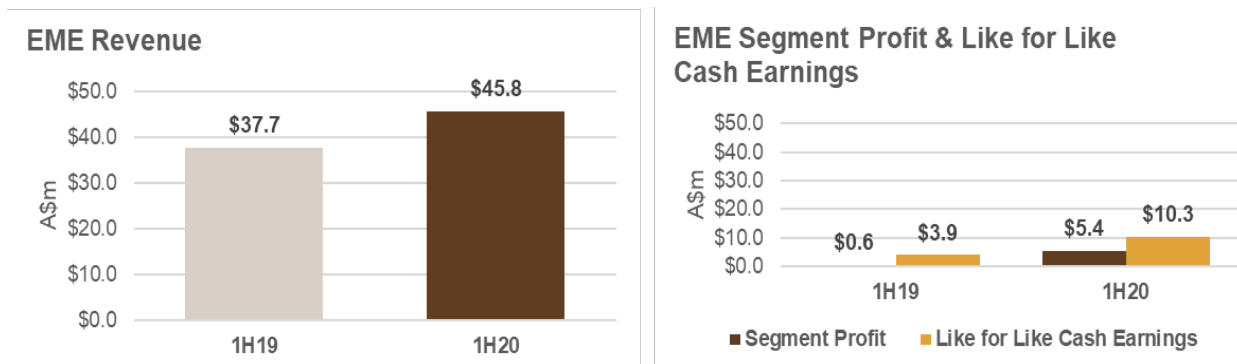
North Asia as a whole produced a good result. Revenue for 1H20 was up 13% to \$66.4 million compared to 1H19. Like for Like Cash Earnings³ decreased 13% for the same period driven by the poor performance of Hong Kong and Thailand.

We closed one floor in Chengdu during 1H20.

³ For 1H20 Cash Earnings is calculated as EBITDA minus Cash Rent paid whereas 1H19 is EBITDA only

Operating Summary by Region (continued)

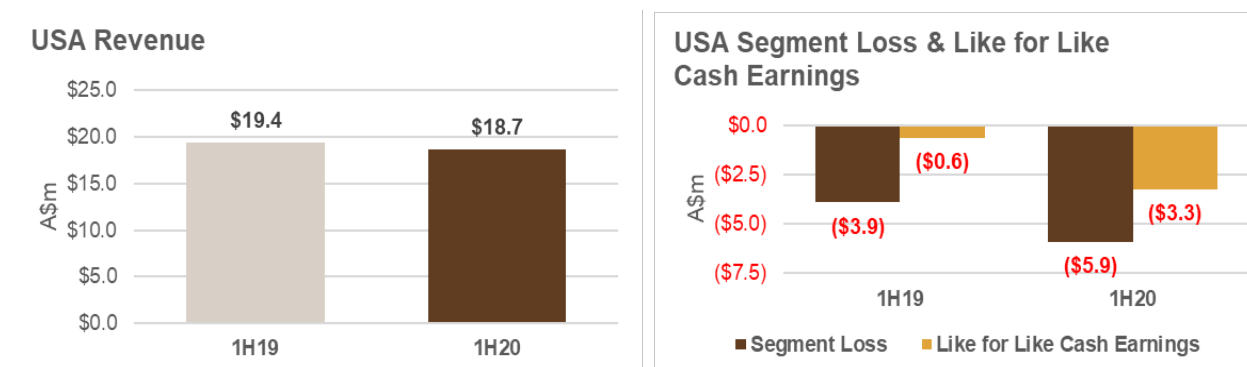
Europe & Middle East⁴



Like for Like floors in the EME segment produced a significantly improved result in 1H20 largely driven by solid performances of Saudi Arabia and UAE.

Revenue was up 21% in 1H20 and Like for Like Cash Earnings⁵ increased 164% to \$10.3 million.

USA



The USA continues to produce losses. Like for Like Cash Earnings⁵ worsened from negative \$0.6 million in 1H19 to negative \$3.3 million in 1H20.

While the USA had some good intermittent sales months during calendar year 2019, its performance has deteriorated materially during 1H20. The CEO has spent a significant amount of time in the USA in the last 3 months and along with USA senior management, remain intensely focussed on correcting its continued lack of performance.

⁴ Excludes Revenue, Segment Profit and Like for Like Cash Earnings of a member of the consolidated entity operating in a politically restricted country with exchange controls

⁵ For 1H20 Cash Earnings is calculated as EBITDA minus Cash Rent paid whereas 1H19 is EBITDA only

Financial Summary

1H20 revenue and other income was up 9% to \$178.8 million (1H19: \$164.2 million). The Australian dollar remains weak against most currencies in which we transact. 1H20 revenue expressed in constant currency terms (i.e. at 1H20 exchange rates) increased by 6% compared to 1H19.

