For personal use only

SERVCORP LIMITED
ABN 97 089 222 506

APPENDIX 4E

Preliminary Final Report
For the financial year ended
30 June 2023

The information in this document should be read in conjunction with Servcorp Limited's Directors' Report and Financial Report for the twelve months ended 30 June 2023, the 2023 Annual Financial Report and public announcements made during the period in accordance with continuous disclosure obligations arising under the Corporations Act 2001 and ASX Listing Rules.

Servcorp Limited
ABN 97 089 222 506
Financial Report
30 June 2023

Reporting Period

Current period:	1 July 2022 to 30 June 2023
Previous corresponding period:	1 July 2021 to 30 June 2022

Results for announcement to the market

				$m
Revenue and other income from ordinary activities	up	7%	To	295.5
Profit from ordinary activities after tax attributable to members	down	61%	to	11.1
Net profit for the period attributable to members	down	61%	to	11.1

Dividends	Total amount $m	Amount per security (cents per share)	Franked amount per security (cents per share)
Current period			
Final dividend declared	11.6	12.00c	2.40c
Interim dividend paid	9.7	10.00c	none
Previous corresponding period			
Final dividend paid	9.7	10.00c	none
Interim dividend paid	9.7	10.00c	none

Record date for determining entitlements to the dividend	5 September 2023
Dividend payment date	5 October 2023

The final dividend is 80% conduit foreign income.

	30 June 2023 $	30 June 2022 $
Net tangible asset backing		
Net tangible asset backing per ordinary security	1.77	1.88

Additional 4E disclosures can be found in the Notes to the Servcorp Consolidated Financial Report for the year ended 30 June 2023 lodged with the ASX on 24 August 2023.

For personal use only

Management Discussion & Analysis

FY23 Guidance

- Underlying[1] NPBIT[2] between $41.0m and $43.0m – **ACHIEVED**
- Underlying Free Cash of more than $60.0m - **ACHIEVED**

FY23 in Review

In FY23, Servcorp continued to pursue its long-term strategy of cultivating business resilience and ensuring sustainable income streams through its ongoing focus on premium service provision, team development and training, customer experience improvement, global reach in gateway cities, and continued innovation to enhance business efficiency. The focused approach yielded strong results and performance across all KPIs. Underlying Revenue went up $24.1m year-on-year, underpinned by growth through both business development and pricing improvement and continued increase in client retention. Underlying NPBIT surged to $42.3m, up 36% on FY22.

In February 2023, Servcorp stated its intention to invest up to $60m over the next 18 months[3] to recommence expansion of its global footprint where suitable opportunities and management depth are present. By 30 June 2023, $19.8m was spent and 5 new floors were open, with another 8 in the pipeline currently under construction with scheduled openings in FY24.

Despite the overshadowing uncertainties in global economic landscape, Servcorp is confident in the business strength to drive continued growth in FY24 leveraging its well-established brand name, unique value proposition, unrestricted global reach, advanced technological platform and a dedicated management team.

For personal use only

[1] *"Underlying" is a non-statutory measure and is the primary reporting measure used by senior management & Board of Directors for the purpose of assessing the performance of the business, which is not audited by the external auditors.*
[2] *NPBIT refers to Net Profit Before non-cash Impairment of assets and Tax.*
[3] *Includes the amount invested on floors opened in 1H23.*

For personal use only

Headline

Market guidance of $41m - $43m NPBIT and Free Cash of at least $60m successfully achieved.

- Underlying NPBIT up 36% to $42.3m from $31.0m in FY22
- Underlying revenue $293.8m up $24.1m or 9% on FY22
- Mature revenue up 10% on pcp on a constant currency basis
- Underlying EPS 36.3 cents, up 39% from 26.1 cents in FY22
- Underlying Free Cash $61.7m, up 17% on FY22
- Cash balance currently in excess of $120.0m
- NTA $1.77 per share, down 6% on FY22
- Statutory NPBT $17.0m, down $17.4m or 51% on FY22
- Statutory NPAT $11.1m, down $17.0m or 61% on FY22

FY23 Dividend

- FY23 final dividend of 12.0 cps (20% franked)
- Total FY23 dividend of 22.0 cps (up 10%)

Financial Summary

	FY23	FY22[4]
		$'m
Revenue		
Revenue and other income from ordinary activities	**295.5**	**275.6**
Underlying Revenue	**293.8**	**269.7**
Mature revenue on a constant currency basis	**283.9**	**258.4**
Statutory Results		
Statutory NPBT	**17.0**	**34.4**
Less		
Income tax expense	5.9	6.4
Statutory NPAT	**11.1**	**28.0**
Underlying Results		
Underlying NPBIT including one-off gains	**42.3**	**38.7**
Less		
One-off income[5]	-	4.8
One-off gain from cloud computing adjustments	-	2.8
Underlying NPBIT excluding one-off gains	**42.3**	**31.0**
Net cash inflow		
Free Cash	58.4	50.4
Underlying Free Cash	61.7	52.5
Other KPIs		
Unencumbered cash ($'m)	115.9	107.6
Return on Net Funds Employed	55%	33%
NTA per share ($)	1.77	1.88
EPS (cents)	11.4	28.9
Underlying EPS (cents)	36.3	26.1
DPS (cents)	22.0	20.0

[4] *All Underlying results excludes the $4.8m one-off income and $2.8m gain from cloud computing adjustment in FY22*
[5] *One-off indemnity income from a lease restructure and government revenue subsidy, a total of $4.8m received in FY22*

Financial Summary - continued

FY23 revenue and other income increased to $295.5m, up $20.0m or 7% on pcp (FY22: $275.6m). Mature revenue increased 10% compared to FY22 on a constant currency basis.

FY23 Statutory NPBT was $17.0m, down 17.4m or 51% from FY22 NPBT of $34.4m, due to one-off expenses totalling $21.4m and $3.8m losses from pre-mature or post-closure locations. FY23 Statutory NPAT was $11.1m, down $17.0m or 61% from FY22 NPAT of $28.0m.

FY23 Underlying NPBIT was $42.3m, up $11.2m or 36% on FY22 excluding the $4.8m one-off income and $2.8m gain from cloud computing adjustment in FY22.

Underlying EPS was 36.3 cps, up 39% year-on-year.

Return on net funds employed was 55% in FY23, up 66% from FY22.

Underlying Free Cash was $61.7m, up $9.2m or 17% on pcp. Unencumbered cash balances at 30 June 2023 of $115.7m, up $8.1m from $107.6m at 30 June 2022, attributed to strong trading performance which in turn drives sustainable cash production.

As at the date of this report, cash balances are in excess of $120.0m.

For personal use only

Operating performance

Reconciliation of Statutory NPBT to Underlying NPBIT:

	FY23	FY22
		$'m
Statutory NPBT	**17.0**	**34.4**
Add		
Operating loss from pre-mature or post-closure floors	3.8	2.8
Impairment losses, closure costs and other non-recurring costs	21.4	1.5
Underlying NPBIT including one-off gains	**42.3**	**38.7**
Less		
One-off income[6]	-	(4.8)
One-off gain from cloud computer adjustments	-	(2.8)
Underlying NPBIT excluding one-off gains	**42.3**	**31.0**
Less		
Interest & franchise income	(3.5)	(1.8)
Other non-operating items	(0.9)	(2.1)
Underlying Operating Profit excluding one-off gains	**37.9**	**27.1**
Add		
Operating loss from pre-mature or post-closure floors	(3.8)	(2.8)
One-off income	-	4.8
One-off gain from cloud computer adjustments	-	2.8
Operating Profit	**34.1**	**32.0**

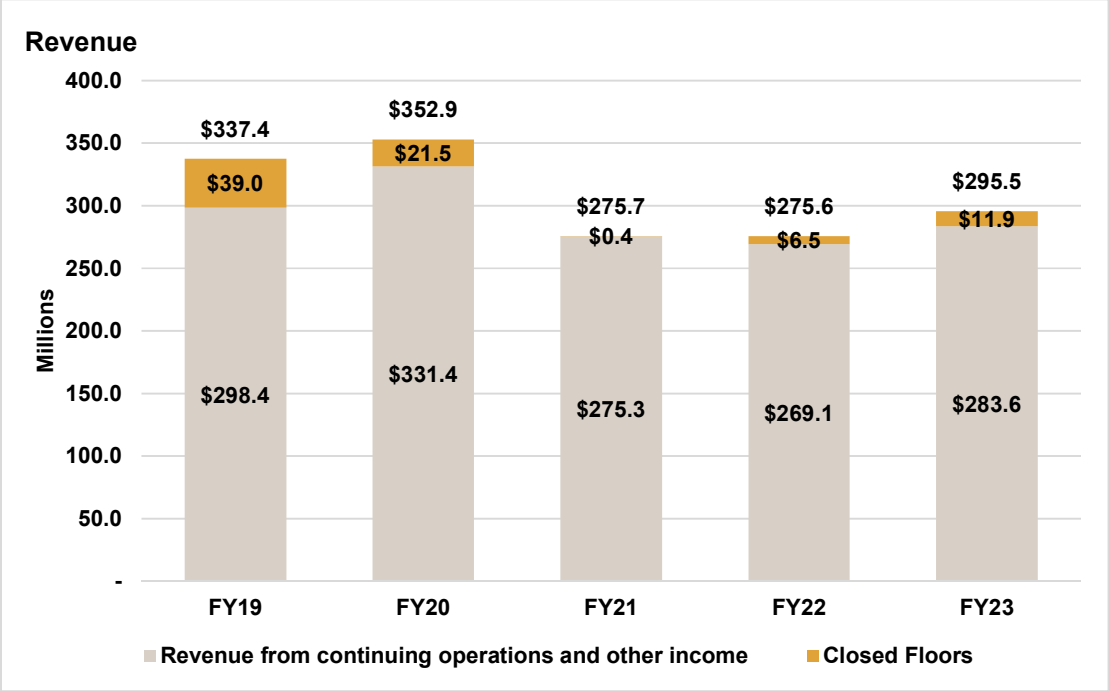
For personal use only

[6] *One-off indemnity income from a lease restructure and government revenue subsidy, a total of $4.8m received in FY22*

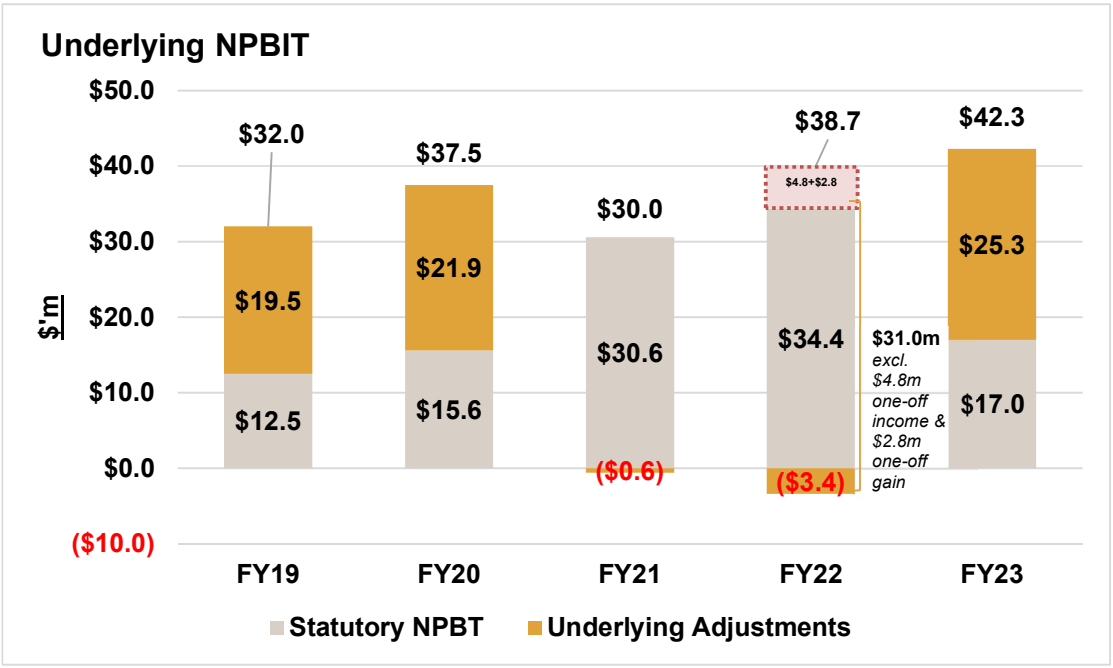
For personal use only

FY23 – Overview

FY23 revenue $295.5m, up $20.0m or 7% on FY22. Revenue from continuing operations[7] and other income $283.6m, up 10% on a constant currency basis.



FY23 Underlying NPBIT $42.3m, up 36% on FY22. FY23 Underlying NPBIT was underpinned by a strong Europe & Middle East ("**EME**") performance, a disappointing North Asia performance, a rebounded Australia, New Zealand and South East Asia ("**ANZ & SEA**") result combined with an improved result in the United States of America ("**USA**").



[7] *Calculated as consolidated segment revenue for the period as disclosed in the Note 2 Operating segments in the FY23 Financial Report, adjusted for Revenue from discontinued operations.*

Cash Flow

Reconciliation of Net Operating Cash Flows to Free Cash and Underlying Free Cash:

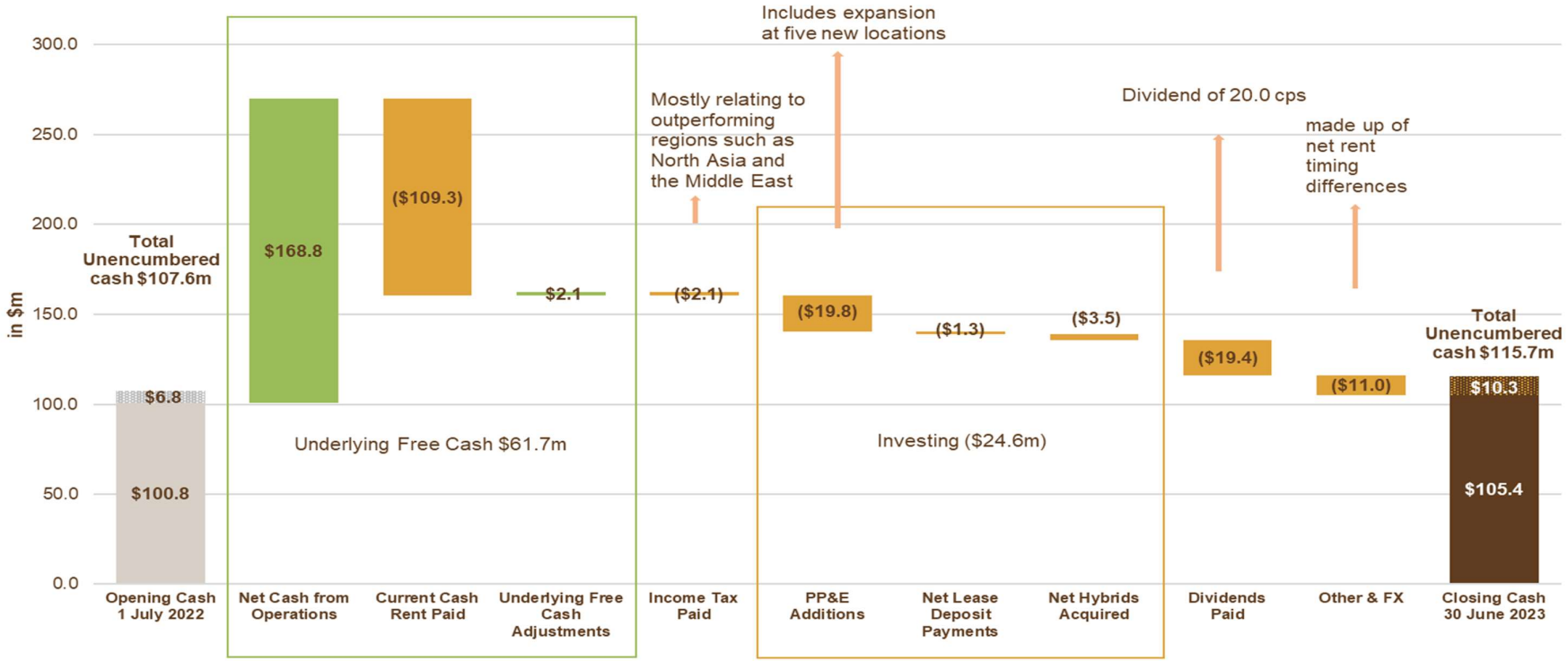
	FY23	FY22
		$'m
Net Operating Cash flow	**155.5**	**145.6**
Add:		
Tax paid	2.1	13.1
Less:		
Lease liability Cash Rent for related period paid in related period	98.0	99.2
Cash Rent timing differences	1.2	4.3
Free Cash including one-off income	**58.4**	**55.2**
Less:		
Cash received from one-off income	-	4.8
Free Cash excluding one-off income	**58.4**	**50.4**
Add:		
Cash Rent previously withheld now paid	1.0	2.0
Less:		
Cash Rent relating to current period withheld	1.5	(0.1)
Other timing differences & write-off	(3.7)	-
Underlying Free Cash excluding one-off income	**61.7**	**52.5**
Add:		
Cash received from one-off income	-	4.8
Underlying Free Cash including one-off income	**61.7**	**57.3**

Free Cash of $58.4m, up 16% compared to FY22 excluding the $4.8m one-off income[8]. Underlying Free Cash of $61.7m, up 17% compared to FY22.

For personal use only

[8] *One-off indemnity income from a lease restructure and government revenue subsidy, a total of $4.8m received in FY22*

Cash Flow - continued



Servcorp produced Underlying Free Cash in FY23 of $61.7m, paid tax of $2.1m and invested capital expenditure of $19.8m (up $5.0m from FY22) representing the investment in the new floors opened in ANZ&SEA, North Asia and EME. Servcorp paid $1.3m in net lease deposits, invested an additional $3.5m in hybrid securities and ordinary shares, and paid $19.4m in dividends in FY23.

Other cash outflows of $11.0m include $2.1m of Underlying Free Cash adjustments (refer reconciliation on page 7), $5.4m of Cash Rent relating to future years, $3.5m downward effects of exchange rate changes.

Overall unencumbered cash increased by $8.1m from $107.6m at 30 June 2022 to $115.7m at 30 June 2023.

For personal use only

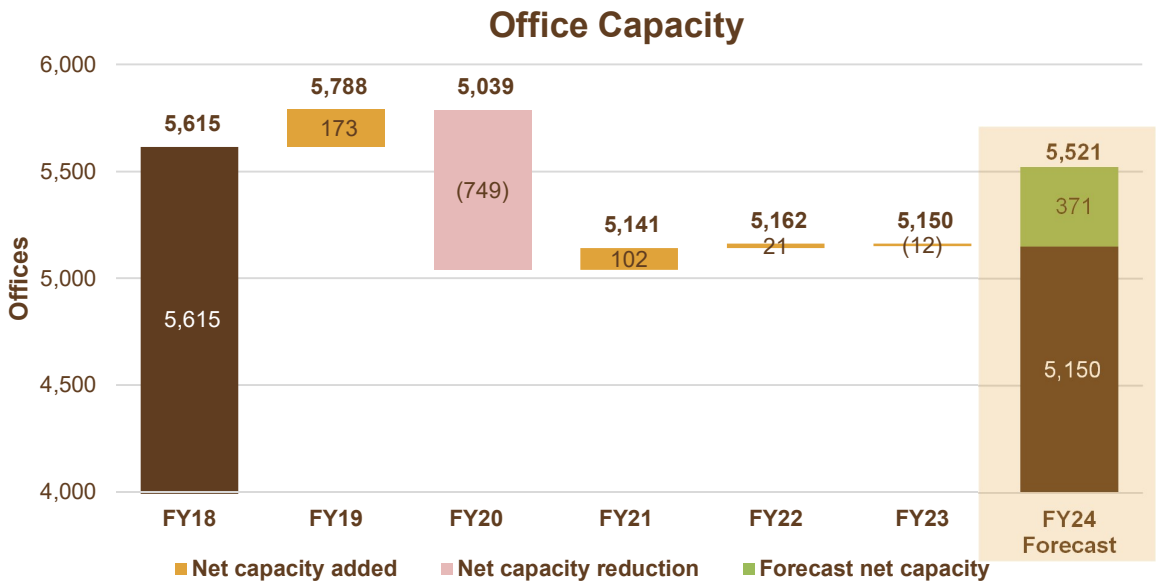
Office Capacity

In February 2023, Servcorp announced its commitment to recommence expansion of its global footprint where suitable opportunities and management depth are present. The plan discussed in February 2023 was to spend ~$60m on building 15 more floors over the next 18 months[9].

By 30 June 2023, Servcorp has spent $19.8m and successfully opened 5 more operations, with another 8[10] in the pipeline currently under construction with scheduled openings in FY24.

Net capacity reduction represents the exiting from unprofitable floors.

Mature floor occupancy was steady at 72% at 30 June 2023.



Servcorp's global footprint encompasses 129 floors, in 40 cities across 20 countries.

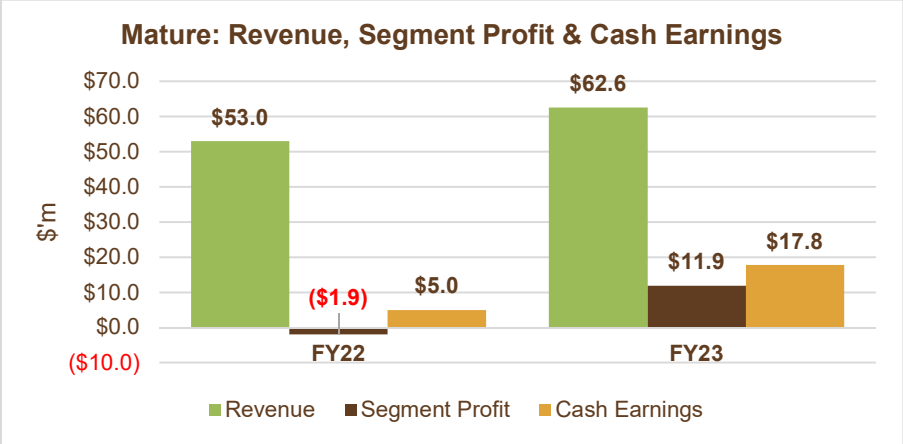
[9] *Including amounts spent on floors opened in 1H23*
[10] *Including 2 acquired floors in Canberra*

For personal use only

For personal use only

Operating Summary by Region[11]

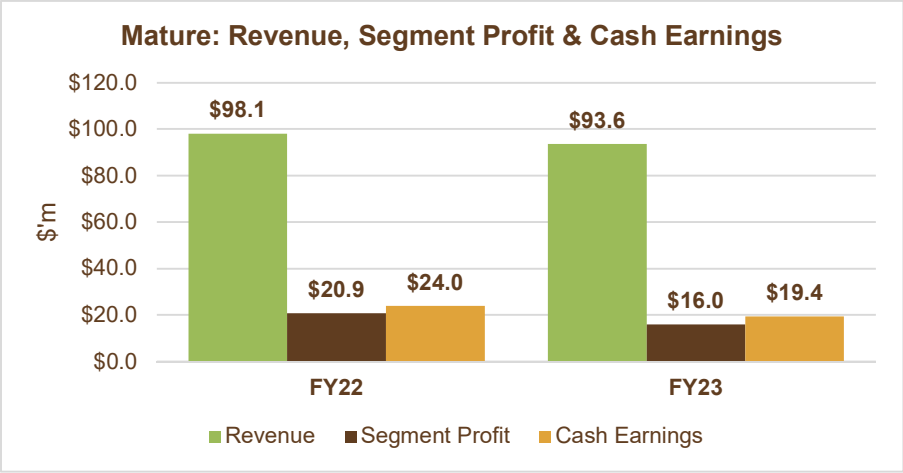
ANZ & South East Asia



Australia, New Zealand and South East Asia has demonstrated a strong performance rebound coming out of the pandemic.

Mature revenue witnessed a notable increase of $9.6m year-on-year due to increase in occupancy. As revenue recovered, profit and cash earnings followed the same trend, swinging successfully back to the positive territory producing $11.9m Segment Profit and $17.8m Cash Earnings.

North Asia



North Asia results in general retreated from the year before, mostly resulting from the protracted underperformance in Greater China given the slow rebound from arguably the most restrictive and long-lasting Covid-19 measures.

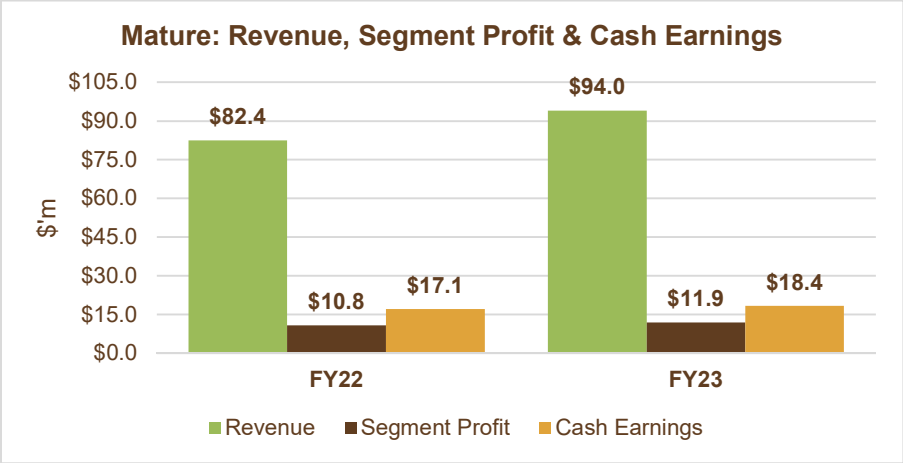
Decreases in FY23 Segment Profit and Cash Earnings are largely attributed to the drop in Mature Revenue, as Mature Revenue declined by $4.5m on pcp, while operating expenses held largely flat year-on-year.

Following thorough assessment and constructive discussion with relevant stakeholders over the last 10 months, management took the decision to cease operations in Hong Kong.

[11] *FY22 Underlying results are adjusted to remove the $4.8m one-off income and are restated to reflect pre-mature & post-closure floors in FY23*

Operating Summary by Region – continued

Europe & Middle East

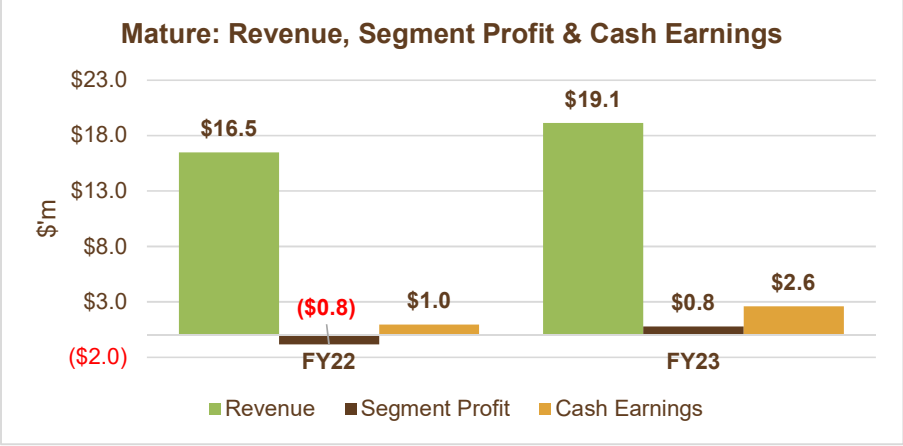


Europe & Middle East continued to perform well. Mature revenue recorded a healthy growth of $11.6m on pcp.

Europe took a one-off impairment in the amount of $2.4m as its recovery in performance took longer than expected to materialise.

After absorbing the one-off impairment, Segment Profit and Cash Earnings for the region was up marginally year-on-year.

USA

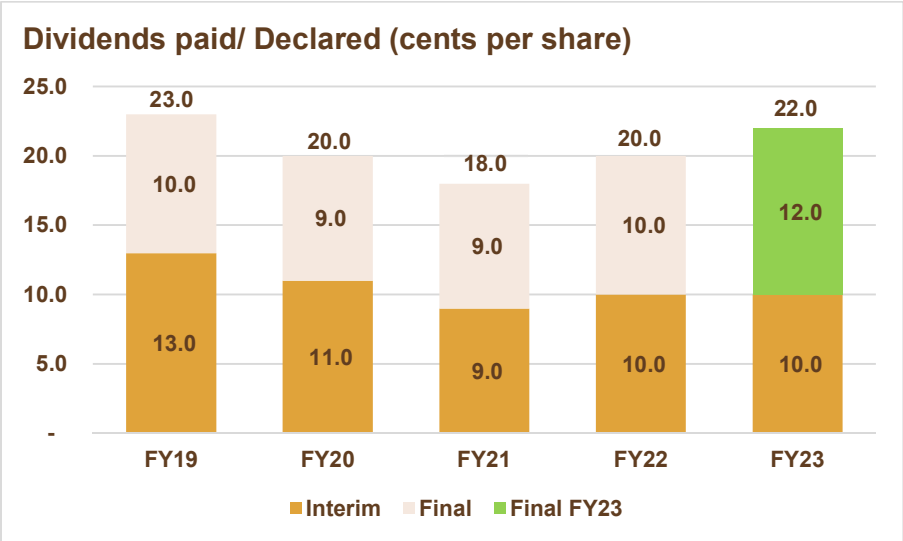


USA continued to show improvements in performance in FY23, closing the year with a small Segment Profit of $0.8m. Revenue continued growing, building more business resilience in the operation.

A new General Manager was appointed in March 2023 to lead and manage the USA. The local management team was restructured, and while this led to some non-recurring costs, it is expected to produce improved efficiencies and lower ongoing costs. Business procedures have been reviewed and re-established, and additional resources are being deployed to train and guide the USA teams and bring them to Servcorp global standard.

For personal use only

Dividends



The Directors have declared a final dividend of 12.0 cps, 20% franked, payable on 5 October 2023.

This increases total dividends payable in relation to FY23 to 22.0 cps, up 10% on FY22 dividends.

Guidance for FY24 dividends will be announced at the Annual General Meeting in November; however, Servcorp would expect to make dividend payments consistent with its long term history and commitment to shareholders.

Future dividends are subject to currencies remaining constant, continued strong cash generation, and the continued impacts of global economic uncertainties on the operations.

For personal use only

Outlook

Despite the ongoing challenges facing the world economy, Servcorp remains cautiously optimistic. Eight locations are under construction, scheduled for opening in FY24. Management is actively exploring markets for opportunities based strategically where local management depth is present to take on further expansion underpinned by strong cash reserves, a well-established brand name, unique value proposition and continued investment in people and innovation.

While remaining committed to ongoing growth, Servcorp will also balance profitability in its approach to drive sustainable income and implement strong cost disciplines.

Given our view and subject to no worsening near-term economic conditions globally, in FY24 Underlying NPBIT guidance is between $46.0m and $49.0m, an increase of at least 9% from FY23 Underlying NPBIT of $42.3m.

In line with this guidance and performance, in FY24 we expect to produce more than $65.0m Underlying Free Cash. We would expect to continue to make dividend payments consistent with our long-term history and commitment to shareholders.

Forecasts and future dividends are subject to currencies remaining constant, continued strong cash generation, and the continued impacts of global economic uncertainties on the operations.

For personal use only

Glossary

ANZ	Australia & New Zealand
Cash Earnings	Is EBITDA *minus* Cash Rent paid
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.
cps	Cents per share
DPS	Dividend per share
EME	Europe & Middle East
EPS	Earnings per share
Free Cash	Is the Net Operating Cash Flows before tax as reported in the Consolidated Statement of Cash Flows contained in the Servcorp Consolidated Financial Report minus Cash Rent paid.
FY	Financial year
Immature	Immature means floors that have been operational for less than 24 months ***and*** have not produced 3 months consecutive operating profit in the same timeframe. The period during which the floor is immature is defined as pre-maturity
Mature	Mature means floors that were open in both the current and comparative reporting periods. A floor is categorised as Mature at the earlier of 24 months from the date it becomes operational or 3 months consecutive operating profit. For the avoidance of doubt, Mature excludes closed floors.
NPAT	Net Profit After Tax
NPBT	Net Profit Before Tax
NPBIT	Net Profit Before non-cash Impairment of assets and Tax
NTA	Net tangible asset per share
ROFE	Return on Net Funds Employed
SEA	South East Asia
Segment Profit/(Loss)	Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Statutory NPAT	Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Statutory NPBT	Calculated in accordance with Australian Accounting Standards as reported in the Servcorp Consolidated Financial Report
Underlying Free Cash	Is Free Cash adjusted for significant items (before tax) which relate to the reported financial year however, because of timing, either occurred in the preceding financial year or will occur in the subsequent financial year.
Underlying NPAT	Is the Statutory NPAT adjusted for significant items (net of tax) that are one-off in nature and that do not reflect the underlying performance of the business, and includes Mature floors only
Underlying NPBIT	Is the Statutory NPBT adjusted for significant items (before tax) that are one-off in nature and that do not reflect the underlying performance of the business, and includes Mature floors only
USA	United States of America
$'m	Million

For personal use only

For personal use only



Servcorp Limited

and its controlled entities

2023 Statutory Accounts

For the 12 months ended

30 June 2023

Contents

Corporate governance	**2**
Directors' report	**7**
Remuneration report	**16**
Financial report	**30**

Corporate Governance

The Board of Directors of Servcorp Limited (Servcorp or the Company) has responsibility for the long term financial health and prosperity of Servcorp. The Directors are responsible to the shareholders for the performance of the Company and the Consolidated Entity and to ensure that it is properly managed.

The Board is committed to the principles underpinning the ASX Corporate Governance Council Principles and Recommendations. The Board is continually working to improve Servcorp's governance policies and practices, where such practices will bring benefits or efficiencies to Servcorp.

Details of Servcorp's compliance are set out below, and in the ASX principles compliance statement on Servcorp's website; servcorp.com.au. The information in this statement is current as at 24 August 2023 and has been approved by the Board.

ROLE OF THE BOARD

The central role of the Board is to set Servcorp's strategic direction and to oversee Servcorp's management and business activities.

Responsibility for management of Servcorp's business activities is delegated to the CEO and management.

The Board's primary responsibilities are:

- demonstrating leadership;
- the protection and enhancement of long term shareholder value;
- ensuring Servcorp has appropriate corporate governance structures in place;
- defining Servcorp's purpose and setting strategic direction;
- approving Servcorp's statement of values and code of conduct to underpin the desired culture within Servcorp;
- monitoring Servcorp's performance and overseeing management in its implementation of the strategic direction and instilling Servcorp's values;
- appointing the Chief Executive Officer and evaluating his performance and remuneration;
- overseeing the integrity of the entity's accounting and corporate reporting systems, including the external audit;
- monitoring business performance and results, including whenever required, challenging management and holding them to account;
- identifying areas of significant risk and setting the risk appetite within which the Board expects management to operate, and satisfying itself that Servcorp has in place an appropriate risk management framework (for both financial and non-financial risks), including monitoring and reporting mechanisms to manage those risks;
- establishing appropriate standards of ethical behaviour and a culture of corporate and social responsibility;
- approving senior executive remuneration policies, and satisfying itself those remuneration policies align with the entity's purpose, values, strategic objectives and risk appetite;
- ratifying the appointment of the Chief Operating Officer, Chief Financial Officer and the Company Secretary, and ensuring appropriate pre-appointment checks have been undertaken;
- monitoring compliance with continuous disclosure policy in accordance with the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange;
- monitoring that Servcorp acts lawfully and responsibly;
- reporting to shareholders;
- addressing all matters in relation to issued securities of the Company including the declaration of dividends;
- ensuring the Board is, and remains, appropriately skilled to meet the changing needs of Servcorp.

The Board Charter is available on Servcorp's website; servcorp.com.au

For personal use only

For personal use only

COMPOSITION OF THE BOARD

The size and composition of the Board is determined by the Board, subject to the limits set out in the Company's Constitution which requires a minimum of three Directors and a maximum of twelve Directors.

The Board comprises four Directors (one executive and three non-executive). All three non-executive Directors are considered to be independent.

There has been no change to the Board since the last annual report.

The Chair of the Board, The Hon. Mark Vaile, is an independent non-executive Director.

The non-executive Directors bring to the Board an appropriate range of skills, experience and expertise to ensure that Servcorp is run in the best interest of all stakeholders. The skills, experience and expertise of each Director in office at the date of this annual report are set out on pages 7 and 8 of this annual report. The Board will continue to be made up of a majority of independent non-executive Directors. The performance of non-executive Directors was reviewed during the year.

The names of the Directors of the Company in office at the date of this annual report are set out in the table below.

DIRECTORS' INDEPENDENCE

It is important that the Board is able to operate independently of executive management.