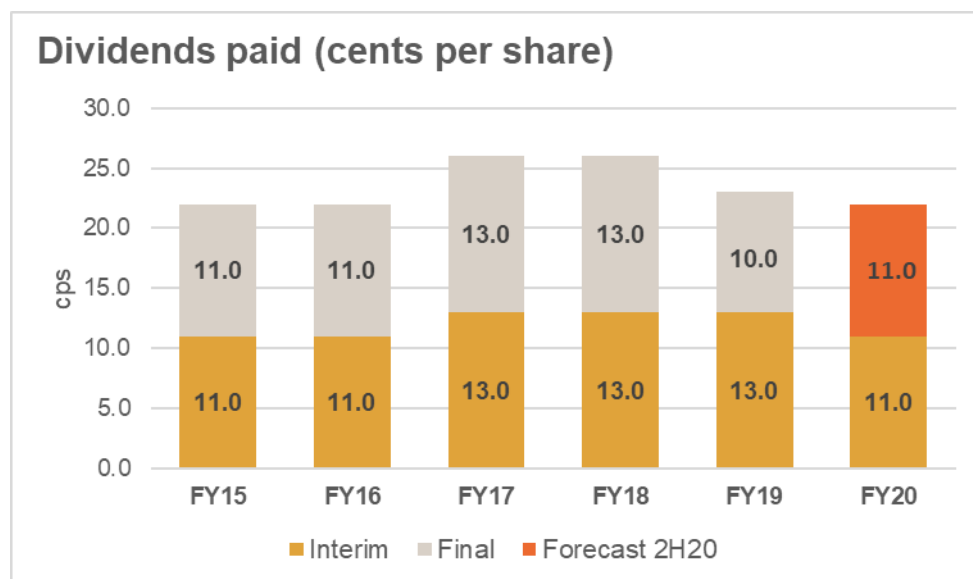
1H20 NPBT was \$18.9 million, up \$25.0 million from 1H19 NLBT of (\$6.1) million. Excluding \$0.1 million of losses and \$2.0 million of provisions related to a politically restricted country, Underlying NPBT was \$21.0 million, up 47% on 1H19 Underlying NPBT of \$14.2 million.

Net Tangible Assets per share is down to \$2.13 per share at 31 December 2019 from \$2.32 per share at 30 June 2019 owing largely to the transition to the new accounting standard *AASB16 - Leases*.

Cash balances as at 31 December 2019 remained healthy at \$75.9 million, up \$9.7 million from \$66.2 million at 30 June 2019.

Other financial assets includes mark-to-market investments in bank hybrid variable rate securities of \$9.0 million (30 June 2019: \$7.9 million).

Dividends



The Directors have declared an interim dividend of 11.00 cps (up 10% on previously forecast), 25% franked, payable on 2 April 2020.

A final dividend of 11.00 cps is anticipated to be paid in relation to FY20; franking levels remain uncertain.

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

Outlook

Notwithstanding the losses incurred in the USA, our first half performance has been strong. All key metrics are improved on the prior corresponding period including occupancy, operating margins, NPAT and Free Cash. Importantly the trend is continuing into the second half of FY20.

We continue to face significant challenges in the USA and likely headwinds in Asia (particularly China) in light of the coronavirus outbreak. We have experienced management and a diversified business, both providing stability in this changing flexible workspace landscape.

Users in the flexible workspace industry are more educated than ever before however Servcorp remains recognised as the market leader.

Servcorp has a strong, diversified global business and is in a financially sound position with current cash balances of approximately \$94.0 million. Accordingly we reaffirm FY20 NPBT guidance⁶ of between \$36.0 million and \$40.0 million and FY20 Free Cash to exceed \$65.0 million.

Further, expressing confidence in the future of our business, we have increased the interim dividend and the expected final dividend to 11.00 cps each.

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

⁶ Excludes NPBT of a member of the consolidated entity operating in a politically restricted country with exchange controls

Servcorp Limited
ABN 97 089 222 506
Interim Financial Report
31 December 2019

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
Cash Rent	Cash rent is the amount paid to a landlord (or lessor) by Servcorp as a lessee under the terms of a signed lease agreement
Free Cash	Is the Net Operating Cash Flows before tax as reported in the Consolidated Statement of Cash Flows contained in the Servcorp Consolidated Interim Financial Report minus cash rent paid
EBITDA	Earnings before interest, tax, depreciation and amortisation
Cash Earnings	Is EBITDA minus cash rent paid
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

HALF-YEAR 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 2019. 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 2019 are:

Name	Date Appointed
Mr Alf Moufarrige (Managing Director and CEO)	August 1999
The Hon Mark Vaile (Chairman and Independent Non-Executive Director)	June 2011
Mr Rick Holliday-Smith (Independent Non-Executive Director)	October 1999
Mrs Wallis Graham (Independent Non-Executive Director)	October 2017
Mr Anthony McGrath (Independent Non-Executive Director)	August 2019
Mr Bruce Corlett (Chairman and Independent Non-Executive Director)	Resigned November 2019

Review of operations

Revenue and other income from operating activities was up 9% to \$178.8 million for the half year ended 31 December 2019 (31 December 2018: \$164.2 million).

Net profit before tax for the half year ended 31 December 2019 was \$18.9 million, up 407% from \$6.1 million net loss before tax for the half year ended 31 December 2018. Excluding restricted earnings and provisions of \$(2.1) million, underlying net profit before tax was \$21.0 million (31 December 2018: \$14.2 million).

Operating net profit after tax was \$14.8 million (31 December 2018: \$12.8 million operating net loss).

Cash and cash equivalents as at 31 December 2019 remained healthy at \$75.9 million (30 June 2019: \$66.2 million).

The business produced free cash of \$36.7 million during the half year ended 31 December 2019, up \$6.0 million or 20% on the previous corresponding period. Statutory net operating cash flows were \$100.7 million (31 December 2018: \$23.6 million), principally as a result of disclosure requirements stemming from the new accounting standard AASB16- Leases, adopted on 1 July 2019.