The non-executive Directors are considered by the Board to be independent of management. Independence is assessed by determining whether the Director is free of any business interest or other relationship which could materially interfere with the exercise of their unfettered and independent judgement and their ability to act in the best interests of Servcorp.

NAMES OF DIRECTORS IN OFFICE AT THE DATE OF THIS ANNUAL REPORT

DIRECTOR	FIRST APPOINTED	NON-EXECUTIVE	INDEPENDENT	RETIRING AT 2023 AGM	SEEKING RE-ELECTION
A G Moufarrige	24 August 1999	No	No	No	N/A
M Vaile	27 June 2011	Yes	Yes	Yes	Yes
W Graham	3 October 2017	Yes	Yes	No	N/A
T McGrath	27 August 2019	Yes	Yes	No	N/A

ELECTION OF DIRECTORS

The Company's Constitution specifies that an election of Directors must take place each year. One-third of the Board (excluding the Managing Director and rounded down to the nearest whole number), and any other Director who has held office for three or more years since they were last elected, must retire from office at each annual general meeting. The Directors are eligible for re-election. Directors may be appointed by the Board during the year. Directors appointed by the Board must retire from office at the next annual general meeting.

All Director appointments or changes are dealt with by the Nomination Committee.

CONFLICT OF INTEREST

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that would potentially conflict with those of Servcorp. Where the Board believes that an actual or potential significant conflict exists, the Director concerned, if appropriate, will not take part in any discussions or decision making process on the matter and will abstain from voting on the item being considered. Details of Director related entity transactions with the Company and the Consolidated Entity are set out in Note 27 to the Consolidated financial report.

DIRECTOR AND OFFICER DEALINGS IN COMPANY SHARES

Servcorp policy prohibits Directors, officers and senior executives from dealing in Company shares or exercising options:

- in the six weeks prior to the announcement to the ASX of the Company's half-year and full-year results; or
- whilst in possession of non-public price sensitive information.

Directors must discuss proposed purchases or sales of shares in the Company with the Chair before proceeding. If the Chair proposes to purchase or sell shares in the Company, he must receive approval from the next most senior non-executive Director before proceeding. Directors must also notify the Company Secretary when they buy or sell shares in the Company. This is reported to the Board.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the ASX, each Director has entered into an agreement with the Company that requires disclosure to the Company of all information needed for it to comply with the obligation to notify the ASX of Directors' holdings and interests in its securities.

The Company's Securities Trading Policy is available on Servcorp's website; servcorp.com.au

INDEPENDENT PROFESSIONAL ADVICE

Each Director has the right to seek independent professional advice, at Servcorp's expense, to help them carry out their responsibilities. Prior approval of the Chair is required, which will not be unreasonably withheld. A copy of any written advice received by the Director is made available to all other members of the Board.

CONTINUOUS DISCLOSURE

Servcorp is committed to ensuring that all shareholders and investors are provided with full and timely information and that all stakeholders have equal and timely access to material information concerning Servcorp. Procedures are in place to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

The Company Secretary has been appointed as the person responsible for communications with the ASX.

AUDITOR INDEPENDENCE

The Company's auditor KPMG was appointed at the annual general meeting of the Company on 5 November 2020.

KPMG rotate their audit engagement partner every five years.

KPMG have established policies and procedures designed to ensure their independence, and provide the Audit and Risk Committee with an annual confirmation as to their independence.

ETHICAL STANDARDS

All Directors, Executives and Team Members are expected to act with the utmost integrity and objectivity, striving at all times to enhance and protect the reputation and performance of Servcorp.

Servcorp's core values are encompassed in our Code of Conduct, Whistleblower Policy and Modern Slavery Statement, which all Directors, Executives and Team Members are expected to uphold and promote. These provide clear expectations of the way in which Servcorp must conduct business lawfully, ethically and responsibly, and sets out the standards of conduct and personal behaviour required.

The Code of Conduct, Whistleblower Policy and Modern Slavery Statement are available on Servcorp's website; servcorp.com.au.

DIVERSITY

Servcorp has a culture that both embraces and achieves diversity in its global operations.

Servcorp is culturally diverse in its employment practices and has a global culture of employing the best qualified available talent for any position regardless of gender, age, race or religion. Servcorp benefits from the diversity of its team members and has training programs to assist with developing their skills and with career advancement. Servcorp has a practice of traveling team members to work in its global locations, giving them exposure to and understanding of various differing cultures and marketplaces.

Servcorp has a high participation of women across all employment levels. The proportion of women team members in the whole organisation, senior executive positions and on the Board is set out in the following table.

FULL TIME EMPLOYEES	TOTAL NO.	WOMEN %	MEN %
Consolidated entity	645	84%	16%
Senior executive	13	46%	54%
Board	4	25%	75%

"Senior executive" are general managers, senior managers and head office executives who report directly to the CEO.

Under the Workplace Gender Equality Act 2012 (WGE Act), any employer with 100 or more employees must submit an Annual Compliance Report detailing the composition of its workplace profile in Australia. Servcorp has lodged its WGE Report for 2023 with the WGE Agency; since inception of the WGEA reporting requirements, the Company and its Australian subsidiaries have been compliant with the WGE Act.

Shareholders may access the report on Servcorp's website; servcorp.com.au

For personal use only

COMMITTEES

The Board does not delegate major decisions to Committees. Committees are responsible for considering detailed issues and making recommendations to the Board. The Board has established three Committees to assist in the implementation of its corporate governance practices. Details of these Committees are set out on the following pages.

AUDIT AND RISK COMMITTEE

The members of the Audit and Risk Committee during the year were:

- Mr T McGrath (Chair)
- Mrs W Graham
- The Hon. M Vaile

All three current members are independent non-executive Directors.

The Chair of the Audit and Risk Committee is independent and is not the Chair of the Board.

The primary function of the Audit and Risk Committee is to assist the Board to meet its oversight responsibilities in relation to:

- ensuring the Company adopts, maintains and applies appropriate accounting and financial reporting processes and procedures;
- reviewing and monitoring the integrity of the Company's financial reports and statements;
- ensuring the Company maintains an effective risk management framework and internal control systems;
- monitoring the performance and independence of the external audit process and addressing issues arising from the audit process.

It is the Committee's responsibility to maintain free and open communication between the Committee and the external auditor and the management of Servcorp.

The external auditors attend all meetings of the Committee. The Chief Executive Officer, the Chief Financial Officer and other senior management attend Committee meetings by invitation.

The Audit and Risk Committee met four times during the year. The Committee meets with the external auditors without management being present before signing off its reports each half year. The Committee Chairman also meets with the auditors at regular intervals during the year.

The responsibilities of the Audit and Risk Committee, as stated in its charter, include:

- reviewing the financial reports and other financial information distributed externally;
- reviewing the Company's policies and procedures for compliance with Australian equivalents to International Financial Reporting Standards;
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001, ASX Listing Rules and all other regulatory requirements;
- assisting management in improving the quality of the accounting function;
- monitoring the internal control framework and compliance structures and considering enhancements;
- overseeing the risk management framework;
- reviewing external audit reports to ensure that, where major deficiencies or breakdown in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- reviewing reports on any major defalcations, frauds and thefts from the Company;
- considering the appointment and fees of the external auditor;
- reviewing and approving the terms of engagement and fees of the external auditor at the start of each audit;
- considering and reviewing the scope of work, reports and activities of the external auditor;
- establishing appropriate policies in regard to the independence of the external auditor and assessing that independence;
- liaising with the external auditor to ensure that the statutory annual audit and half-yearly review are conducted in an effective manner;
- addressing with management any matters outstanding with the auditors, taxation authorities, corporate regulators, Australian Securities Exchange and financial institutions;
- monitoring the establishment of appropriate ethical standards.

The Audit and Risk Committee Charter is available on Servcorp's website; servcorp.com.au

For personal use only

NOMINATION COMMITTEE

The Nomination Committee members during the year were:

- The Hon. M Vaile (Chair)
- Mrs W Graham
- Mr T McGrath

The primary function of the Nomination Committee is to support and advise the Board in fulfilling its responsibility to shareholders in ensuring the Board is comprised of individuals who are best able to discharge the responsibilities of Directors. Specifically, this will include establishing and reviewing the following matters for non-executive Directors on the Board and Board Committees:

- processes for identification of suitable candidates for an appointment or re-election to the Board, and selection procedures;
- necessary and desirable competencies and experience;
- processes to review Director contributions and the performance of the Board as a whole;
- succession plans;
- induction programs;
- assessment of the independence of Directors;
- gender diversity.

The Nomination Committee met two times during the year.

The Nomination Committee Charter is available on Servcorp's website; servcorp.com.au

REMUNERATION COMMITTEE

The Remuneration Committee members during the year were:

- Mrs W Graham (Chair)
- The Hon. M Vaile
- Mr T McGrath

The primary function of the Remuneration Committee is to assist the Board in adopting remuneration policy and practices that:

- supports the Board's overall strategy and objectives;
- attracts and retains key team members;
- links total remuneration to financial performance and the attainment of strategic objectives.

Specifically, this will include:

- making recommendations to the Board on appropriate remuneration, in relation to both the amount and its composition, for the Chief Executive Officer and senior executives who report to the Chief Executive Officer;
- developing and recommending to the Board short term and long term incentive programs;
- monitoring superannuation arrangements for the Company;
- reviewing recruitment, retention and termination strategies and procedures;
- ensuring the total remuneration policy and practices are designed with proper consideration of accounting, legal and regulatory requirements for both local and foreign jurisdictions;
- reviewing the Remuneration Report for the Company and ensuring that publicly disclosed information meets all legal requirements and is accurate.

The Remuneration Committee shall ensure the Company is committed to the principles of accountability and transparency and to ensuring that remuneration arrangements achieve a balance between shareholder and executive rewards.

The Remuneration Committee reviews the executive remuneration structures each year to ensure they continue to be appropriate. Details are included in the Remuneration Report on pages 16 to 28 of this annual report.

The Remuneration Committee met three times during the year. The Chief Executive Officer attends Committee meetings by invitation to assist the Committee in its deliberations.

The Remuneration Committee Charter is available on Servcorp's website; servcorp.com.au

For personal use only

Directors' Report

The Directors of Servcorp Limited ("the Company") present their report together with the Consolidated financial report of the "Consolidated Entity", being the Company and its controlled entities, for the financial year ended 30 June 2023.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

ALF MOUFARRIGE AO

Managing Director

Appointed August 1999

Chief Executive Officer

Alf is one of the global leaders in the serviced office industry, with over 40 years of experience. Alf is primarily responsible for Servcorp's expansion, profitability, cash generation and currency management.

Directorships of listed entities in the last three years:

- None.

THE HON. MARK VAILE AO

Chair

Independent Non-executive Director

FAICD

Appointed June 2011

Member of Audit and Risk Committee

Member of Remuneration Committee

Chair of Nomination Committee

Mark had a distinguished career as an Australian Federal Parliamentarian from 1993 to 2008. Ministerial Portfolios held by Mark during his five terms in Federal Parliament include Minister for Transport and Regional Development, Minister for Agriculture, Fisheries and Forestry, Minister for Trade, and Minister for Transport and Regional Services.

Mark also served as Deputy Prime Minister of Australia from July 2005 through to December 2007. He was instrumental in securing or initiating a range of free trade agreements between Australia and the United States, Singapore, Thailand, China, Malaysia and the ASEAN countries.

Since leaving the Federal Parliament in July 2008, Mark has embarked on a career in the private sector utilising his extensive experience across a number of portfolio areas. His current Directorships include StamfordLand Limited and Chair of Whitehaven Coal Limited. Mark is Chair of the Australian American Leadership Dialogue, and is a Director on the board of AAM Investment Group, a diversified agricultural investment fund. Mark is also a member of the Advisory Council of the Australia Japan Business Co-Operation Committee. Mark was a Director/ Trustee of Hostplus Superfund Limited, until 30 June 2021.

Directorships of listed entities in the last three years:

- StamfordLand Corporation Ltd (SLC - listed on SGX) since August 2009;
- Whitehaven Coal Limited (WHC) since May 2012 (Chair).

WALLIS GRAHAM

Independent Non-executive Director

GAICD

Appointed October 2017

Member of Audit and Risk Committee

Chair of Remuneration Committee

Member of Nomination Committee

Wallis has had over 20 years of experience in finance, including funds management, corporate finance, private equity and investment banking. Her responsibilities have spanned multiple industries, including business services, and she has a strong understanding of emerging technologies and the digital landscape. She also holds a Senior Consulting role with Energy Capital Partners.

Wallis has involvement with many community and charitable organisations. She is currently a Director of Wenona School Limited, the Garvan Research Foundation, the Sydney Youth Orchestras, the Wenona Foundation and the John Brown Cook Foundation.

Directorships of listed entities in the last three years:

- Whitehaven Coal Limited (WHC) since February 2023.

For personal use only

For personal use only

TONY MCGRATH

Independent Non-executive Director

BBus (Accounting and Finance) CA

Appointed August 2019

Chair of Audit and Risk Committee

Member of Remuneration Committee

Member of Nomination Committee

Tony has many years of experience in the Australian financial sector, specialising in corporate restructuring and governance advisory related matters. During his career, Tony has undertaken some of Australia's largest and most complex insolvencies and restructurings.

Tony's initial career was with KPMG where he led the Sydney restructuring team. In 2004 Tony founded McGrathNicol, a national restructuring and insolvency practice. Tony retired as a partner of McGrathNicol in 2018 and remains a consultant to the firm.

Tony has a range of experience with governance issues, advising boards and undertaking roles on audit committees. Over the last 6 years, Tony has developed a range of specific board skills in undertaking non-executive roles in both the corporate and NFP sectors.

Directorships of listed entities in the last three years:

- 360 Capital Group Limited (TGP) since March 2022

GREGORY PEARCE

Company Secretary

B Com, CA, FGIA, FCG (CS)

Appointed August 1999

Greg joined Servcorp in 1996 as Financial Controller and was appointed to his current role of Company Secretary during the Company's IPO in 1999. Prior to joining Servcorp, Greg spent 10 years working in the Information Technology business and the 11 years prior to that working in Audit and Business Services.

Greg is a member of Chartered Accountants Australia and New Zealand and is a Fellow of the Governance Institute of Australia.

DIRECTORS' MEETINGS HELD AND ATTENDANCES AT MEETINGS

The number of Directors' and Board Committee meetings held, and the number of meetings attended by each of the Directors of the Company, during the financial year is set out in the following table. Only those Directors who are members of the relevant Committees have their attendance recorded. Other Directors do attend Committee meetings from time to time.

DIRECTOR	BOARD	AUDIT & RISK COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Number of meetings held	**6**	**4**	**3**	**2**
NUMBER OF MEETINGS ATTENDED				
A G Moufarrige	6			
M Vaile	6	4	3	2
W Graham	6	4	3	2
T McGrath	6	4	3	2

The details of the function and membership of the Committees are presented in the Corporate Governance statement on pages 5 and 6.

DIRECTORS' INTERESTS

The relevant interest of each Director in the share capital of the companies within the Consolidated Entity, as notified by the Directors to the Australian Securities Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is set out in the following table.

	ORDINARY SHARES IN SERVCORP LIMITED		
DIRECTOR	DIRECT	INDIRECT	OPTIONS OVER ORDINARY SHARES
M Vaile	-	35,050	-
A G Moufarrige	547,436	49,938,847	1,500,000
W Graham	14,000	-	-
T McGrath	-	66,853	-

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Consolidated Entity has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Consolidated financial report, or the fixed salary of a full-time employee of the Consolidated Entity or of a related entity) by reason of a contract made by the Consolidated Entity or a related entity with the Director or with a firm of which a Director is a member, or with an entity in which a Director has a substantial financial interest.

For personal use only

PERFORMANCE RIGHTS AND OPTIONS GRANTED

During the year, or since the end of the financial year, 160,000 Performance Rights and 1,002,000 Options over unissued ordinary shares of the Company were issued (2022: 200,000).

Performance Rights and Options granted to Directors or the five most highly remunerated officers of the Company as part of their remuneration are detailed in the Remuneration report on pages 22, 23 and 25.

PERFORMANCE RIGHTS AND OPTIONS ON ISSUE

At the date of this report, unissued ordinary shares of the Company under option are:

	OPTIONS				PERFORMANCE RIGHTS
ASX code	SRVAB	SRVAC	SRVAD	SRVAF	SRVAE
Number of shares	2,233,750	87,500	100,000	1,002,000	160,000
Exercise price	$2.48	$3.35	$3.54	$3.50	$0.00
Expiry date	18 September 2025	3 September 2026	19 May 2027	1 September 2027	30 September 2025

The Performance Rights and Options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

OPTIONS EXPIRED

During the year, 305,000 Options over unissued shares expired or were cancelled (2022: 257,500).

During the year, nil Options over unissued shares lapsed. In 2022, nil Options lapsed.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the year, or since the end of the financial year, the Company has not issued any shares as a result of the exercise of an option over unissued shares.

SHARE BUY-BACK

During the year, or since the end of the financial year, the Company has not bought back any shares.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The constitution of the Company provides that the Company must indemnify, on a full indemnity basis and to the full extent permitted by law, each current and former Director, alternate Director or executive officer against all losses or liabilities incurred in that capacity in defending any proceedings, whether civil or criminal, in which judgement is given in their favour or in which they are acquitted or in connection with any application in relation to any such proceedings in which relief is granted under the Corporations Act 2001.

The Company has agreed to indemnify the following current and former Directors of the Company, Mr A G Moufarrige, The Hon. M Vaile, Mrs W Graham, Mr T McGrath, Mr B Corlett, Mr R Holliday-Smith, Mr T Moufarrige and Mrs J King against any loss or liability that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a wilful breach of duty. The agreement stipulates that the Company will meet the full amount of any such liabilities to the extent permitted by law, including reasonable costs and expenses.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company.

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

CORPORATE GOVERNANCE

A statement of the Board's governance practices is set out on pages 2 to 6 of this annual report and on Servcorp's website, servcorp.com.au

For personal use only

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were the provision of Executive Serviced and Virtual Offices, Coworking and IT, Communications and Secretarial Services.

There were no significant changes in the nature of the activities of the Consolidated Entity during the year.

CONSOLIDATED RESULTS

Net profit after tax for the financial year was $11.07 million (2022: 28.02 million). Operating revenue was $295.55 million (2022: $275.57 million). Basic and diluted earnings per share was 11.4 cents (2022: 28.9 cents).

	2023 $'000	2022 $'000
Revenue & other income	**295,546**	**275,573**
Net profit before tax	**16,993**	**34,377**
Underlying net profit before non-cash impairment of assets and tax (i)	**42,255**	**30,356**
Net profit after tax	**11,067**	**28,021**
Underlying free cash (ii)	**61,667**	**52,486**
Net operating cash flows	**155,531**	**145,583**
Cash & investment balances	**116,354**	**108,230**
Net assets	**187,778**	**198,254**
Return on net funds employed	**55%**	**33%**
	Cents	**Cents**
Earnings per share	**11.4**	**28.9**
Dividends per share	**22.0**	**20.0**

Notes:

i. Underlying net profit before non-cash impairment of assets and tax is the statutory net profit before tax adjusted for significant items (before tax) that are one-off in nature and that do not reflect the underlying performance of the business and includes mature floors only. In the 2023 financial year, it excludes operating losses from new floors pre-maturity and closed floors post-closure of $3.8 million and impairment losses, closure costs and other non-recurring costs of $21.4 million. In the 2022 financial year, it excludes operating losses from new floors pre-maturity and closed floors post-closure of $3.6 million, one-off income of $4.8 million and a gain from cloud computing adjustment of $2.8 million.

ii. Underlying free cash is net operating cash flows before tax paid, less cash rent paid, adjusted for significant items (before tax) which relate to the reported financial year however, because of timing, either occurred in the preceding financial year or will occur in the subsequent financial year.

DIVIDENDS PAID AND DECLARED

Dividends totalling $21.30 million have been paid or declared by the Company in relation to the financial year ended 30 June 2023 (2022: $19.36 million). Information relating to dividends in respect of the prior and current financial year, including dividends paid or declared by the Company since the end of the previous year, is set out in the following table.

DIVIDEND		CENTS PER SHARE	TOTAL AMOUNT $'000	DATE OF PAYMENT	FRANKED %	TAX RATE FOR FRANKING CREDIT
In respect of the previous financial year: 2022						
Interim	Ordinary shares	**10.00**	**9,682**	**6 April 2022**	**0%**	**30%**
Final	Ordinary shares	**10.00**	**9,682**	**6 October 2022**	**0%**	**30%**
In respect of the current financial year: 2023						
Interim	Ordinary shares	**10.00**	**9,682**	**5 April 2023**	**0%**	**30%**
Final	Ordinary shares	**12.00**	**11,618**	**5 October 2023**	**20%**	**30%**

For personal use only

REVIEW OF OPERATIONS

Revenue and other income from ordinary activities for the twelve months ended 30 June 2023 was $295.55 million, up 7% from the twelve months ended 30 June 2022. In constant currency terms, mature revenue increased by 10% compared to the 2022 year.

Net profit before tax for the twelve months to 30 June 2023 was $16.99 million, down 51% from $34.38 million in the prior year, due to one-off expenses totalling $21.42 million and $3.84 million losses from pre-mature or post-closure locations.

Underlying net profit before tax was $42.26 million, up 36% compared to the 2022 year, calculated before operating losses from new floors pre-maturity and closed floors post-closure of $3.84 million and impairment losses, closure costs and other non-recurring costs of $21.42 million (2022[(i)]: $31.0 million before operating losses from new floors pre-maturity and closed floors post-closure of $2.8 million, impairment losses, closure costs and other non-recurring costs of $1.5 million, a gain from cloud computing adjustment of $2.8 million, and one-off income of $4.8 million).

Net profit after tax for the twelve months to 30 June 2023 was $11.07 million, down from $28.02 million in the prior year.

Cash and investment balances (unencumbered) were $115.65 million at 30 June 2023 (30 June 2022: $107.55 million).

Return on funds employed was 55% in the 2023 financial year, up from 33% in the 2022 financial year.

The business generated strong net operating cash flows during the 2023 financial year of $155.53 million, up 7% compared to the 2022 financial year (2022: $145.58 million). The underlying free cash generated during the 2023 financial year was up 17% to $61.67 million, after adding back tax paid of $2.06 million and deducting cash rent adjustments of $1.62 million and lease liability payments of $98.01 million, and adding other timing differences of $3.70 million (2022: underlying free cash generated $57.29 million, after adding back tax paid of $13.12 million, cash rent adjustments of $0.27 million and deducting lease liability payments of $99.21 million and other timing differences of $2.47 million).

In the 2023 financial year, Servcorp continued to pursue its long-term strategy of cultivating business resilience and ensuring sustainable income streams through its ongoing focus on premium service provision, team development and training, customer experience improvement, global reach in gateway cities, and continued innovation to enhance business efficiency. This focused approach yielded strong results and performance across all KPIs. Underlying revenue increased $30.6 million year-on-year, underpinned by growth through both business development and pricing improvement, and continued increase in client retention.

In February 2023, Servcorp stated its intention to invest up to $60 million over the next 18 months to recommence expansion of its global footprint, where suitable opportunities and management depth are present. In the 2023 financial year, $19.8 million was spent and five new floors were open, with another eight in the pipeline and currently under construction, with scheduled openings in the 2024 financial year.

Despite the overshadowing uncertainties in the global economic landscape, Servcorp is confident in the business strength to drive continued growth in the 2024 financial year, leveraging its well-established brand name, unique value proposition, unrestricted global reach, advanced technological platform and a dedicated management team.

Notes:

i. Underlying results for the 2022 financial year comparisons, as stated in the Review of operations and in the region reports on the following pages, have been restated to remove the impact of mature floors in 2022 that were closed in the 2023 financial year; to include immature floors in 2022 that have become mature in 2023; and remove one-off income.

SERVCORP FOOTPRINT

In the 2023 financial year, net capacity decreased by 12 offices. During the year, five floors opened in four new locations and five floors were closed.

Occupancy of mature floors open at 30 June 2023 was 72% (30 June 2022: 73%). All floor occupancy was 71%.

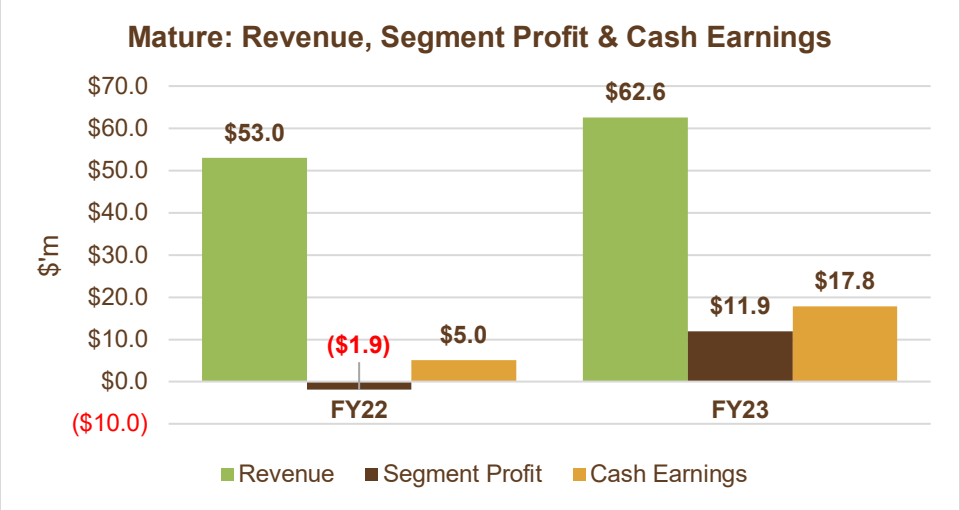
As at 30 June 2023, Servcorp operated 129 floors in 40 cities across 20 countries.

For personal use only

AUSTRALIA, NEW ZEALAND AND SOUTHEAST ASIA (ANZ/ SEA)

ANZ/ SEA has demonstrated a strong performance rebound coming out of the pandemic.

Mature revenue witnessed a notable increase of $9.6 million year-on-year, due to increase in occupancy. As revenue recovers, profit and cash earnings follow the same trend, swinging successfully back to the positive territory, producing $11.9 million segment profit and $17.8 million cash earnings.

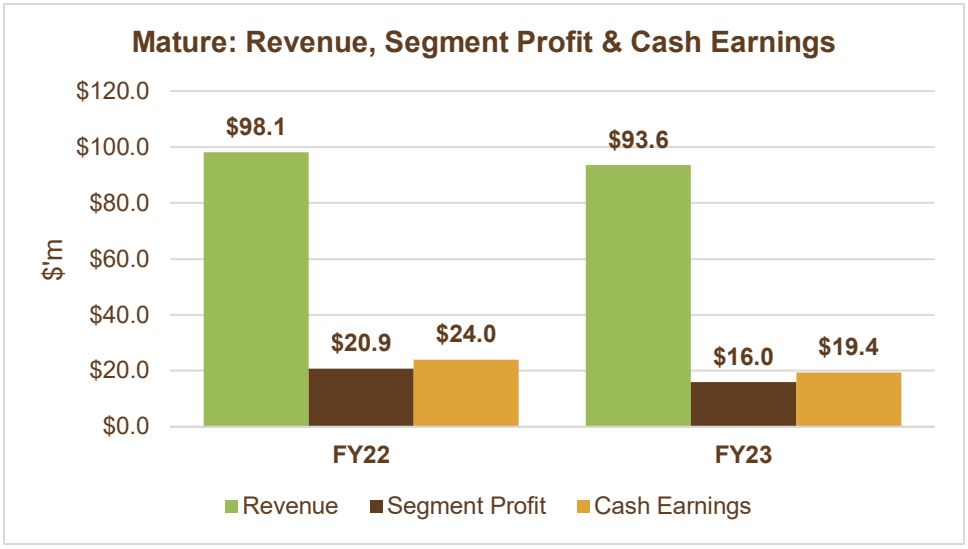


NORTH ASIA

North Asia results, in general, retreated from the year before, mostly attributed to the protracted underperformance in Greater China given the slow rebound from arguably the most restrictive and long-lasting Covid-19 measures.

Decreases in the 2023 financial year segment profit and cash earnings are largely attributed to the drop in mature revenue, as mature revenue declined by $4.5 million on the 2022 financial year, while operating expenses held largely flat year-on-year.

Following thorough assessment and constructive discussion with relevant stakeholders over the last ten months, management took the decision to cease operations in Hong Kong.



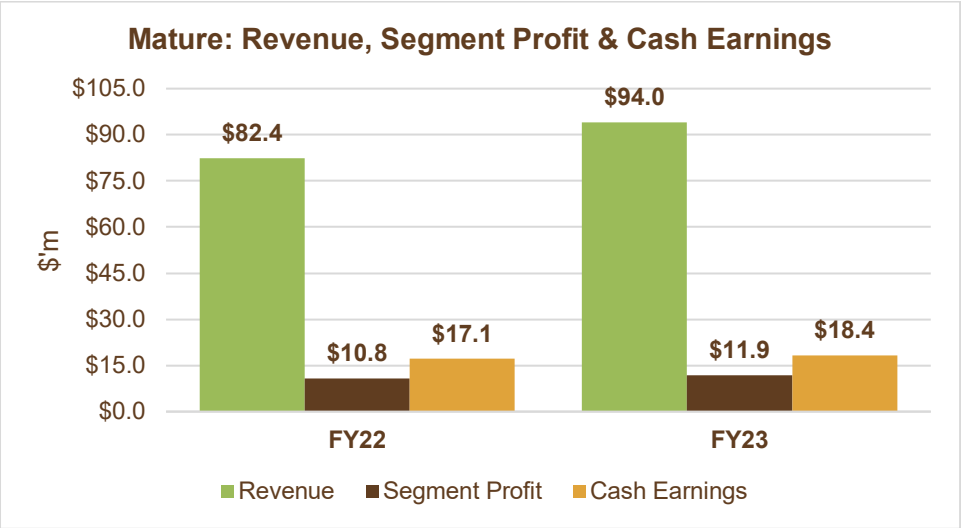
For personal use only

EUROPE AND THE MIDDLE EAST (EME)

EME continued to perform well. Mature revenue recorded a healthy growth of $11.6 million on the 2022 financial year.

Europe took a one-off impairment in the amount of $2.4 million, as its recovery in performance took longer than expected to materialise.

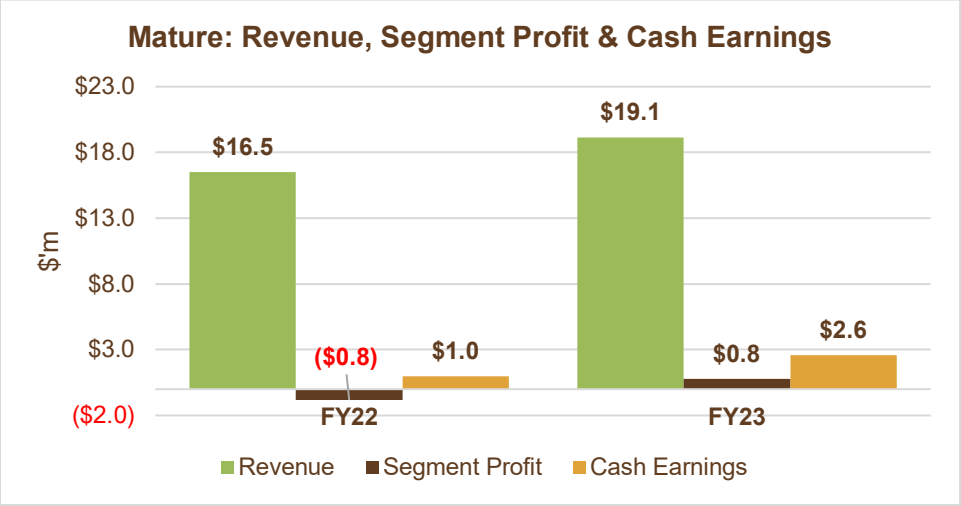
After absorbing the one-off impairment, and additional non-recurring overheads incurred to complete an organisation restructure, segment profit and cash earnings for the region were up marginally year-on-year.



USA

USA continued to show improvements in performance in the 2023 financial year, closing the year with a small segment profit of $0.8 million. Revenue continued growing, building more business resilience in the operation.

A new General Manager was appointed in March 2023 to lead and manage the USA. The local management team was restructured, and while this led to some non-recurring costs, it is expected to produce improved efficiencies and lower ongoing costs. Business procedures have been reviewed and re-established, and additional resources deployed to train and guide the USA teams and bring them to Servcorp global standard.



For personal use only

For personal use only

EVENTS SUBSEQUENT TO BALANCE DATE

Business acquisition

Effective 3 July 2023, companies within the Consolidated Entity acquired the serviced office businesses carried on by Enideb Pty Ltd in two locations in Canberra, ACT, Australia. The businesses were previously carried on under a franchise agreement between the Consolidated Entity and Enideb Pty Ltd, a related party. The purchase price was $4.2 million, which was independently appraised and valued.

Dividend

On 24 August 2023, the Directors declared a final dividend of 12.00 cents per share, franked at 20%, payable on 5 October 2023.

The financial effect of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2023.

The Directors are not aware of any matter or circumstance, other than that referred to above or in the financial statements or notes thereto, that has arisen since the end of the year that has significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

LIKELY DEVELOPMENTS

The Consolidated Entity will continue to pursue its policy of seeking to increase the profitability and market share of its major business sectors during the next financial year.

ENVIRONMENTAL MANAGEMENT

The Consolidated Entity's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

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.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain "non-audit services" in addition to their statutory duties.

The Board of Directors has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by, and did not compromise the auditor independence requirements of, the Corporations Act 2001 for the following reasons:

- non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company or jointly sharing risks and rewards.

Details of the amounts paid or payable to the auditor of the Company, KPMG and its related practices for audit and non-audit services provided during the year are set out in Note 28 to the Consolidated financial report.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 29 and forms part of this report.

REMUNERATION REPORT

The Remuneration Report for the financial year ended 30 June 2023 is set out on pages 16 to 28 and forms part of this report.

Signed in accordance with a resolution of the Directors pursuant to section 298(2) of the Corporations Act 2001.



A G Moufarrige AO

Managing Director and CEO

Dated at Sydney this 24th day of August 2023

Remuneration Report

CONTENTS

17 INTRODUCTION

Describes the scope of the Remuneration Report and the key management personnel (KMP) whose remuneration details are disclosed.

18 REMUNERATION GOVERNANCE

Describes the role of the Board and the Remuneration Committee, and the use of remuneration consultants when making remuneration decisions.

19 KEY MANAGEMENT PERSONNEL

Provides details of names, titles and any changes in key management personnel.

20 NON-EXECUTIVE DIRECTOR REMUNERATION

Provides details regarding the fees paid to non-executive Directors.

20 EXECUTIVE REMUNERATION

Outlines the principles applied to executive KMP remuneration decisions and the framework used to deliver the various components of remuneration.

23 RELATIONSHIP BETWEEN CONSOLIDATED ENTITY PERFORMANCE AND REMUNERATION

Provides an explanation of the linkages between Company performance and remuneration.

24 EMPLOYMENT AGREEMENTS

Provides details regarding the contractual arrangements between Servcorp and the executives whose remuneration details are disclosed.

25 EMPLOYEE SHARE SCHEME AND OTHER EQUITY INCENTIVE INFORMATION

Provides details regarding Servcorp's employee equity plans including that information required by the Corporations Act 2001 and applicable accounting standards.

26 NON-EXECUTIVE DIRECTOR REMUNERATION TABLE

Provides details of the nature and amount of each element of the remuneration of each non-executive Director of Servcorp Limited for the year ended 30 June 2023.

27 EXECUTIVE KMP REMUNERATION TABLE

Provides details of the nature and amount of each element of the remuneration of each executive KMP of Servcorp Limited for the year ended 30 June 2023.

For personal use only

INTRODUCTION

We are pleased to present Servcorp's Remuneration report for the 2023 financial year.

Servcorp's aim is to provide the finest workspace solutions to our customers by providing the best locations, facilities, technology and people crucial to making businesses successful. Our operations span 20 countries, 40 cities and 106 locations globally, via serviced offices, co-working, and virtual offerings. This global footprint provides leverage to exploit our brand, take advantage of new market opportunities and diversify our risk. Notably, for the 2023 financial year offshore revenue represented more than 83% of our total revenue. Skilled, experienced local management in each jurisdiction, supported by Servcorp's market leading IT platform and proprietary product offerings, are critical to our continued success, and with the increasingly competitive environment for talent, we need to have an appropriate reward framework in place. We are highly aware that the markets in which we operate are subject to changing economic factors, and often these may be counter cyclical to the Australian market. Therefore, it is the Board's view that our remuneration strategy should reflect both our vision as a global company and the diversity of our regional businesses.