The Directors have declared an interim dividend of 11.00 cents per share, 25.0% franked, payable on 2 April 2020.

Business Overview

Underlying net profit before tax was \$21.0 million for the half year ended 31 December 2019, up 47% on the half year ended 31 December 2018. The result was underpinned by a strong performance in Europe and the Middle East, a solid contribution from North Asia, and partly offset by losses in the United States.

The strengths of the Consolidated Entities first half result was evident across all key metrics including occupancy, operating margins, net profit after tax and free cash.

On 1 July 2019 the Consolidated Entity transitioned to the new accounting standard AASB16 – Leases. The transition to the new accounting standard has not had any commercial impact on our business, including cash, however the new accounting standard has materially impacted the calculation of EBITDA from the transitional date. Therefore, from the transitional date, we have introduced "Cash Earnings" which is calculated as "EBITDA minus cash rent paid". EBITDA still applies to the prior corresponding period.

Supplementary information relating to the transition to the new accounting standard is set out in the Notes to the Financial Statements.

Servcorp Capacity

During the half year ended 31 December 2019 Servcorp expanded locations in Hobart and Brisbane. We consolidated several locations, closing floors in Auckland, Bangkok, Brisbane, Chengdu and Jakarta.

Further locations will open in the second half of the financial year ending 30 June 2020, in Shanghai and Manila.

Servcorp's investment in reshaping our portfolio to modernise current fit-outs and enhance our coworking offering is materially complete. To date Servcorp has completed 90 of the previously identified locations and is committed to complete a further 5 locations during the second half of the year ending 30 June 2020, and is assessing business cases for an additional 10 locations.

Servcorp's global footprint encompasses 145 floors, in 52 cities across 22 countries.

DIRECTORS' REPORT (CONT.)

Australia, New Zealand and Southeast Asia

While revenue was down 3% on the half year ended 31 December 2018, segment performance increased by 148% driven largely by continued improvement in South East Asia generally. Like for Like cash earnings decreased 2% for the same period.

During the half year ended 31 December 2019, we closed floors in Auckland, Bangkok, Brisbane and Jakarta.

North Asia

North Asia as a whole produced a good result. Revenue for the half year ended 31 December 2019 was up 13% to \$66.4 million compared to the half year ended 31 December 2018. Like for Like cash earnings decreased 13% for the same period, driven by the poor performance of Hong Kong and Thailand.

One floor in Chengdu was closed during the half year ended 31 December 2019.

Europe and the Middle East

Like for Like floors produced a much improved result during the half year ended 31 December 2019, largely driven by solid performances in Saudi Arabia and the UAE.

Revenue was up 21% in the six months ended 31 December 2019 and Like for Like cash earnings increased 164% to \$10.3 million.

USA

The USA continues to produce losses. Like for Like cash earnings worsened from negative \$0.6 million in the half year ended 31 December 2018 to negative \$3.3 million in the half year ended 31 December 2019.

While the USA had some good intermittent sales months during the 2019 calendar year, its performance has deteriorated materially during the half year ended 31 December 2019. The CEO has spent a significant amount of time in the USA in the last 3 months and, along with USA senior management, remain intensely focussed on correcting its lack of performance.

State of affairs

During the half year ended 31 December 2019 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 25th day of February 2020

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

25 February 2020

Dear Board Members

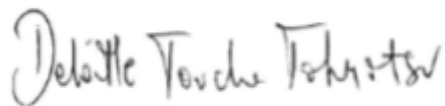
Auditor's Independence Declaration to Servcorp Limited

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 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



S C Gustafson
Partner
Chartered Accountants

Consolidated Financial Report

For the half year ended 31 December 2019

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Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2019

	Note	31-Dec-19 \$'000	31-Dec-18 \$'000
Revenue	B2	177,455	162,952
Other revenue & income	B2	1,348	1,208
		178,803	164,160
Service expenses		(41,101)	(40,027)
Marketing expenses		(11,038)	(10,237)
Occupancy expenses		(22,507)	(84,117)
Amortisation of Right of Use Asset	C1	(60,657)	-
Finance costs attributable to lease liability		(9,697)	-
Rent – fixed annual impact	B3	-	(179)
Administrative expenses		(13,003)	(15,152)
Share of gains/(losses) of joint venture		207	(51)
Net foreign exchange (loss)/ gain (realised & unrealised)		(673)	(871)
Impairment of goodwill	B3	-	(1,030)
Impairment of property, plant & equipment	B3	-	(17,679)
Borrowing expenses		-	(5)
Other expenses		(1,469)	(950)
Total expenses		(159,938)	(170,298)
Profit/(Loss) before income tax expense	B1	18,865	(6,138)
Income tax expense	B5	(4,053)	(6,684)
Profit/(Loss) for the period		14,812	(12,822)
Other comprehensive income			
Translation of foreign operations (item may be reclassified subsequently to profit or loss)		(332)	7,914
Other comprehensive income for the period (net of tax)		(332)	7,914
Total comprehensive income for the period		14,480	(4,908)
Earnings per security			
			Cents
Basic and diluted EPS	B6	0.153	(\$0.132)

The Consolidated statement of comprehensive income is to be read in conjunction with the notes to the Consolidated financial statements.