Over the past few years, the Company has been presented with unprecedented challenges. We have managed to navigate through an intense competitive environment and a pandemic, the latter of which has caused tremendous change in how and where people work. While sales, floor growth and profits weakened through that period we managed to cut costs, retain a dedicated team, drive strong cash flow, and pay continued dividends for our shareholders. The Board would like to acknowledge our team members for their tremendous effort and perseverance through this difficult environment.

With the acute effects of COVID-19 behind us, we believe we are well positioned to benefit from improved trends and capitalise on the evolution of flexible working. After a period of consolidation, we are planning for a return to floor growth, and have already seen like-for-like improvement in both our office and virtual revenue. That said we are still seeing the impacts of an inflationary environment, supply chain disruption and uncertainty about the global economy.

In 2023, the team worked incredibly hard and managed to achieve global profit targets, which were increased from 2022 despite sector headwinds. We also had some standout regional performances, so we feel that the STIs earned are a fair reflection of the team's efforts and resulting outcomes for the Company.

The Board's philosophy and approach to executive remuneration is to attract and retain team members with a fair yet challenging compensation structure which rewards excellence at the regional level, properly incentivises those whose roles span multiple geographies, and supports the growth aspirations of Servcorp as a global business. For Servcorp, we believe financial performance is the key driver of shareholder value, so we have structured our framework to reflect both regional and global contributions of our executives to group performance.

In July 2022, the Board appointed independent consultant Crichton & Associates to undertake a remuneration strategy review to ensure we have a modern best practice framework for fiscal 2023 and beyond. The initial outcomes of this review, as disclosed the 2022 Remuneration report, are as follows:

- firstly, we introduced an LTI performance rights plan in the 2023 financial year. The goals of this plan are to ensure our competitiveness in the market, improve long-term alignment between remuneration, business performance, and shareholder interests, and provide an additional long-term compensation mechanism that relies on 3-year group performance;
- secondly, in the review we re-assessed our executive KMP structure. After hiring a new CFO with expanded global responsibility for the business, we determined that from 1 July 2022 Servcorp's KMP will consist of the CEO, the CFO and members of the Board. Regional executives whose responsibilities are not global in nature will no longer be deemed KMP. Regional executives will continue to participate in STI compensation plans that rely on regional and group profits, and may also receive periodic LTI grants with similar performance and service conditions to executive KMP grants. This will ensure we can continue to attract and retain exceptional executives at the regional level, and will further align their long term compensation with Servcorp's financial performance;
- thirdly, we introduced a malus and clawback policy relative to our incentive programs.

For the 2023 financial year:

- the Board has not introduced any new short term executive remuneration components;
- in recognition of the profit expectations going forward, the Board increased the global gateway and target net profit before impairment and tax for the 2023, financial year. The Board has further increased the global gateway and target for the 2024 financial year, and has improved disclosure around these metrics;
- the Board left non-executive Director base fees constant;
- in December 2022, the Board issued Performance Rights to senior executives, including one executive KMP.

For the 2024 financial year other initiatives emerging from this review will be assessed and, where suitable, implemented by the Board and communicated to shareholders.

In summary, the Board believes Servcorp's approach to non-executive Director and executive KMP remuneration is balanced, fair and equitable and designed to achieve alignment of executive reward with shareholder expectations and value. We will continue to assess our practices to ensure they support Servcorp's strategy, our desired business outcomes, and our goal of retaining and motivating our employees in an increasingly competitive environment for talent.

The Board is committed to ensuring our remuneration practices continue to evolve to support the interests of our shareholders. We welcome feedback from shareholders and proxy advisors, and we thank you for your continued support of Servcorp.

For personal use only

This Remuneration Report sets out, in accordance with the relevant Corporations Act 2001 (Corporations Act) and accounting standard requirements, the remuneration arrangements in place for KMP of Servcorp during the financial year ended 30 June 2023.

REMUNERATION GOVERNANCE

This section explains the role of the Board and the Remuneration Committee, and use of remuneration consultants when making remuneration decisions in respect of non-executive Directors and executive KMP.

Role of the Board and the Remuneration Committee

The Board is responsible for Servcorp's global remuneration strategy and policy. Consistent with this responsibility, the Board has established the Remuneration Committee, which comprises solely non-executive Directors, all being independent.

The role of the Remuneration Committee is set out in its Charter, which is reviewed annually. In summary, the Remuneration Committee's role includes:

- ensure that the appropriate procedures exist to assess the remuneration levels of the Chair, other non-executive Directors, executive Directors, direct reports to the CEO, Board Committees and the Board as a whole;
- ensure that Servcorp meets the requirements of ASX Corporate Governance Principles and Recommendations, and other relevant guidelines;
- ensure that Servcorp adopts, monitors and applies appropriate remuneration policies and procedures;
- ensure that reporting disclosures related to remuneration meet the Board's disclosure objectives and all relevant legal and accounting standard requirements;
- develop, maintain and monitor appropriate talent management programs including succession planning, recruitment, development; and retention and termination policies and procedures for senior management; and
- develop, maintain and monitor appropriate superannuation and other relevant pension benefit arrangements for Servcorp as required by law.

Further information on the Remuneration Committee's role, responsibilities and membership are contained in the Corporate Governance section on page 6.

Use of remuneration consultants

During the 2022 financial year, no remuneration consultant made a remuneration recommendation in relation to any of the executive KMP.

During the 2023 financial year, a remuneration consultancy contract was entered into by Servcorp with respect to drafting a new Employee Incentive Plan, and the grant and valuation of Performance Rights and Options.

ADVISOR / CONSULTANT- 2023	SERVICES PROVIDED	REMUNERATION CONSULTANT FOR THE PURPOSE OF THE CORPORATIONS ACT
Ian Crichton, Remuneration Consultant Crichton & Associates Pty Ltd	Remuneration strategy review. Overview of Servcorp's existing short term and long term incentive programs. Provision of new Employee Incentive Plan rules, and supporting documentation.	No

Key questions regarding use of remuneration consultants

QUESTION	ANSWER
Did the remuneration consultant provide remuneration recommendations in relation to any of the executive KMP for the 2023 financial year?	No.
How much was the remuneration consultant paid by Servcorp for remuneration related and other services?	Remuneration services: Crichton & Associates Pty Ltd $30,860; Other services: Nil.
What arrangements did Servcorp make to ensure that the making of the remuneration recommendations would be free from undue influence by the executive KMP?	Servcorp maintains a protocol which governs the procedure for procuring advice relating to KMP remuneration. The protocol includes a process for the engagement of the remuneration consultant, the provision of information to the remuneration consultant and the communication of remuneration recommendations.
Is the Board satisfied that the remuneration information provided was free from any such undue influence?	Yes, the Board is satisfied.
What are the reasons for the Board being so satisfied?	The Chairman of the Remuneration Committee had oversight of all requests for remuneration information, and the protocol with respect to the procurement of remuneration related advice remains in place.

For personal use only

KEY MANAGEMENT PERSONNEL

Key management personnel have authority and responsibility for planning, directing and controlling the activities of Servcorp and comprise the non-executive Directors, and executive KMP (being the Executive Directors and other senior executives named in this report).

In prior years, certain regional executives were included as KMP. In April 2022, Servcorp appointed a new Chief Financial Officer, whose involvement includes elevated levels of responsibility in the business at a group level, and encompasses a wider operational focus. As highlighted in the 2022 Remuneration report, from 1 July 2022, the Board is of the opinion that authority for planning, directing and controlling the activities of the Consolidated Entity will reside with the CEO and CFO, and have resolved that for the 2023 financial year the KMP will consist of the CEO, CFO and the Board.

Details of the KMP during the year are provided in the following table.

NAME	TITLE	CHANGE IN 2023
Non-executive Directors		
The Hon. Mark Vaile	Chairman Member, Audit & Risk Committee Member, Remuneration Committee Chair, Nomination Committee	Full year | No change
Wallis Graham	Director Member, Audit & Risk Committee Chair, Remuneration Committee Member, Nomination Committee	Full year | No change
Tony McGrath	Director Chair, Audit & Risk Committee Member, Remuneration Committee Member, Nomination Committee	Full year | No change
Executive Director		
Alf Moufarrige	Chief Executive Officer	Full year | No change
Other Group-level executive		
David Hunt	Chief Financial Officer & Head of South East Asia	Full year | Commenced effective 19 April 2022

In 2022 the following regional executives were included as KMP.

NAME	TITLE
Regional executives	
David Godchaux	CEO Middle East & Europe
John Henderson	Chief Operating Officer (resigned effective 28 February 2023)
Colleen Susini	General Manager USA (resigned effective 27 March 2023)
Olga Vlietstra	General Manager Japan

For personal use only

For personal use only

NON-EXECUTIVE DIRECTOR REMUNERATION

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed by the Board. The Board ensures non-executive Directors' fees and payments are appropriate and in line with the market. Non-executive Directors are not employed under a contract and do not receive share options or other equity based remuneration.

Directors' fees

Non-executive Directors' fees are determined by the Board within an aggregate Directors' fees limit approved by shareholders.

The fees limit currently stands at $500,000 per annum inclusive of payments for superannuation. This limit was approved at the 2011 annual general meeting.

The most recent review of Directors' fees was effective 1 July 2013. Effective 1 July 2013, non-executive Directors' fees were set as:

- Chair - $175,000 per annum including superannuation;
- Non-executive - $100,000 per annum including superannuation;
- Chair of the Audit and Risk Committee - an additional $10,000 per annum including superannuation.

From 1 July 2021, the Superannuation Guarantee rate is scheduled to increase progressively, from 9.5% to 12.0%. To comply with the legislation, and allow these increases to be provided to the Directors, effective 1 July 2021, the non-executive Directors' base fees have been held at the same rates, with superannuation increasing in line with these progressive increases. For the 2023 financial year fees were as follows:

- Chair - $159,818 per annum plus superannuation, for a total of $176,599;
- Non-executive - $91,325 per annum plus superannuation, for a total of $100,914;
- Chair of the Audit and Risk Committee - an additional $9,132 per annum plus superannuation, for a total of $10,091.

The increased Superannuation Guarantee amount was a total of $1,757 for all non-executive Directors (2022: $1,759).

For the 2024 financial year, the Board have resolved to keep non-executive Director base fees constant.

Additional fees are not paid for membership of Board committees other than as referred to in the previous paragraph.

Retirement allowances for Directors

Non-executive Directors are not entitled to retirement allowances.

Details of remuneration

Details of the nature and amount of each element of the remuneration of each non-executive Director of Servcorp Limited for the year ended 30 June 2023 are set out in the table on page 26.

Minimum shareholding requirement

Servcorp does not have a minimum shareholding requirement for non-executive Directors. It is noted, however, that all non-executive Directors are shareholders of the Company.

EXECUTIVE REMUNERATION

Remuneration philosophy and principles

The Board recognises that the Consolidated Entity's performance is dependent on the quality and contribution of its team members, particularly the executive KMP and regional executives. To achieve its financial and operating objectives, Servcorp must be able to attract, retain and motivate appropriately qualified and skilled executives at the regional and global level.

The objective of the executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of Servcorp's strategic objectives particularly its short, medium and long term earnings; being operating profits at a regional level; and consolidated mature net profit before impairments and tax and EPS at a global level. The Board believes that earnings are the metric which best corresponds to value creation for the Company and its shareholders in both the short and longer term, but will continue to assess the merits of using other performance indicators in our remuneration framework in the future.

Executive remuneration is a balanced mix of fixed and incentive ('at risk') remuneration. In determining the appropriate balance, regular reviews are undertaken that involve cross-referencing position descriptions to reliable accessible remuneration data in the markets in which Servcorp operates.

Servcorp's executive remuneration policy and principles are designed to ensure that the Consolidated Entity:

- provides competitive rewards that attract, retain and motivate our key executives;
- encourages loyalty and commitment to Servcorp;
- builds a structure for growth and includes appropriate succession planning;
- structures remuneration at a level that reflects the executive's duties and accountabilities and is competitive in the markets in which it operates;
- complies with applicable legal requirements and appropriate standards of governance.

The Company's remuneration framework is reviewed annually, and the Board is committed to engaging with shareholders, consultants and proxy advisors as required to ensure proper evolution of its remuneration strategy.

Remuneration structure and elements

The executive KMP remuneration and reward framework at Servcorp consisted of three components:

- fixed remuneration;
- short term incentives; and
- long term incentives.

The combination of these comprises the executive KMP total remuneration opportunity.

The CEO did not participate in the STI or LTI plan for the 2023 financial year.

The CFO's total target remuneration opportunity, in respect of the 2023 financial year, consisted of 72% fixed and 28% variable pay and target variable opportunity (STI + LTI) as a percentage of fixed pay was 39%.

Fixed remuneration

Fixed remuneration is reviewed each year and adjusted to changes in job role, promotion, market practice, internal relativities and performance.

Remuneration for the 2023 financial year and changes from 2022 are set out in the table on pages 27 and 28.

For the 2023 financial year, the base salary of the CFO was increased to reflect his expanded global operational responsibility within the business from July 2022, including oversight of a region, and new title as CFO and Head of SEA. The base salary of the CEO remained constant.

Short term incentives

Short term incentives (STI) are awarded, in cash, based on achievement against targets set at the beginning of each financial year. The basis of the STI scheme was established for the 2014 financial year and has been applied consistently in subsequent financial years. Alf Moufarrige, the CEO, founder and major shareholder, has elected not to participate in the STI scheme.

Under the STI scheme, an STI dollar value is set for senior executives, which represents the target STI that can be awarded for achieving target for the relevant year. The total target STI opportunity for executive KMP for the 2023 financial year was $84,000. The target STI opportunity as a percentage of associated fixed remuneration was 16.4%.

STI targets are set in advance each year and are challenging. The STI targets for the 2023 financial year were determined based on a matrix of Consolidated Entity mature net profit before impairments and tax (global STI target) and region mature operating profit (region STI target), where appropriate based on regional responsibilities. To ensure STI targets remained challenging, the global STI target and region STI targets, in the 2023 financial year, were set above 2022 financial year results, and above pre-COVID levels. Region STI is only paid if the region STI target is met; there is no gateway.

The CFO has both global responsibility and direct responsibility for a region, and therefore the total STI potential was allocated between the region STI target and the global STI target. The region STI allocation was 36% of total target STI, and 22% of outperform STI. The CFO's region target was set to be very challenging, and was not met, so his regional STI was not paid in the 2023 financial year.

A gateway consolidated mature net profit before impairment and tax is set each year, and must be achieved before any global STI payout is made. It is intended that a similar approach to STI will be applied for the 2024 financial year. Despite the continued challenges stemming from COVID-19, and potential recessionary pressures, the gateway consolidated net profit before impairment and tax increased for the 2023 financial year. The gateway has been further increased for the 2024 financial year in anticipation of continued improvement in results, balanced by economic uncertainty and global political events, as provided in the following table.

FINANCIAL YEAR ENDING 30 JUNE	2022 ACTUAL	2023 GATEWAY	2023 TARGET	2023 OUT PERFORM	2023 ACTUAL	2024 GATEWAY	2024 TARGET	2024 OUT PERFORM
Consolidated mature net profit before impairments and tax ($ million)	38.0	40.0	42.0	45.0	42.3	44.0	47.0	50.0

Global STI is calculated as follows:

- if consolidated mature net profit before impairment and tax meets the global gateway - 50% of the global STI opportunity;
- if consolidated mature net profit before impairment and tax meets the global target - 100% of the global STI opportunity;
- if consolidated mature net profit before impairment and tax falls between the global gateway and target - the global STI paid is calculated as a percentage between 50% and 100% of global STI opportunity on an incremental basis, in the same proportion as the net profit before tax is to gateway and target.

For personal use only

There are also additional STI opportunities to provide incentive for executive KMP to out-perform these targets:

- if the global target is exceeded by more than a set amount, executive KMP receive double their global STI opportunity. In the 2023 financial year, this metric was set at $3 million, representing a global outperform consolidated mature net profit before impairments and tax of $45 million. This out-perform metric was not achieved in 2023, so these payments were not made.
- executive KMP with a region target receive an extra $50,000 for each $2 million by which they out-perform their region mature operating profit target. In addition, the Board has discretion to reward executive KMP who achieve 'super out-perform' region results with additional STI payments. There were no executive KMP who received a regional out-perform in the 2023 financial year;
- In the 2023 financial year, the total additional STI opportunity if the executive KMP had outperformed their region target by $2 million and global outperform was also achieved, was $104,000.

Long term equity incentives

In 2016 the Board updated the Servcorp Limited Executive Share Option Scheme (ESOS). From time to time since then, the Board has granted Options to senior executives to encourage and reward superior long term performance. These options have been subject to vesting criteria based on 3-year service and 2-year EPS growth.

- Options were granted to executive KMP during the 2021 and 2022 financial years;
- a summary of the terms of the Options currently on issue under the ESOS are detailed in the table below.

Options currently on issue under the ESOS:

Grant date	27 August 2020	27 August 2020	11 May 2022
Issue date	18 September 2020	4 November 2020	19 May 2022
Exercise price	$2.48 per Option	$2.48 per Option	$3.54 per Option
Vesting conditions	EPS performance hurdle of 15% pa cumulative growth between the 2020 and 2022 financial years Continuous service until 18 September 2023	EPS performance hurdle of 15% pa cumulative growth between the 2020 and 2022 financial years Continuous service until 18 September 2023	EPS performance hurdle of 15% pa cumulative growth between the 2022 and 2024 financial years Continuous service until 19 May 2025
Vesting date	18 September 2023	18 September 2023	19 May 2025
Exercise period	Two years from vesting date to expiry date	Two years from vesting date to expiry date	Two years from vesting date to expiry date
Expiry date	18 September 2025	18 September 2025	19 May 2027
Option value	$0.5825	$0.5368	$0.5145
Status	Vested (i)	Vested (i)	Not vested

i. Effective 25 August 2022, the Options issued on 18 September 2020 and 4 November 2020 vested, as the EPS Performance of the Company met the applicable Vesting Percentage. Continuous service is still to be met.

In August 2022, the Board approved a new Servcorp Employee Incentive Plan (SEIP) with the purpose of encouraging executives and other team members to share in the ownership of the Company and to promote the long-term success of the Consolidated Entity as a shared goal.

- this program is designed to improve executive alignment with our long-term goals, and ensure we evolve with market practice by introducing a 3-year testing horizon;
- the SEIP provides for various types of awards, including Options and Performance Rights;
- Performance Rights were granted to executive KMP during the 2023 financial year, with vesting based on service and a 3-year cumulative EPS measure. The targets are intended to be rigorous yet achievable in the event of strong group performance;
- a summary of the terms of the Performance Rights currently on issue to KMP under the SEIP are detailed in the following table.

For personal use only

Performance Rights currently on issue under the SEIP:

Grant date	1 December 2022
Issue date	19 December 2022
Exercise price	$Nil
Vesting conditions	3-year cumulative EPS performance target, representing 10% pa growth between the 2022 and 2025 financial years Threshold performance for 50% vesting, representing 5% pa growth between the 2022 and 2025 financial years, with pro rata vesting between threshold and target Continuous service until 1 September 2025
Vesting date	1 September 2025
Exercise period	30 days from vesting date to expiry date
Expiry date	30 September 2025
Option value	$2.7982
Status	Not vested

RELATIONSHIP BETWEEN CONSOLIDATED ENTITY PERFORMANCE, EXECUTIVE KMP REMUNERATION AND SHAREHOLDER WEALTH

The relationship between Consolidated Entity performance and executive KMP remuneration is important to ensure that there is a clear and appropriate correlation and alignment of interests between shareholders and executive KMP.

Key financial indicators

Servcorp's principal activities and financial performance are explained in detail in the Review of Operations section of the Directors' Report on pages 11 to 14.

A summary of Servcorp's financial performance over the last five years is provided in the following table.

	FINANCIAL YEAR ENDED 30 JUNE				
MEASURE	**2019**	**2020**	**2021**	**2022**	**2023**
Total revenue ($million)	337	352	276	276	296
Net profit before tax ($million)	12.5	15.6	30.6	34.4	17.0
Net profit after tax ($million)	5.4	6.9	23.5	28.0	11.1
Basic earnings per share (cents)	5.6	7.2	24.3	28.9	11.4
Dividend per share (cents)	23.0	20.0	18.0	20.0	22.0
Share price as at 30 June ($)	$3.51	$2.32	$3.50	$3.30	$3.00
Offices	5,788	5,039	5,141	5,162	5,150
Number of locations	137	112	111	107	106

The 2019 financial year was challenging due to a dramatically increased competitive environment and pressures in the US market, with net profit after tax impacted by charges for non-recurring restructure costs and write-offs, the impairment of leasehold improvements and goodwill and the exclusion of restricted earning. Despite the large non-cash impairments impacting on profits for the 2019 financial year, revenues were at a record level and Directors were encouraged by a strong second half profit.

The first three quarters of the 2020 financial year continued the improvement shown in the second half of the 2019 financial year. The Company's strong performance was evident across all key metrics including occupancy, operating margins, net profit after tax and free cash, with record revenues recorded, despite a very challenging competitive environment. COVID-19 impacted on trading conditions in the last quarter, however the Company still recorded a solid underlying performance; revenue and other income was up 5%, underlying net profit before tax was up 17% and underlying free cash was up 3%.

The 2021 and 2022 financial years saw challenging COVID-19 trading conditions and a difficult global economic environment. In particular, there was downward price pressure across our global footprint, affecting revenue. We also experienced notable variation in performance across regions, as the severity of lockdowns and other restrictions differed across geographies. An improving environment, disciplined cost management and minimal impact from non-underlying items saw net profit after tax, and associated earnings per share (EPS), return to higher levels, with EPS up 237% in 2021, and 19% in 2022.

For personal use only

Through all years, cash flows have remained strong, allowing interim and final dividends to continue to be paid to our shareholders. In 2022 we were able to increase the dividend from 2021 levels, and in total, Servcorp returned $19.4 million to shareholders via dividends in the 2023 financial year. In total, the Company has returned $99.7 million to shareholders over the last 5 years, representing $1.03 per share, in dividends.

Servcorp's share price has varied considerably over the last several years. The uncertainties created by COVID-19 had a significant impact on Servcorp's share price, which closed at $2.32 on 30 June 2020, down from $3.51 at the end of the 2019 financial year. Servcorp's share price increased steadily during the 2021 financial year, and at 30 June 2021 closed at $3.50. Servcorp's share price increased considerably in the first half of the 2022 financial year, reaching a high of $4.74 in November 2021 in anticipation of a recovery in the post COVID-19 period. However, the difficulties in global economies and the war in Ukraine have caused significant market uncertainty, with Servcorp's share price decreasing to $3.00 at 30 June 2023, despite the improving underlying performance of the business. Notwithstanding this short term volatility, over the three year period from 1 July 2020 to 30 June 2023 Servcorp's total shareholder return (TSR) was 55.2%.

Servcorp is in a financially sound position and we are confident that we will return to higher profit levels which, when combined with healthy dividends, will contribute to a satisfactory total shareholder return (TSR) performance over the coming years.

In the 2023 financial year, consolidated mature net profit before impairments and tax improved on the prior year, meeting the global target, and accordingly the target global STI opportunity was paid.

The variable pay opportunity paid out to executive KMP represents 64.3% of the target opportunity. 35.7% of KMP target STI opportunity was forfeited. The individual 'at risk' rewards paid in the 2023 financial year to executive KMP and the percentage of their maximum opportunity is provided in the following table.

EXECUTIVE KMP	REGION	STI AWARDED $	% OF TARGET OPPORTUNITY	PERFORMANCE RIGHTS AWARDED NO.	FAIR VALUE OF PERFORMANCE RIGHTS AWARDED
Alf Moufarrige	Head Office	N/A	N/A	-	-
David Hunt	Head Office & SEA	54,000	64%	40,000	$111,928

Servcorp has a very strong culture focusing on sales and generation of shareholder wealth. Our executive KMP and regional executives include a balance of long-serving team members together with new executive talent, who reflect Servcorp's investment in the future. All executives are aware of the need to perform. Each executive is involved in the target setting for the business and accepts the challenging targets set.

If our forward net profit before tax targets are met, then shareholders, in the opinion of the Board, will be satisfied with the Consolidated Entity's performance and executives will receive their target remuneration opportunity.

If executives fail to meet their targets, the 'at risk' component of executive KMP and regional executive remuneration will be heavily discounted, or in certain circumstances, not be awarded. In this way the alignment of Consolidated Entity performance and executive KMP and regional executive remuneration will be in direct correlation and be unambiguous. The Board also reserves the right to exercise discretion to avoid unintended remuneration outcomes.

EMPLOYMENT AGREEMENTS

There are no fixed term employment agreements in place for any executive KMP.

Termination benefits

There are no termination of employment agreements in place for executive KMP. Any termination benefit paid to executive KMP would be limited to 12 months remuneration as required by law and in most cases would be determined based on statutory minimum requirements, years of service and the nature of the termination.

Malus and Clawback

Servcorp introduced a Malus and Clawback Policy in August 2022.

The Policy applies for current executive KMP, to unvested Short Term Incentive and Long Term Incentive awards. The Policy is designed to be preventative rather than a purely remedial or punitive measure. Under the Policy, the Board may take action to adjust downwards (malus) or recover (clawback) unvested 'at risk' remuneration, where there is reasonable evidence that an executive KMP has materially contributed to, or been materially responsible for, the need for the restatement of financial results for defined reasons.

Any application of the policy will be disclosed to shareholders.

The Malus and Clawback Policy is available on Servcorp's website; servcorp.com.au

Minimum shareholding requirements

Servcorp does not have a minimum shareholding requirement for executive KMP.

For personal use only

EMPLOYEE SHARE SCHEME AND OTHER EQUITY INCENTIVE INFORMATION

As mentioned previously in this report, the Board introduced the Servcorp Employee Incentive Plan (SEIP) in August 2022, with the purpose of encouraging executives and other team members to share in the ownership of the Company and to promote the long-term success of the Consolidated Entity as a shared goal. The SEIP provides for various types of awards, including Options and Performance Rights.

In prior years, this was achieved by issuing Options under the Servcorp Limited Executive Share Option Scheme (ESOS).

In the 2023 financial year, the Board granted 160,000 Performance Rights and 1,000,002 Options under the SEIP to senior executives, including 40,000 Performance Rights to the CFO, an executive KMP.

In the 2022 financial year, the Board granted 100,000 Options under the ESOS to the CFO, an executive KMP, upon commencement of his employment with Servcorp.

For the 2024 financial year, the Board plans to grant LTI awards to both the CEO and CFO, in addition to a wider group of senior executives. For these grants, the Board will consider the appropriate mix of awards, as well as the inclusion of other metrics in addition to cumulative EPS, to determine vesting after the 3 year performance period.

Details of the Performance Rights and Options granted, on issue and lapsed are provided in the Directors' Report on page 10.

Details of Performance Rights and Options granted to Directors or the five most highly remunerated executives are provided in the following table.

Other than the Performance Rights and Options issued as detailed below, at the date of this report there are no shares, rights, options or other equity incentives held by executive KMP and subject to vesting restrictions.

RIGHTS & OPTIONS HOLDER	TYPE	GRANT YEAR	HELD AT 1 JULY 2022 NO.	GRANTED NO.	FAIR VALUE OF GRANT $	LAPSED / EXPIRED NO.	VESTED NO.	HELD AT 30 JUNE 2023 NO.
Alf Moufarrige	Options	2021	1,500,000	-	-	-	-	1,500,000
David Godchaux	Options	2021	75,000	-	-	-	-	75,000
	Performance Rights	2023	-	40,000	$111,928	-	-	40,000
David Hunt	Options	2022	100,000	-	-	-	-	100,000
	Performance Rights	2023	-	40,000	$111,928	-	-	40,000
Fabienne Moukheiber Hajjar	Options	2021	50,000	-	-	-	-	50,000
	Performance Rights	2023	-	20,000	$55,964	-	-	20,000
Olga Vlietstra	Options	2021	200,000	-	-	-	-	200,000
	Performance Rights	2023	-	60,000	$167,892	-	-	60,000

For personal use only

KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS AND MOVEMENTS

The number of ordinary shares held in the share capital of the Company, directly, indirectly or by a close family member for each key management personnel, and the movement on those holdings during the financial year, is set out in the following table.

KMP	TOTAL HELD AT 1 JULY 2022	GRANTED DURING THE YEAR	PURCHASED DURING THE YEAR	DISPOSED DURING THE YEAR	HELD DIRECTLY AT 30 JUNE 2023	HELD INDIRECTLY AT 30 JUNE 2023 (i)	TOTAL SHARES HELD AT 30 JUNE 2023
M Vaile	35,050	-	--	-	-	35,050	35,050
W Graham	3,000	-	11,000	-	14,000	-	14,000
T McGrath	66,853	-	-	-	-	66,583	66,583
A G Moufarrige	51,802,159	-	436,775	1,752,651 (ii)	547,436	49,938,847	50,486,283
D Hunt	-	-	20,000	-	10,000	10,000	20,000

Notes:

i. Shares held indirectly are included in the "total shares held at 30 June 2023" column. Total shares are held directly by the KMP and indirectly by the KMP's related parties, inclusive of spouse, dependents, and entities controlled or significantly influenced by the KMP.

ii. The shares disclosed as disposed by A G Moufarrige were sold by related parties of A G Moufarrige. A G Moufarrige did not personally dispose of any shares which he held directly or through entities controlled or significantly influenced by him.

NON-EXECUTIVE DIRECTOR REMUNERATION

Amount in AUD		Short term benefits	Post-employment benefits	Total
Name & title	Year	Fees	Superannuation benefits (i)	(ii)(iii)
M Vaile	**2023**	**159,818**	**16,781**	**176,599**
Non-Executive Director	2022	159,818	15,982	175,800
W Graham	**2023**	**91,325**	**9,589**	**100,914**
Non-Executive Director	2022	91,325	9,133	100,458
T McGrath	**2023**	**100,457**	**10,548**	**111,005**
Non-Executive Director	2022	100,457	10,046	110,503
Aggregate	**2023**	**351,600**	**36,918**	**388,518**
	2022	351,600	35,161	386,761

Notes:

i. Superannuation benefits have increased due to an increase in the Superannuation Guarantee rate from 10% to 10.5%, effective 1 July 2022.

ii. Directors' and officers' indemnity insurance has not been included in the above figures since it is impractical to determine an appropriate allocation basis.

iii. Non-executive Directors do not participate in any short term or long term incentive schemes.

For personal use only

KEY MANAGEMENT PERSONNEL REMUNERATION

Amount in AUD		Short term benefits				Post-employment	Other long term benefits	Term-ination benefits	Share based payments	Total	% of performance related remuneration
Name & title	Year	Salary	Cash STI (i,ii)	Non-monetary benefits	Other short term benefits	Super-annuation benefits	Long service leave		Rights & Options (iii)		
A G Moufarrige (iv)	**2023**	**425,104**	**-**	**25,576**	**-**	**31,500**	**-**	**-**	**210,328**	**692,508**	**43.6%**
CEO	2022	427,728	-	30,861	-	30,000	-	-	280,437	769,026	57.4%
D Hunt (v)	**2023**	**450,000**	**54,000**	**14,483**	**-**	**47,250**	**-**	**-**	**6,097**	**571,830**	**17.6%**
CFO & Head of SEA	2022	70,449	-	2,663	-	7,045	-	-	2,020	82,177	2.5%
Key management personnel in 2022											
A Clowes (vi)											
CFO	2022	258,039	-	3,400	-	21,641	-	158,500	-	441,580	0.0%
D Godchaux (vii)											
GM EME	2022	516,932	130,000	23,540	-	29,647	-	-	14,562	714,681	25.4%
L Gorman (viii)											
GM AUNZ	2022	273,382	-	-	-	12,667	-	238,221	-	524,270	0.0%
J Henderson (vii)											
COO	2022	500,000	-	-	-	50,000	-	-	19,417	569,417	30.8%
C Susini (vii)											
GM USA	2022	435,477	10,000	5,006	-	26,775	-	-	9,708	486,966	10.6%
O Vlietstra (vii)											
GM Japan	2022	621,163	262,500	12,774	-	-	-	-	38,833	935,270	29.8%
Aggregate (ix)	**2023**	**875,104**	**54,000**	**54,682**	**-**	**78,750**	**-**	**-**	**216,425**	**1,264,338**	**30.2%**
	2022	3,103,170	402,500	78,244	-	177,775	-	396,721	364,977	4,523,387	24.9%

Notes:

i. Amounts disclosed as short term cash STI in the 2023 year represent STI paid in August 2023 based on 2023 financial year global and region targets.

ii. Amounts disclosed as short term cash STI in the 2022 year represent STI paid in August 2022 based on 2022 financial year global and region targets.

iii. Amounts disclosed as share based payments relate to Performance Rights issued on 19 December 2022 and Options issued on 18 September 2020, 4 November 2020 or 19 May 2022. Details are set out on pages 22, 23 and 25 of this annual report.

iv. The salary of A G Moufarrige includes a component paid in Yen, and the amount disclosed above will vary based on the foreign currency exchange rates. Base salary has been unchanged during the last two years. A G Moufarrige has waived his entitlement to annual leave and long service leave.

v. D Hunt commenced employment with Servcorp effective 19 April 2022 as CFO. His annual base salary increased from $350,000 to $450,000 effective 1 July 2022, in recognition of increased operational responsibility within the business, including oversight of a region and new title as CFO and Head of SEA. .

vi. A Clowes ceased employment with Servcorp effective 23 February 2022.

vii. D Godchaux, J Henderson, C Susini and O Vlietstra were not deemed to be executive KMP in the 2023 financial year. Their remuneration for the 2022 financial year is shown for comparative purposes.

viii. L Gorman ceased employment with Servcorp effective 31 October 2021. In recognition of her more than 40 years of service, a termination payment equivalent to her average annual base salary over her last three years was approved by the Board.

ix. The Aggregate reflects the relevant KMP attributable to each financial year.

For personal use only

KEY MANAGEMENT PERSONNEL REMUNERATION

		Short term incentive grants			
Name & title	Year	STI paid in cash %	STI Accrued and not yet due %	STI forfeited %	Maximum future value of vested STI $
A G Moufarrige	**2023**	**-**	**-**	**-**	**-**
CEO	2022	-	-	-	-
D Hunt	**2023**	**64.3%**	**0.0%**	**35.7%**	**-**
CFO & Head of SEA	2022	-	-	-	-
Key management personnel in 2022					
A Clowes					
CFO	2022	0.0%	0.0%	100.0%	-
D Godchaux					
GM EMEI	2022	100.0%	0.0%	0.0%	-
L Gorman					
GM AUNZ	2022	0.0%	0.0%	100.0%	-
J Henderson					
COO	2022	0.0%	0.0%	100.0%	-
C Susini					
GM USA	2022	25.0%	0.0%	75.0%	-
O Vlietstra (x)					
GM Japan	2022	175.0%	0.0%	25.0%	-
Aggregate	**2023**	**64.3%**	**0.0%**	**35.7%**	**-**
	2022	85.6%	0.0%	53.2%	-

Notes:

x. O Vlietstra forfeited half her global STI opportunity, which equated to 25% of her potential total STI target opportunity. O Vlietstra achieved 'out-perform' profits for her region and as a result achieved greater than 100% of her region STI opportunity.