Consolidated Statement of Financial Position
As at 31 December 2019

	Note	31-Dec-19 \$'000	30-Jun-19 \$'000
Current assets			
Cash and cash equivalents		74,611	65,091
Trade and other receivables		43,918	46,420
Other financial assets		10,474	9,385
Current tax assets	B5	-	1,408
Prepayments and other assets		9,848	16,137
Total current assets		138,851	138,441
Non-current assets			
Other financial assets		45,080	47,170
Property, plant and equipment	C1	502,747	145,554
Deferred tax assets		45,338	27,093
Goodwill	C2	13,775	13,775
Total non-current assets		606,940	233,592
Total assets		745,791	372,033
Current liabilities			
Trade and other payables		53,153	59,831
Other financial liabilities	C3	36,144	35,025
Lease liabilities		101,121	-
Current tax liabilities		2,805	-
Provisions		7,636	7,774
Total current liabilities		200,859	102,630
Non-current liabilities			
Trade and other payables		23	28,219
Other financial liabilities	C3	-	530
Lease liabilities		321,622	-
Provisions		970	854
Deferred tax liabilities		2,203	1,207
Total non-current liabilities		324,818	30,810
Total liabilities		525,677	133,440
Net assets		220,114	238,593
Equity			
Contributed equity	D2	151,594	151,594
Reserves		(3,294)	(3,085)
Retained earnings		71,814	90,084
Total equity attributable to equity holders of the parent		220,114	238,593

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

*Consolidated Statement of Changes in Equity
For the half year ended 31 December 2019*

	Issued Capital	Share Buy-Back Reserve	Foreign Currency Translation Reserve	Employee Equity Settled Benefits Reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance 1 July 2018	151,594	(4,733)	(6,772)	199	109,877	250,165
Profit for the period	-	-	-	-	(12,822)	(12,822)
Translation of foreign operations (net of tax)	-	-	7,914	-	-	7,914
Total comprehensive income for the period	-	-	7,914	-	(12,822)	(4,908)
Share-based payments	-	-	-	45	-	45
Payment of dividends	-	-	-	-	(12,586)	(12,586)
Balance 31 December 2018	151,594	(4,733)	1,142	244	84,469	232,716
Balance 1 July 2019	151,594	(4,733)	1,406	242	90,084	238,593
Adjustment resulting from adoption of AASB 16 ⁽ⁱ⁾	-	-	-	-	(23,401)	(23,401)
Balance 1 July 2019 - restated	151,594	(4,733)	1,406	242	66,683	215,192
Profit for the period	-	-	-	-	14,812	14,812
Translation of foreign operations (net of tax)	-	-	(332)	-	-	(332)
Total comprehensive income for the period	-	-	(332)	-	14,812	14,480
Share-based payments	-	-	-	123	-	123
Payment of dividends	-	-	-	-	(9,681)	(9,681)
Balance 31 December 2019	151,594	(4,733)	1,074	365	71,814	220,114

⁽ⁱ⁾ Please refer to Adoption of new and revised accounting standards note

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

Consolidated Statement of Cash Flows
For the half year ended 31 December 2019

	31-Dec-19 \$'000	31-Dec-18 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	197,165	173,250
Payments to suppliers and employees (inclusive of GST)	(90,992)	(144,277)
Franchise fees received	92	288
Tax paid	(6,380)	(7,095)
Interest and other items of similar nature received	-	(4)
Interest and other costs of finance paid	800	1,449
Net operating cash inflows	100,685	23,611
Cash flows from investing activities		
Payments for variable rate bonds	(1,109)	-
Payments for property, plant and equipment	(6,964)	(33,635)
Payments for landlord lease deposits	(2,107)	(5,092)
Proceeds from sale of property, plant and equipment	91	-
Proceeds from sale of variable rate bonds	-	2,598
Proceeds from refund of lease deposits	4,233	270
Net investing cash outflows	(5,856)	(35,859)
Cash flows from financing activities		
Dividends paid	(9,682)	(12,586)
Repayment of borrowings and leasing liabilities current period ⁽ⁱ⁾	(70,354)	-
Prepayment of borrowings and leasing liabilities for future periods ⁽ⁱ⁾	(6,340)	-
Landlord capital incentives received	767	139
Net financing cash outflows	(85,609)	(12,447)
Net increase (decrease) in cash and cash equivalents	9,220	(24,695)
Cash and cash equivalents at the beginning of the financial period	65,091	93,444
Effects of exchange rate changes on cash transactions in foreign currencies	300	3,060
Cash and cash equivalents at the end of the financial period	74,611	71,809

⁽ⁱ⁾ Please refer to Adoption of new and revised accounting standards note

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

A BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The half year report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting (AASB 134). Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half year 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 and any public announcements made by Servcorp Limited (the Consolidated Entity) during the half year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

For the purposes of preparing the consolidated financial statements, the Consolidated Entity is a for-profit entity.

The half year financial statements were authorised for issue by the Directors on 25 February 2020.

BASIS OF PREPARATION

The half year financial report has been prepared on the basis of historical cost, except for financial instruments that are measured at their fair value. Cost is based on the fair value of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Consolidated Entity 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.

The Consolidated Entity has an investment in a profitable, cash producing flexible workspace business in a politically restricted country with exchange controls. Included in the 31 December 2019 consolidated balance sheet are net assets of approximately \$3.3 million of which \$1.1 million is represented in cash. Given the various sanctions imposed on the country and the current significant political risk the year ended 31 December 2019 earnings of our operation have been excluded from Underlying Net Profit After Tax (refer to the Directors' Report for details). Further, until such time as the current climate changes, we will not be including in our forecasts any future earnings generated.