For personal use only

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Servcorp Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Servcorp Limited for the financial year ended 30 June 2023 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Kim Lawry
Partner
Sydney
24 August 2023

For personal use only

KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

Servcorp Limited

97 089 222 506

Contents

For the year ended 30 June 2023

		Page
Consolidated Financial Statements		
Consolidated Statement of Profit or Loss and Other Comprehensive Income		31
Consolidated Statement of Financial Position		32
Consolidated Statement of Changes in Equity		33
Consolidated Statement of Cash Flows		34
Notes to the Consolidated Financial Statements		
1	Basis of preparation	35
2	Operating segments	46
3	Revenue and other income	49
4	Expenses	50
5	Income tax expense	50
6	Earnings per share	51
7	Cash and cash equivalents	52
8	Trade and other receivables	52
9	Other financial assets	53
10	Tax assets and liabilities	54
11	Property, plant and equipment	55
12	Intangible asset	56
13	Right of use assets	57
14	Goodwill	58
15	Trade and other payables	59
16	Lease liabilities	59
17	Provisions	60
18	Commitments for expenditure	61
19	Contributed equity	61
20	Foreign currency translation reserve	61
21	Equity settled employee benefits reserve	62
22	Distributions	63
23	Capital structure and risks	64
24	Financial risk management	65
25	Fair value measurement of financial instruments	69
26	Organisational structure	70
27	Key management personnel remuneration	74
28	Auditors' remuneration	76
29	Contingencies	76
30	Events occurring after the reporting date	77
31	Parent entity	
32	Reconciliation of profit to operating cash flow	78
Directors' Declaration		79

For personal use only

For personal use only

Servcorp Limited

97 089 222 506

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

	Note	2023 $ '000	2022 $ '000
Revenue	3	**292,473**	271,646
Other revenue and income	3	**3,073**	3,927
Total revenue		**295,546**	275,573
Service expenses		**(74,485)**	(65,707)
Marketing expenses		**(18,354)**	(14,681)
Occupancy expenses		**(38,189)**	(33,798)
Administrative expenses		**(22,318)**	(18,737)
Amortisation of right of use asset	13	**(101,943)**	(100,020)
Finance costs attributable to lease liabilities	16	**(11,221)**	(10,127)
Net impairment of property, plant and equipment and right of use assets	13	**(15,061)**	-
Net foreign exchange gain (realised and unrealised)		**1,838**	2,958
Fair value gains on derivatives		**1,292**	450
Share of gains of joint ventures		**556**	334
Other losses		**(668)**	(1,868)
Total expenses	4	**(278,553)**	(241,196)
Profit before income tax expense		**16,993**	34,377
Income tax expense	5	**(5,926)**	(6,356)
Profit for the year		**11,067**	28,021
Other comprehensive income			
Items that may be reclassified to profit or loss			
Translation of foreign operations (items may be reclassified subsequent to profit or loss)		**(2,285)**	(6,446)
Other comprehensive loss for the year (net of tax)		**(2,285)**	(6,446)
Total comprehensive income/(loss) for the year		**8,782**	21,575
Earnings per share		**Cents**	Cents
Basic EPS	6	**11.4**	28.9
Diluted EPS	6	**11.4**	28.9

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2023

	Note	2023 $ '000	2022 $ '000
Assets			
Current assets			
Cash and cash equivalents	7	**105,364**	100,766
Trade and other receivables	8	**27,778**	19,958
Other financial assets	9	**13,458**	9,854
Current tax receivable	10	**5,506**	11,102
Prepayments and other assets		**6,893**	4,417
Total current assets		**158,999**	146,097
Non-current assets			
Other financial assets	9	**37,808**	40,471
Property, plant and equipment	11	**80,358**	80,482
Intangible assets	12	**2,433**	2,075
Right of use assets	13	**305,311**	259,998
Deferred tax assets	10	**42,283**	39,774
Goodwill	14	**13,775**	13,775
Total non-current assets		**481,968**	436,575
Total assets		**640,967**	582,672
Liabilities			
Current liabilities			
Trade and other payables	15	**43,545**	34,954
Security deposits		**27,160**	27,288
Lease liabilities	16	**106,037**	89,423
Provisions	17	**13,057**	9,902
Total current liabilities		**189,799**	161,567
Non-current liabilities			
Lease liabilities	16	**261,808**	221,357
Provisions	17	**1,582**	1,494
Total non-current liabilities		**263,390**	222,851
Total liabilities		**453,189**	384,418
Net assets		**187,778**	198,254
Equity			
Contributed equity	19	**151,594**	151,594
Reserves	20, 21	**(24,165)**	(21,986)
Retained earnings		**60,349**	68,646
Total equity		**187,778**	198,254

The accompanying notes form part of these financial statements.

For personal use only

Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

	Contributed equity	Share buy back reserve	Foreign currency translation reserve	Employee equity settled benefits reserve	Retained earnings	Total
	'000	'000	'000	'000	'000	'000
Balance at 1 July 2022	**151,594**	**(4,733)**	**(18,085)**	**832**	**68,646**	**198,254**
Profit for the year	**-**	**-**	**-**	**-**	**11,067**	**11,067**
Translation of foreign operations (net of tax)	**-**	**-**	**(2,285)**	**-**	**-**	**(2,285)**
Total comprehensive income for the year	**-**	**-**	**(2,285)**	**-**	**11,067**	**8,782**
Share-based payments	**-**	**-**	**-**	**106**	**-**	**106**
Payment of dividends	**-**	**-**	**-**	**-**	**(19,364)**	**(19,364)**
Balance at 30 June 2023	**151,594**	**(4,733)**	**(20,370)**	**938**	**60,349**	**187,778**

	Contributed equity	Share buy back reserve	Foreign currency translation reserve	Employee equity settled benefits reserve	Retained earnings	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Balance at 1 July 2021	151,594	(4,733)	(11,639)	372	59,020	194,614
Profit for the year	-	-	-	-	28,021	28,021
Translation of foreign operations (net of tax)	-	-	(6,446)	-	-	(6,446)
Total comprehensive income for the year	-	-	(6,446)	-	28,021	21,575
Share-based payments	-	-	-	460	-	460
Payment of dividends	-	-	-	-	(18,395)	(18,395)
Balance at 30 June 2022	151,594	(4,733)	(18,085)	832	68,646	198,254

For personal use only

The accompanying notes form part of these financial statements.

For personal use only

Servcorp Limited

97 089 222 506

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 $ '000	2022 $ '000
Cash flows from operating activities			
Receipts from customers		**317,741**	301,978
Payments to suppliers and employees		**(151,983)**	(134,352)
Franchise fees received		**226**	134
Interest and other items of similar nature received		**2,830**	1,067
Interest and other costs of finance paid		**(11,221)**	(10,127)
Tax paid		**(2,062)**	(13,117)
Net cash generated from operating activities	32	**155,531**	145,583
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**744**	137
Payments for property, plant and equipment	11	**(19,404)**	(13,075)
Payment for intangible assets	12	**(1,185)**	(1,768)
Payments for landlord lease deposits		**(1,348)**	(1,030)
Payments for variable rate bonds and listed ordinary shares		**(3,739)**	(7,105)
Proceeds from sale of variable rate bonds and listed ordinary shares		**277**	10,220
Net cash used in investing activities		**(24,655)**	(12,621)
Cash flows from financing activities			
Repayment of lease liabilities relating to current year occupancy	16	**(98,008)**	(99,214)
Repayment of lease liabilities relating to future occupancy years	16	**(5,433)**	(6,557)
Dividends paid		**(19,364)**	(18,395)
Landlord capital incentives received		**-**	1,895
Net cash used in financing activities		**(122,805)**	(122,271)
Effects of exchange rate changes on cash and cash equivalents		**(3,473)**	(3,708)
Net increase in cash and cash equivalents held		**4,598**	6,983
Cash and cash equivalents at beginning of financial year		**100,766**	93,783
Cash and cash equivalents at end of financial year	7	**105,364**	100,766

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

1 Basis of preparation

Statement of compliance

The Financial Report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

For the purposes of preparing the Consolidated Financial Statements, Servcorp Limited (the Company) and its subsidiaries together are referred to as (the Consolidated Entity) is a for-profit entity.

Compliance with Australian Accounting Standards ensures that the Consolidated Financial Statements and notes of the Consolidated Entity comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this Financial Report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The Consolidated Financial Statements were authorised for issue by the Directors on 24 August 2023.

Authorisation of financial statements

Servcorp Limited is a public limited company incorporated in Sydney and registered and domiciled in Australia. The Company's ordinary shares are traded on the Australian Securities Exchange Ltd and the Consolidated Entity's Financial statements for the year ended 30 June 2023 were authorised for issue by the Board of Directors on 24 August 2023.

Servcorp Limited's aim is to provide the finest workspace solutions to our customers by providing the best locations, facilities, technology and people crucial to making business successful. Information on the Group's structure is provided in note 27, and information on other related party relationships of the Group is provided in note 28.

The Financial Report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

Basis of preparation

The Financial Report has been prepared on the basis of historical cost, except for financial instruments that are measured at their fair value as explained in note 1j. 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 Financial Statements comprise the Financial Statements of the Company and all its subsidiaries.
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.

Going concern

These Consolidated Financial Statements are prepared on the going concern basis. Occupancy levels through the year have been growing steadily. Growth in Virtual Offices and Coworking has also helped maintain a strong cash positive operating environment.
The Consolidated Entity reported a profit after tax of $11.1 million (2022: $28.0 million) from continuing operations for the year, while net cash of $155.5 million (2022: $145.6 million) was generated from operations during the year. Although The Consolidated Entity's balance sheet as at 30 June 2023 reports a net current liability position of $30.8 million (2022: $15.5 million) which could give rise to a potential liquidity risk, the Directors concluded and are satisfied after a comprehensive review that no liquidity risk exists after taking into account the following factors:

For personal use only

For personal use only

Going concern (continued)

- the Consolidated Entity has a cash balance totaling $105.4 million;
- the Consolidated Entity produced positive operating cash flows of $155.5 million (2022: $145.6 million);
- the Consolidated Entity is in a net current liabilities position due to the capitalisation of lease commitments. The corresponding right of use asset is classified as a non-current asset. Net current liabilities are impacted by the current position of lease liabilities of $106.0 million which is forecast to be funded out of operating cash flows;
- the Consolidated Entity has no external debt; and
- the Consolidated Entity has net assets of $187.8 million as at reporting date.

Based on the above, the Directors consider that the Consolidated Entity is well placed to successfully manage the actual and potential liquidity risks faced by the organisation.
On the basis of their assessment, the Directors have a reasonable expectation that the Consolidated Entity has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements and consider it appropriate to continue to adopt the going concern basis in preparing the financial statements of the Consolidated Entity.

Adoption of new and revised accounting standards

In the current year, the Consolidated Entity has adopted other amended standards and interpretations. The adoption of the standards and interpretations had no significant impact on the current year or any prior year and are not likely to have a significant impact in future years.

Standard name	Effective date for entity
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2023
Definition of Accounting Estimate - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IFRS 10 and IAS 28)	1 January 2023
IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts	1 January 2023

New accounting standards and interpretations not yet effective

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting years. The Consolidated Entity has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Consolidated Entity where the standard is relevant:

Standard name	Effective date for entity
Lease Liability in a Sale and Leaseback - Amendments to IFRS 16 Leases	1 January 2024
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	1 January 2025

There are no standards or interpretations that are not yet effective that would be expected to have a material impact on the Consolidated Entity.
The Consolidated Entity has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Critical accounting estimates and judgements

In the application of the 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting estimates and judgements (continued)

The following are the critical judgements that management has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or Cash Generating Unit (CGU) 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.
As a consequence of the global economic environment, significant judgement has been exercised in determining key assumptions for impairment testing and their sensitivity to change.
If the recoverable amount of an asset is less than its carrying value, an impairment charge is recognised in the profit or loss, and the carrying value of the asset is written-down to its recoverable amount. Should the recoverable amount increase in future years the carrying value may be adjusted to the lower of the recoverable value or the amortised cost of the asset had it not been impaired. The specific impairment test applied are detailed in the accompanying notes 13 and 14.

Expected credit loss provision
To assess for any expected credit losses under AASB 9, there is consideration around the probability of default upon initial recognition of the asset, and subsequent consideration as to whether there have been any significant increases in credit risk on an ongoing basis at each reporting period. To assess whether there is a significant increase in credit risk the Consolidated Entity compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.
AASB 9 requires the Consolidated Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Consolidated Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. AASB 9 also allows a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Executive share option scheme and employee incentive plan
To calculate the expense for equity settled share based payments, the fair value of the equity instruments at grant date has to be estimated. The fair value is determined using the Black Scholes option pricing model. Key judgements and assumptions include exercise price, vesting and performance criteria, share price at grant date, volatility, distribution yield and risk-free interest rate. These judgements and assumptions relating to fair value measurement may impact the expense taken to profit or loss and reserves. Refer to note 21 and the Remuneration Report.

a Basis for consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power, rights to variable returns and the ability to use its power to affect the amount of the returns. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements.
On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess in the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period of acquisition.
The Consolidated Financial Statements include the information and results of each subsidiary from the date on which the Company obtains control, and until such time as the Company ceases to control an entity. In preparing the Consolidated Financial Statements, all intercompany balances and transactions, and unrealised profits arising are eliminated in full.

For personal use only

For personal use only

b Investment in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.
The results and assets and liabilities of a joint venture are incorporated in these Consolidated Financial Statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the Consolidated Statement of Financial Position at cost and adjusted thereafter to recognise the Consolidated Entity's share of profit or loss and other comprehensive income of the joint venture.
An investment in a joint venture is accounted for using the equity method of accounting from the date on which the investees became a joint venture.
The requirements of AASB 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Consolidated Entity's investment in a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with AASB 136 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment substantially increases.

c 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income and is not subsequently reversed.
For the purpose of impairment testing, goodwill is allocated to each of the Consolidated Entity's CGU, or groups of CGUs, expected to benefit from the synergies of the business combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment of the Consolidated Entity. 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. Please refer to note 14 for further details.
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). 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.

d Impairment of non-financial assets

The carrying value of tangible assets are reviewed for impairment at each reporting date, with the recoverable amount being estimated when there is indications that the carrying value may be impaired. Where the asset does not generate cash flows that are independent from other assets, the Consolidated Entity estimates the recoverable amount of the CGU to which the asset belongs.
Intangible assets with undefined 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 post-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 Consolidated Statement of Profit or Loss and Other Comprehensive Income immediately.

For personal use only

e Revenue recognition

Rental and service revenue

Rental revenue from 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 Consolidated Entity adopted AASB 16 for the first time on 1 July 2019.

Services revenue, communications revenue and franchise fees are accounted for according to AASB 15 *Revenue from Contracts with Customers* (AASB 15).

Service revenue comprises revenue earned from telephone, communications, service and franchise fees net of the amount of goods and services tax from the provision of services to entities outside the Consolidated Entity. Services revenue are typically invoiced in advance and are recognised in the period in which the services are provided. The services provided under contract are provided over time as the customer simultaneously receives and consumes the benefit of the service. The contract liability associated with consideration received in advanced has been presented as deferred contract liabilities in the trade and other payables balance on the Consolidated Statement of Financial Position.

f Other income/expense

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Disposal of assets

The profit and loss on disposal of assets is brought to account when the significant risks and rewards of ownership are passed to a party external to the Consolidated Entity.

Government grants

Government grants are not recognised until there is reasonable assurance that the Consolidated Entity will comply with the conditions attaching to them and that the grants will be received. Grants are accounted for on a gross basis in revenue and expenses by the Consolidated Entity.

g Foreign currency transactions and balances

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Foreign currency monetary items at reporting date are translated at the exchange rates existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit and loss in the year in which they arise except exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation. Such exchange differences are recognised in the foreign currency translation reserve and in the profit and loss on disposal of the net investment.

When a foreign operation is reconsolidated or borrowings that form part of the net investment are repaid, the cumulative exchange differences are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on sale.

Translation of controlled foreign entities

The individual financial statements of each controlled foreign entity are presented in its functional currency, being the currency of the primary economic environment in which the entity operates. For the purpose of the Consolidated Financial Statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Company and the presentation currency for the Consolidated Financial Statements.

The assets and liabilities of overseas operations are translated at the rates of exchange ruling at the reporting date.

Income and expense items are translated at the average exchange rate for the period. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

The balance of the foreign currency translation reserve relating to an overseas operation that is disposed of is recognised in the profit and loss in the period of disposal.

For personal use only

h Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, and amortisation of ancillary costs using the effective interest rate method in connection with the arrangement of borrowings. Borrowing costs are expensed to the Consolidated Statement of Profit or Loss and Other Comprehensive Income as incurred.

i Income tax

Current income tax

Current income tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable profit or loss for the year. Income tax is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current income tax for current and prior year is recognised as a liability or asset to the extent that it is unpaid or refundable.

Deferred tax assets and liabilities

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which they can be used. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arises from the initial recognition of assets and liabilities, other than as a result of a business combination, which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches and associates except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets and liabilities giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantially enacted by the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in equity.

Tax losses and uncertain tax matters

Deferred tax assets for the carry forward of unused 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. Further information is set out in note 10.

The Consolidated Entity 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. There are no material uncertain tax positions that we are aware of as at the date of this report.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

i Income tax (continued)

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated group under Australian taxation law. Servcorp Limited is the head entity in the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the separate taxpayer within group approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company. Under this method, each entity is subject to tax as part of the tax consolidated group.

Due to the existence of a tax funding arrangement between entities in the tax consolidated group, amounts are recognised as payable to or receivable by the Company, and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the parent entity, and the other members of the tax consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Consolidated Statement of Financial Position. Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

j Financial instruments

Financial instruments are recognised initially on the date that the Consolidated Entity becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets that are within the scope of AASB 9 are required to be initially recognised at fair value and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 25.

Other financial assets are classified into the following specified categories:

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Loans and receivables' and carried at amortised cost as the assets are held to collect contractual cash flows. The Consolidated Entity recognises a loss allowance for expected credit losses on trade receivables, loans and other receivables that are measured at amortised cost and, where applicable, contract assets. Changes in those expected credit losses at each reporting date reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

Trade debtors to be settled within 30 days are carried at amounts due. AASB 9 impairment requirements use forward-looking information when determining expected credit losses. The expected credit loss model requires the Consolidated Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

For personal use only

For personal use only

j Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Consolidated Entity recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that will exactly discount estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

Financial liabilities

The Consolidated Entity measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.
The financial liabilities of the Consolidated Entity comprise trade payables, bank and other loans and lease liabilities.
Liabilities are recognised for amounts payable in the future for goods or services received, whether or not billed to the Consolidated Entity. Trade accounts payable are normally settled within 60 days.

Derivative financial instruments

The Consolidated Entity enters into derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Further details of derivative financial instruments are disclosed in note 24 to the Consolidated Financial Report.
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in the profit or loss.

k Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.
Bank overdrafts also form part of cash equivalents for the purpose of the Consolidated Statement of Cash Flows and are presented within current liabilities on the Consolidated Statement of Financial Position.

l Provisions

Provisions are recognised when the Consolidated Entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.
Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

m Share based payments

The Board may grant options to eligible executives in accordance with the Servcorp Executive Share Option Scheme. These equity settled share based payments are non-market based.
Equity settled share based payments with employees are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management’s best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations.
The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest.

m Share based payments (continued)

At each reporting date, the Company revises its estimate of the number of equity instruments that are expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the equity settled employee benefits reserve.

n Property, plant and equipment

Recognition and measurement

Property, plant and equipment is stated at historical cost, less any accumulated depreciation and any accumulated impairment losses.

Subsequent expenditure

Subsequent costs are capitalised when it is probable that the future economic benefits associated with the item will flow to the entity and the cost can be measured reliably. Where these costs represent separate components of a complex asset, they are accounted for as separate assets and are separately depreciated over their useful lives. Rent incurred in bringing floors to a state of operational readiness is capitalised to leasehold improvements and depreciated over the useful life of the asset.

Costs incurred on property, plant and equipment, which do not meet the criteria for capitalisation, are expensed as incurred.

Depreciation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated using the straight line method over their estimated useful lives. Leasehold improvements are depreciated over the useful life of the asset using the straight line method.