The Consolidated Entity's investment was made several years ago, before the heightening of sanctions by certain countries. We are always fully compliant with all laws and regulations including the associated sanctions laws. The current political risk is significant and extremely complicated; we have a profitable cash generating business but are strictly prohibited from repatriating cash or profits. We continue to explore all options including sale, nevertheless given the profitability and cash generation of our business, any potential terms of such a sale need to be commercially acceptable.

Due to the capitalisation of the lease commitments, the Consolidated Entity is in a net current liabilities position. The capitalisation consists of the recognition of current lease liabilities of \$101 million and the associated deferred tax impact of \$8 million. The corresponding recognition of the Right of Use Asset is categorised as a non-current asset per AASB 16. This change in standard does not have any cash consequences for the Consolidated Entity and does not impact future cash flow generation.

The Statement of Cash flows for 31 December 2019, has been adjusted for repayment of borrowings and leasing liabilities under AASB 16 *Leases*. The financing activities include the amortisation of right of use asset and finance costs attributable to the lease liability.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Consolidated Entity has adopted AASB 16 *Leases* (AASB 16) for the first time on 1 July 2019. The impact of the adoption of the new standard have been explained below.

Accounting standard	AASB 16 <i>Leases</i>
Nature of change	<p>AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard brings all major leases on balance sheet.</p> <p>AASB 16 replaces existing leases guidance, including AASB 117 <i>Leases</i>, IFRIC 4 <i>Determining whether an Arrangement Contains a Lease</i>, SIC-15 <i>Operating Leases – Incentives</i> and SIC-27 <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>.</p>
Impact on financial statements	<p>Impact on lessor accounting</p> <p>AASB 16 does not change substantially how a lessor accounts for leases. Under AASB 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, AASB 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under AASB 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under AASB 117).</p> <p>The Consolidated Entity's principal activities are the provision of Executive Serviced and Virtual Offices, Coworking and IT, Communications and Secretarial Services. The Consolidated Entity enters into sub-lease arrangements for its properties and, consistent with the practice under AASB 117, continues to classify and account for these leases as operating sublease agreements under AASB 16. Rental revenue from sub-leases with customers in the capacity as lessor, is accounted for in accordance with AASB 16 on a straight line basis according to contractual terms, the average term being less than 12 months. The implementation of AASB 16 has not resulted in any required changes to the financial statements and its disclosures.</p>

Impact on lessee accounting

On adoption of AASB 16, the Consolidated Entity recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.8%.

The adoption of AASB 16 resulted in the recognition of significant right-of-use assets together with corresponding lease liabilities as well as the recognition of interest expense on the lease liability and depreciation on the right of use asset during the half-year period.

The Consolidated Entity adopted the modified cumulative catch-up approach, which adjusts opening retained profits on 1 July 2019 for the net effect of AASB 16 for the first time, adjusted for deferred tax and the reversal of the existing straight-line lease and incentive liability.

The pattern of expense recognition will change going forward with higher costs in the earlier stages of the lease as a result of the interest expense being determined on a lease liability that amortises over the lease term. The recognition of these balances will not impact the actual cash flows of the Consolidated Entity or cash generation per share although the operating cash flows in the cash flow statement have been impacted due to the different classification of lease payments as interest and repayment as lease liability (rather than operating lease payments). The adoption of AASB 16 has not impacted on the Consolidated Entity's strategy, commercial lease negotiations, growth or financing arrangements.

On adoption, under the cumulative catch-up method of AASB 16, the Right of Use Asset has been accounted for as if AASB 16 has always applied since the commencement of the lease.

Impact on financial statements (continued)

The impact of adopting AASB 16 is set out below.

Recognised as at 1 July 2019	Notes	\$'000
Property, plant and equipment	C1	389,955
Current lease liabilities		(111,454)
Non-current lease liabilities		(341,833)
Removal of previously capitalised costs		(2,350)
Removal of prepaid rent		(5,476)
Removal of deferred rent incentive		37,136
Tax		10,621
Net impact on Retained Earnings		23,401

As at 30 June 2019 the off balance sheet operating lease commitments totalled \$588 million. The impact of AASB 16 *Leases* on retained earnings as at 1 July 2019 totalled \$436 million. The difference between the two amounts is attributable to the present value of items included under AASB 16 which were previously recognised separately under the old standard:

	\$'000
Operating lease commitments at 30 June 2019	588,295
Effect of discounting commitments previously disclosed on a gross basis	(78,901)
Reassessment of lease terms on adoption of AASB 16	(8,016)
Non-lease service expenses previously included in commitments	(39,995)
Prepaid rent previously presented gross of commitments	(5,476)
Other	(2,620)
Lease liabilities recognised at 1 July 2019	453,287

In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of use asset at the date of initial application,
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease, and

- Elected not to reassess whether a contract is, or contains a lease at the date of initial application.

With the exception of one lease with a total lease term of less than 12 months, Servcorp's leases fall within scope of AASB 16 *Leases*. This does not impact the flexibility of our leases. The majority of Servcorp's leases remain 'flexible', meaning that they are terminable at our option within six months.

Significant judgement in determining the lease term of contracts with renewal options

The Consolidated Entity leases various offices and properties around the world. Lease terms are determined as the non-cancellable term of the lease, together with periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease if it is reasonably certain not to be exercised.

Rental contracts are typically made for fixed periods of 2 to 10 years but may have extension options. The Consolidated Entity applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Consolidated Entity reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Until the 2020 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

New accounting policies under AASB 16

The Consolidated Entity as lessee

The Consolidated Entity assesses whether a contract is or contains a lease, at inception of the contract. For lease arrangements in which the Consolidated Entity is a lessee, a right-of-use asset and a corresponding liability is recognised at the date at which the leased asset is available for use by the group.

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'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.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivables
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercised price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the term reflects the lessee exercising that option.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Consolidated Entity recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying assets is available for use), measured at cost.

The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right of use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and are adjusted for any remeasurement of lease liabilities.

Whenever the Consolidated Entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Consolidated Entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Right-of-use assets are subject to impairment in accordance with AASB 136 *Impairment of Assets*. Any identified impairment loss is accounted for in line with our accounting policy for 'Property, plant and equipment'.

The Consolidated Entity as lessor

The Consolidated Entity enters into sub-lease agreements as a lessor with respect to some of its leased properties. As an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Leases for which the Consolidated Entity is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Consolidated Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Consolidated Entity's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Consolidated Entity applies AASB 15 to allocate the consideration under the contract to each component.

B RESULTS FOR THE HALF YEAR

This section explains the results and performance of the Consolidated Entity, including segmental analysis and detailed breakdowns.

B1 SEGMENT INFORMATION

THE CONSOLIDATED ENTITY IDENTIFIES ITS OPERATING SEGMENTS BASED ON THE INTERNAL REPORTING PROVIDED TO THE EXECUTIVE LEADERSHIP TEAM, WHO ARE THE CONSOLIDATED ENTITY'S CHIEF OPERATING DECISION MAKERS.

Servcorp provides flexible workspace solutions that are fully-managed, fully-furnished 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 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 'Operating Segments'.

The Consolidated Entity's reportable operating segments under AASB 8 'Operating Segments' are presented below. The accounting policies of the reportable operating segments are the same as the Consolidated Entity's accounting policies.

	Lease revenue 31 Dec 2019 \$'000	Other revenue 31 Dec 2019 \$'000	Total revenue 31 Dec 2019 \$'000	Lease revenue 31 Dec 2018 \$'000	Other revenue 31 Dec 2018 \$'000	Total revenue 31 Dec 2018 \$'000	Segment profit/ (loss) 31 Dec 2019 \$'000	31 Dec 2018 \$'000
Continuing operations								
Australia, New Zealand & Southeast Asia	33,278	10,491	43,769	34,241	10,739	44,980	9,883	4,039
USA	14,871	3,782	18,653	15,189	4,164	19,353	(5,861)	(3,871)
Europe & Middle East	34,125	13,210	47,335	28,863	10,256	39,119	5,313	1,619
North Asia	50,424	15,954	66,378	44,711	14,192	58,903	10,252	13,395
Other	878	350	1,228	113	196	309	938	126
	133,576	43,787	177,363	123,117	39,547	162,664	20,525	15,308
Finance costs - leases							-	(4)
Interest revenue		758	758		1,183	1,183	758	1,183
Foreign exchange gains		536	536				(138)	(871)
Centralised unrecovered head office overheads							(827)	151
Franchise fee income		92	92		288	288	92	288
Rent – fixed rent increase (i)							-	(179)
Share of profits/ (losses) of joint venture							207	(51)
(Loss)/ gain on asset disposal		69	69				(1,398)	(520)
Restructure costs (ii)							-	(1,167)
Impairment of goodwill (iii)							-	(1,030)
Make good provision								(701)
Impairment of property, plant & equipment (iv)								(17,679)
Unallocated		(15)	(15)		25	25	(354)	(868)
Profit before tax							18,865	(6,140)
Income tax expense (v)							(4,053)	(6,684)
Consolidated segment revenue and profit for the period	133,576	45,227	178,803	123,117	41,043	164,160	14,812	(12,824)

Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

B1 SEGMENT INFORMATION (continued)

The revenue reported above represents revenue generated from external customers. Intersegment sales were eliminated in full. For the half year 31 December 2019, the Consolidated Entity's Virtual Office revenue and Serviced Office revenue were \$49.8 million and \$127.6 million respectively (31 Dec 2018: \$45.4 million and \$117.3 million, respectively).

Notes:

i Refer to Note B3.

ii Key personnel resigned during the financial year. These were one-time voluntary attrition expenses.

iii During the half year ended 31 December 2018, the Consolidated Entity assessed the recoverable amount of goodwill and determined that \$1.0 million of the full goodwill for France in the Europe and Middle East segment was impaired. Refer to Note C6 for further details.

iv During the half year ended 31 December 2018, the Consolidated Entity 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 \$17.8 million. The impairment impacted the following segments North Asia \$1.0 million, Australia, New Zealand and Southeast Asia \$2.6 million, Europe and Middle East \$3.7 million, USA \$10.5 million.

v During the half year ended 31 December 2018, the USA 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.

B2 REVENUE & OTHER INCOME

The Consolidated Entity has four main revenue streams: lease revenue, communications revenue, service revenue and franchise fee income.

	31-Dec-19 \$'000	31-Dec-18 \$'000
Revenue		
Lease revenue	133,576	123,117
Communications revenue	20,609	18,604
Service revenue	23,178	20,942
Revenue from contracts with customers	43,787	39,546
Franchise fee income	92	288
Total revenue	177,455	162,952
Other income		
Interest income – bank deposits	758	1,183
Other income	590	25
Total other income	1,348	1,208

*Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019*

B3 EXPENSES

Expenses and outgoings

Expenses and outgoings include rates and taxes and are recognised on an accruals basis.

Depreciation

Depreciation on property, plant and equipment is calculated on a straight-line basis over the estimated useful life of the asset.

	31-Dec-19 \$'000	31-Dec-18 \$'000
Profit before income tax was arrived at after charging/ (crediting) the following from/ (to) continuing operations:		
Rent – fixed annual impact (i)	-	179
Impairment of goodwill (ii)	-	1,030
Impairment of property, plant & equipment (iii)	-	17,679
Restructure costs (iv)	-	1,167
Repairs and maintenance	1,045	701

Notes:

i For the half year ended 31 December 2018, the rent fixed annual impact represents the straight-lining of fixed annual increases ranging between 3% and 4.25% per annum in accordance with AASB117. Under AASB16 fixed annual increases are included in the present value of lease liabilities, refer to note C1.

ii During the half year ended 31 December 2018, the Consolidated Entity assessed the recoverable amount of goodwill and determined that \$1.0 million of the full goodwill for France was impaired.

iii During the half year ended 31 December 2018, the Consolidated Entity carried out a review of the recoverable amount of property, plant and equipment. The review led to the recognition of an impairment loss of \$17.7 million. Refer to Note B1 for further details.

iv Key personnel resigned during the half year ended 31 December 2018. These were one-time voluntary attrition expenses.

B4 EVENTS OCCURRING AFTER THE END OF THE HALF YEAR

No events have occurred since the interval between reporting date and the date of this half year report which have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the Consolidated Entity's state of affairs in future years.

Dividend

On 25 February 2020 the Directors declared a final dividend of 11.00 cents per share, franked to 25%, payable on 2 April 2020.

The financial effect of the above transaction has not been brought to account in the financial statements for the half year ended 31 December 2019.

Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

B5 INCOME TAX

All of the Consolidated Entity's tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or loss for the period.

Income tax analysis

Reconciliation to effective tax rate	31-Dec-19 \$'000	31-Dec-18 \$'000
Profit before income tax	18,865	(6,138)
Income tax expense calculated at 30%	5,660	(1,841)
Deductible local taxes	(530)	(339)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(488)	3,204
Other non (deductible)/ assessable items	(702)	262
Unrecognised tax losses of controlled entities recouped	(250)	-
Derecognition of previously recognised deferred tax assets	-	4,470
Income tax under/ (over) provision in prior years	(1,190)	(2,713)
Unused tax losses and tax offsets not recognised as deferred tax assets	1,553	3,641
Income tax expense	4,053	6,684

B6 EARNINGS PER SECURITY

Basic earnings per security (EPS) is calculated by dividing:

- the profit attributable to securityholders; by
- the weighted average number of ordinary securities (WANOS) outstanding during the half year.

Diluted EPS adjusts the WANOS to take into account dilutive potential ordinary securities from security-based payments.

	31-Dec-19	31-Dec-18
Profit/ (loss) attributable to securityholders used to calculate basic and diluted EPS(\$'000)	14,812	(12,822)
WANOS used in calculating basic EPS ('000)	96,818	96,818
WANOS used in calculating diluted EPS ('000)	96,818	96,818

Consolidated Statement of Cash Flows
For the half year ended 31 December 2019

C ASSETS AND LIABILITIES

C1 PROPERTY, PLANT & EQUIPMENT

	Land & buildings at cost	Lease-hold improvements owned at cost	Lease-hold improvements leased at cost	Office furniture & fittings owned at cost	Office furniture & fittings leased at cost	Office equipment & software owned at cost	Office equipment leased at cost	Motor vehicles owned at cost	WIP at cost	ROU at cost	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross carrying amounts											
Balance at 1 July 2019	8,850	241,317	1,354	43,531	145	61,989	127	333	2,578	-	360,224
AASB16 adoption adjustment ⁽ⁱ⁾		(2,350)	-	-	-	-	-	-	-	389,955	387,605
Balance at 1 July 2019 - restated	8,850	238,967	1,354	43,531	145	61,989	127	333	2,578	389,955	747,829
Additions	-	5,139	-	1,450	-	4,342	-	-	(1,167)	44,459	54,223
Disposals	-	(6,865)	-	(774)	-	(1,212)	-	-	-	(12,767)	(21,618)
Effect of foreign currency exchange differences	(53)	558	(10)	(35)	(1)	(447)	(1)	(1)	-	(6,982)	(6,972)
Balance at 31 December 2019	8,797	237,799	1,344	44,172	144	64,672	126	332	1,411	414,665	773,462
Accumulated depreciation											
Balance at 1 July 2019	738	140,362	1,226	25,902	147	45,950	127	218	-	-	214,670
Depreciation expense	-	7,930	1	1,414	-	4,604	-	236	-	60,657	74,842
Disposals	-	(5,635)	-	(672)	-	(1,094)	-	-	-	(5,461)	(12,862)
Effect of foreign currency exchange differences	62	1,938	(10)	489	(1)	(1,595)	(1)	(218)	-	(7,483)	(6,819)
Balance at 31 December 2019	800	144,595	1,217	27,133	146	47,865	126	236	-	47,713	269,831
Net book value											
Balance at 1 July 2019	8,112	100,955	127	17,629	(2)	16,039	-	115	2,578	-	145,554
AASB 16 adoption adjustment ⁽ⁱ⁾	-	(2,184)	-	-	-	-	-	-	-	389,955	387,771
Balance at 1 July 2019 - restated	8,112	98,771	127	17,629	(2)	16,039	-	115	2,578	389,955	533,325
Balance at 31 December 2019	7,997	93,204	127	17,039	(2)	16,807	-	96	1,411	366,952	502,747

⁽ⁱ⁾ Please refer to Adoption of new and revised accounting standards note

Consolidated Statement of Cash Flows
For the half year ended 31 December 2019

C2 GOODWILL

Allocation of goodwill to cash-generating units

For the purpose of testing goodwill, the following twenty-three countries are groups of cash-generating units:

Japan, Australia, New Zealand, China, Hong Kong, Malaysia, Singapore, Thailand, Belgium, United Arab Emirates, Bahrain, Qatar, Saudi Arabia, Philippines, Lebanon, Turkey, France, Germany, United States of America, Kuwait, United Kingdom, Iran and Indonesia.

Goodwill was allocated to the countries in which goodwill arose.

The carrying amounts of goodwill relating to each group of cash-generating unit as at 31 December 2019 were as follows:

	31-Dec-19 \$'000	30-Jun-19 \$'000
Japan	9,161	9,161
Australia	2,636	2,636
New Zealand	785	785
Singapore	706	706
Thailand	326	326
China	161	161
	13,775	13,775

C3 OTHER FINANCIAL LIABILITIES

	31-Dec-19 \$'000	30-Jun-19 \$'000
Current		
At amortised cost		
Security deposits	36,144	35,025
	36,144	35,025
Non-current		
Other	-	530
	-	530

Notes to the Consolidated Financial Statements
For the half year ended 31 December 2019

C4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Servcorp measures various financial assets and liabilities at fair value which, in some cases, may be subjective and depend on the inputs used in the calculations. The different levels of measurement are described below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: not traded in an active market but calculated with significant inputs coming from observable market data; and
- Level 3: significant inputs to the calculation that are not based on observable market data (unobservable inputs).

Servcorp holds Level 1 and level 2 financial instruments.

The Board of Directors consider that the carrying amount of financial assets and financial liabilities approximate their fair value other than in respect of the Consolidated Entity's investment in subsidiaries.

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

	31 Dec 2019				31 Dec 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bank hybrid variable rate securities	8,969	-	-	8,969	8,782	-	-	8,782
Forward foreign currency exchange contracts	-	189	-	189	-	(869)	-	(869)
	8,969	189	-	9,158	8,782	(869)	-	7,913

There were no transfers between the fair value hierarchy levels during the half year. 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).

	Fair value as at 31 Dec 2019 \$'000	Fair value as at 31 Dec 2018 \$'000	Fair value hierarchy	Valuation technique(s) & key input(s)
Financial assets				
Bank hybrid variable rate securities	8,969	8,782	1	Quoted prices in an active market
Forward foreign currency exchange contracts	189	(869)	2	Future cash flows are estimated based on observable forward exchange rates

D EQUITY

This section includes details of distributions, securityholders' equity and reserves. It represents how the Consolidated Entity raised equity from its securityholders (equity) in order to finance activities both now and in the future.

D1 DISTRIBUTIONS

Ordinary distributions paid/ payable and distribution per security:

		Cents per share	Total amount \$'000	Date of payment	Tax rate for franking credit	Percentage franked
Recognised amounts						
2019						
Final	Fully paid ordinary shares	10.00	9,682	2 Oct 2019	30%	60%
Interim	Fully paid ordinary shares	13.00	12,586	3 Apr 2019	30%	40%
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%	7.5%
Unrecognised amounts						
Interim	Fully paid ordinary shares	11.00	10,650	2 Apr 2020	30%	25%

D EQUITY (CONTINUED)

D1 DISTRIBUTIONS (CONTINUED)

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 Consolidated Entity 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 Consolidated Entity and the impact of taxation legislation.

D2 CONTRIBUTED EQUITY

Movements in paid up equity

	31-Dec-19		30-Jun-19	
	No. securities '000	Securities \$'000	No. securities '000	Securities \$'000
Balance 1 July	96,818	151,594	96,818	151,594
Balance 30 June	96,818	151,594	96,818	151,594

Directors' Declaration

The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including:
 - (i) compliance with accounting standards; and
 - (ii) giving a true and fair view of the financial position and performance of the Consolidated Entity;

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

On behalf of the Directors



A G Moufarrige AO

Managing Director and CEO

Dated at Sydney this 25th day of February 2020

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 statement of financial position as at 31 December 2019, the statement of comprehensive income, the statement of cash flows and the 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 6 to 22.

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 2019 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.

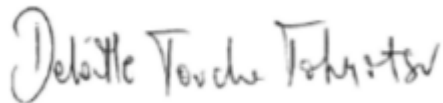
Auditor's Independence Declaration

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 2019 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



S C Gustafson
Partner
Chartered Accountants
Sydney, 25 February 2020