Leasehold improvements are depreciated over the period the assets will be utilised by the Consolidated Entity and is calculated based on each lease term contract and renewal options.

The estimated useful lives used for each class of asset are as follows:

Fixed asset class	Depreciation rate
Buildings	40 years
Leasehold improvements	Useful life of the asset
Office furniture and fittings	7.7 years
Office equipment	3 - 4 years
Software	3.7 years
Motor Vehicles	6.7 years

The estimated useful lives, residual value and depreciation methods are reviewed annually and, where changed, are accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

Assets are depreciated from the date of acquisition or from the time an asset is completed and ready for use.

The estimation of the useful lives and residual values of leasehold improvement assets has been based on historical experience and lease terms (for leasehold improvements). In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful lives and residual values are made when considered necessary.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is recorded in profit and loss in the year the asset is derecognised.

For personal use only

For personal use only

o Intangible assets

Intangible assets relate to internally developed software and is initially recognised at cost.
Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the the Consolidated Entity intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.
Subsequent to initial recognition the intangible assets is carried at cost less accumulated amortisation and impairment losses.
Amortisation is calculated to write off the cost of the intangible assets over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Asset class	Amortisation rate
Internally developed software	4- 10 years

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

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Consolidated Entity with the right to access the cloud provider's application software over the contract period. As such the Consolidated Entity does not receive a software intangible asset at the contract commencement date.
For SaaS arrangements, the Consolidated Entity assesses if the contract involves a software that it can 'control' to determine whether an intangible asset is present. If the Consolidated Entity cannot determine control of the software, the arrangement is deemed a service contract and any implementation costs including cost of configuration and customisation of the software are recognised as operating expenses when incurred.

p Leases

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 Consolidated Entity.
When the contract does not exceed 12 months the lease is classified as short term in nature and not recognised in terms of IFRS 16. Lease payments are expensed in profit and loss.
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 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 and 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 payments 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 asset is available for use), measured at cost.

For personal use only

p Leases (continued)

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 *Provisions, Contingent Liabilities and Contingent Assets* (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 lease term 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.
The right of use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives and any initial direct costs incurred by the lessee; and
- an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset.

Subsequently the right of use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.
Right of use assets are subject to impairment in accordance with AASB 136 *Impairment of Assets (AASB 136)*. Any identified impairment loss is accounted for in line with our accounting policy for 'Property, plant and equipment'

The Consolidated Entity is currently party to a lease portfolio of 121 leases as lessee.

Multiple lease term amendments (referred to Modifications as described above) have been accounted for as a lease modification to the existing lease by remeasuring the lease liability using a revised discount rate with the corresponding change in lease liability reflected against the right of use asset.

q Employee benefits

Wages, salaries and annual leave
The provision for employee benefits in respect of wages, salaries and annual leave represents the amount which the Consolidated Entity has a present obligation to pay resulting from employees' services provided up to the reporting date. Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long service leave
The provision for employee benefits in respect of long service leave represents the present value of the estimated future cash outflows to be made by the Consolidated Entity resulting from employees' services provided up to the reporting date.
Provisions for employee benefits which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at the reporting date which most closely match the terms of maturity of the related liabilities.
In determining the provision for employee benefits, consideration has been given to future increases in wage and salary rates, and the Consolidated Entity's experience with staff departures. Related on-costs have also been included in the liability.

Contributions to Australian superannuation funds
The Company and other Australian controlled entities contribute to defined contribution superannuation plans. Contributions are charged to the Consolidated Statement of Profit or Loss and Other Comprehensive Income as they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

r Earnings per share

Basic earnings per share

Basic EPS is calculated by dividing the net profit attributable to members of the Consolidated Entity for the year by the weighted average number of ordinary shares of the Company.

Diluted earnings per share

Diluted EPS is calculated by adjusting the basic EPS earnings by the effect of conversion to ordinary shares of the associated dilutive potential ordinary shares. The notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted are not included.

The diluted EPS weighted average number of shares includes the number of shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary shares. There is no impact on diluted EPS resulting from shares under option.

s Debt and equity instruments

Details of reserves included in Consolidated Statement of Changes in Equity

The share buy back reserve records fair value changes at each reporting date on instruments classified at fair value through other comprehensive income.

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

2 Operating segments

The Consolidated Entity identifies its operating segments based on the internal reporting provided to the Group-level executives, who are the Consolidated Entity's chief operating decision makers.

The information reported to the Group-level executives is based on the geographic regions in which business units largely share a high level of similarity in regulatory and business environment, and other economic characteristics. The segment manager has regular contact with the chief operating decision makers to discuss operating activities, financial results, forecasts, or plans for the segment. The chief operating decision makers are responsible for performance monitoring and resource allocation amongst operating segments.

In line with the requirements under AASB 8 *Operating Segments* (AASB 8), four reportable segments are identified: Australia, New Zealand and South East Asia (ANZ/SEA); United States of America (USA); Europe and Middle East (EME); North Asia. Information about other business activities and operating segments that are not reportable under the four reportable segments identified under AASB 8 is aggregated and disclosed as Other.

The Consolidated Entity's reportable operating segments under AASB 8 are presented below. The accounting policies of the reportable operating segments are the same as the Consolidated Entity's accounting policies. Intersegment sales were eliminated in full.

For the year ended 30 June 2023, the Consolidated Entity's Coworking and Virtual Office revenue, and Serviced Office revenue were $88.3 million and $204.2 million respectively (2022: $82.0 million and $189.7 million, respectively).

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

For personal use only

2 Operating segments (continued)

	Lease revenue 2023 $ '000	Service & other revenue 2023 $ '000	Total revenue 2023 $ '000	Lease revenue 2022 $ '000	Service & other revenue 2022 $ '000	Total revenue 2022 $ '000	Segment profit/(loss) 2023 $ '000	Segment profit/(loss) 2022 $ '000
Continuing operations								
Australia, New Zealand & South East Asia	**53,432**	**14,299**	**67,731**	48,705	11,929	60,634	**9,820**	6,252
North Asia	**71,712**	**23,207**	**94,919**	86,438	25,070	111,508	**14,554**	16,347
Europe & Middle East	**65,658**	**30,196**	**95,854**	49,834	24,666	74,500	**10,640**	8,122
United States of America	**16,699**	**2,437**	**19,136**	14,210	2,280	16,490	**777**	262
Other	**2,245**	**468**	**2,713**	1,289	618	1,907	**(295)**	2,344
Total continuing operations	**209,746**	**70,607**	**280,353**	200,476	64,563	265,039	**35,496**	33,327
Closed floors (i)								
Australia, New Zealand & South East Asia	**2,740**	**669**	**3,409**	1,625	402	2,027	**72**	(766)
North Asia	**7,445**	**1,040**	**8,485**	583	149	732	**(6,255)**	(179)
Europe & Middle East	**-**	**-**	**-**	2,590	1,124	3,714	**(20)**	151
United States of America	**-**	**-**	**-**	-	-	-	**(3)**	(6)
	10,185	**1,709**	**11,894**	4,798	1,675	6,473	**(6,206)**	(800)
Franchise fee income	**-**	**226**	**226**	-	134	134	**225**	134
Consolidated total	**219,931**	**72,542**	**292,473**	205,274	66,372	271,646	**29,515**	32,661

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

For personal use only

2 Operating segments (continued)

	Lease revenue 2023 $ '000	Service & other revenue 2023 $ '000	Total revenue 2023 $ '000	Lease revenue 2022 $ '000	Service & other revenue 2022 $ '000	Total revenue 2022 $ '000	Segment profit/(loss) 2023 $ '000	Segment profit/(loss) 2022 $ '000
Interest revenue	**-**	**2,830**	**2,830**	-	1,126	1,126	**2,830**	1,126
Foreign exchange gains	**-**	**-**	**-**	-	-	-	**3,096**	3,408
Centralised unrecovered head office overheads	**-**	**-**	**-**	-	-	-	**(3,246)**	(2,831)
Share of profit of joint venture	**-**	**-**	**-**	-	-	-	**556**	334
Gain/(loss) on asset disposal	**-**	**-**	**-**	-	-	-	**(633)**	(1,863)
COVID-19 payments received from governments (iii)	**-**	**-**	**-**	-	1,916	1,916	**-**	1,916
Impairment of right of use assets (ii)	**-**	**-**	**-**	-	-	-	**(15,061)**	-
Unallocated	**-**	**243**	**243**	-	885	885	**(64)**	(374)
Profit before tax							**16,993**	34,377
Income tax expense							**(5,926)**	(6,356)
Consolidated segment revenue and profit	**219,931**	**75,615**	**295,546**	205,274	70,299	275,573	**11,067**	28,021

Notes:
i. Closed floors represent floors no longer operational, either through deconsolidation or termination.
ii. Refer to note 13 for details on the net impairment of the right of use assets and leasehold improvements.
iii. The comparative 30 June 2022 COVID-19 payments received from governments has been reclassified from Australia, New Zealand and South East Asia continuing operations.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

2 Operating segments (continued)

	30 June 2023			30 June 2022		
	Segment assets	Segment liabilities	Net assets	Segment assets	Segment liabilities	Net assets
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Australia, New Zealand & South East Asia	**266,685**	**(111,337)**	**155,348**	246,927	(110,444)	136,483
North Asia	**172,219**	**(147,026)**	**25,193**	179,885	(126,730)	53,155
Europe & Middle East	**224,166**	**(103,705)**	**120,461**	169,454	(50,851)	118,603
United States of America	**(21,370)**	**(91,085)**	**(112,455)**	(12,843)	(96,362)	(109,205)
Other	**(733)**	**(36)**	**(769)**	(751)	(31)	(782)
	640,967	**(453,189)**	**187,778**	582,672	(384,418)	198,254

3 Revenue and other income

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

	2023	2022
	$ '000	$ '000
Revenue		
Lease revenue	**219,931**	205,274
Service revenue	**39,765**	37,651
Communication revenue	**32,551**	28,587
Franchise fee income	**226**	134
Total revenue	**292,473**	271,646
Other income		
Interest income - bank deposits	**2,830**	1,126
Foreign COVID-19 government grants	**-**	1,916
Other income	**243**	885
Total other income	**3,073**	3,927
Total revenue and other income	**295,546**	275,573

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

4 Expenses

Expenses and outgoings include rates and taxes and are recognised on an accruals basis.
Profit before income tax was arrived at after charging/(crediting) the following from/(to) continuing operations:

	2023	2022
	$ '000	$ '000
Amortisation of right of use assets	**101,943**	100,020
Depreciation of property, plant and equipment	**19,125**	19,660
Amortisation of intangible assets	**827**	480
Loss on disposal of property, plant & equipment	**789**	1,466
(Gain)/loss on disposal of financial assets	**(35)**	397
Increase in fair value of financial assets classified as fair value through the profit & loss	**(1,292)**	(450)
Net movement in provision for bad debt	**38**	(1,949)
Impairment of property, plant and equipment and right of use assets	**15,061**	-

Refer to note 13 for further details of impairment.

5 Income tax expense

The major components of tax expense comprise:

	2023	2022
	$ '000	$ '000
Current tax expense		
Local income tax - current year	**8,376**	6,229
Over provision in prior years – current tax	**(604)**	(1,098)
Deferred tax expense		
Origination and reversal of temporary differences	**(3,772)**	1,774
Under/(over) provision in prior years – deferred tax	**1,926**	(549)
Income tax expense	**5,926**	6,356

.

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

5 Income tax expense (continued)

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 year.
Reconciliation of income tax to accounting profit:

	2023	2022
	$ '000	$ '000
Profit before income tax	**16,993**	34,377
Tax percentage	**30.00 %**	30.00 %
Income tax expense	**5,098**	10,313
Add/(less) the tax effect of:		
Income tax under/(over) provision in prior years	**1,322**	(1,648)
Unused tax losses and tax offsets not recognised as deferred tax assets	**2,724**	503
Deductible local taxes	**(293)**	(285)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(6,045)**	(1,410)
Other non-deductible/(non-assessable) items	**3,120**	(1,090)
Unrecognised tax losses of controlled entities recouped	**-**	(27)
Income tax expense	**5,926**	6,356

.

6 Earnings per share

(a) Earnings used to calculate overall Earning Per Share ("EPS")

	2023	2022
	$ '000	$ '000
Profit attributable to shareholders used to calculate basic and diluted EPS	**11,067**	28,021

(b) Weighted Average Number of Ordinary Shares ("WANOS") outstanding during the year used in calculating EPS

	2023	2022
	'000	'000
WANOS used in calculating basic and diluted EPS	**96,818**	96,818

(c) Earnings per share

	2023	2022
	Cents	Cents
Basic EPS	**11.4**	28.9
Diluted EPS	**11.4**	28.9

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

7 Cash and cash equivalents

	2023	2022
	$ '000	$ '000
Cash at bank and in hand	**69,481**	54,440
Bank short term deposits	**35,883**	46,326
	105,364	100,766

Bank short term deposits mature within an average of 69 days (2022: 106 days) and are considered cash and cash equivalents on the basis of being short term and subject to an insignificant risk of change in value. These deposits and the interest-earning portion of the cash balance earn interest at a weighted average rate of 2.27% (2022: 1.42%).

8 Trade and other receivables

	2023	2022
	$ '000	$ '000
Trade receivables	**28,765**	21,386
Less: impairment of trade receivables	**(1,876)**	(1,838)
Net trade receivables	**26,889**	19,548
Other receivables	**889**	410
	27,778	19,958

All of the Consolidated Entity's trade receivables relate to customers purchasing workplace solutions and associated services and no individual customer has a material balance owing as a trade receivable. The Consolidated Entity applies the simplified approach to trade receivables and recognises expected credit losses by establishing a provision matrix for forward-looking factors specific to the debtors and the economic environment. The average credit period allowed on rendering of services is 7 days. The Consolidated Entity has applied the expected credit loss model to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the assets. Receivables are assessed for impairment at each reporting date and as at 30 June 2023 the Directors believe the provisions raised are sufficient.
The Consolidated Entity's impairment of trade receivables includes an ECL allowance for the financial year ended 30 June 2023 totaling $1.9 million (2022: $1.8 million).

Reconciliation of changes in the provision for expected credit loss:

	2023	2022
	$ '000	$ '000
Balance at beginning of the year	**(1,838)**	(5,035)
Amounts written off	**1,048**	1,248
Provision (recognised) / reversed	**(1,086)**	1,949
Balance at end of the year	**(1,876)**	(1,838)

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

8 Trade and other receivables (continued)

Trade receivables - days past due

30 June 2023	Current	< 30 days overdue	31 - 60 days overdue	> 61 days overdue	Total
	$ '000	$ '000	$ '000	$ '000	$ '000
Trade receivables	**14,877**	**8,112**	**1,617**	**4,159**	**28,765**
Expected credit loss rate	**- %**	**12 %**	**15 %**	**60 %**	
30 June 2022					
Trade receivables	10,116	7,573	1,618	2,079	21,386
Expected credit loss rate	3 %	3 %	15 %	48 %	

The Consolidated Entity calculated expected credit losses based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset. Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method less any loss allowance. All receivables with maturities greater than 12 months after balance date are classified as non-current. The increase in provisions during the year ended 30 June 2023 represents Management's judgement based on information available at the time on the impact of economic conditions and the recoverability of debtors. The increase of $0.1 million (2022: decrease $1.9 million) was recognised through the Consolidated Statement of Profit or Loss and Other Comprehensive Income during the year.
Considering the current economic environment and global disruptions, the Consolidated Entity reviewed the recoverability of its debtor profile and is satisfied with the expected credit-loss for the financial year ended 30 June 2023. The recoverability of outstanding balances are estimated to remain stable. Historically the overall debtor profile of the Consolidated Entity has not incurred significant credit losses and continues to maintain significant customer deposits as additional security in the rare event of non-performance of customer contracts.

9 Other financial assets

	2023	2022
	$ '000	$ '000
Current		
At fair value through profit or loss		
Investment in bank hybrid variable rate securities	**4,597**	4,408
Listed ordinary shares	**6,393**	3,056
At amortised cost		
Lease deposits	**2,468**	2,390
	13,458	9,854
Non-current		
At fair value through profit or loss		
Forward foreign currency exchange contracts	**566**	766
At amortised cost		
Lease deposits	**36,234**	38,696
Other	**1,008**	1,009
	37,808	40,471

Australia has $0.7 million in securities which is encumbered (2022: $0.7 million).
No expected credit loss has been provided on lease deposits as, based on past experience, these are expected to be recovered in full.

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

10 Tax assets and liabilities

Current tax asset

	2023	2022
	$ '000	$ '000
Net tax refunds receivable	**5,506**	11,102

Deferred tax assets

	Balance at 1 July	Recognised in profit or loss	Balance at 30 June	Deferred tax asset	Deferred tax liability
30 June 2023	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Accruals not currently deductible	**6,946**	**1,631**	**8,577**	**9,694**	**(1,117)**
Doubtful debts	**1,388**	**(817)**	**571**	**571**	**-**
Depreciable and amortisable assets	**12,914**	**(477)**	**12,437**	**12,459**	**(22)**
Tax losses	**5,917**	**411**	**6,328**	**6,328**	**-**
Foreign exchange	**(747)**	**(128)**	**(875)**	**(226)**	**(649)**
Deferred rent incentive	**(3)**	**(5)**	**(8)**	**(1)**	**(7)**
Lease asset and liability	**12,685**	**1,867**	**14,552**	**94,316**	**(79,764)**
Others	**674**	**27**	**701**	**1,031**	**(330)**
Tax assets/(liabilities) before set-off	**39,774**	**2,509**	**42,283**	**124,172**	**(81,889)**
Set-off of tax	**-**	**-**	**-**	**(81,889)**	**81,889**
Net tax assets/(liabilities)	**39,774**	**2,509**	**42,283**	**42,283**	**-**

	Balance at 1 July	Recognised in profit or loss	Balance at 30 June	Deferred tax asset	Deferred tax liability
30 June 2022	**$ '000**	**$ '000**	**$ '000**	**$ '000**	**$ '000**
Accruals not currently deductible	5,612	1,334	6,946	7,904	(958)
Doubtful debts	1,395	(7)	1,388	1,388	-
Depreciable and amortisable assets	12,879	35	12,914	12,993	(79)
Tax losses	5,481	436	5,917	5,917	-
Foreign exchange	(239)	(508)	(747)	(193)	(554)
Deferred rent incentive	(1)	(2)	(3)	(2)	(1)
Lease asset and liability	14,532	(1,847)	12,685	77,852	(65,167)
Others	969	(295)	674	972	(298)
Tax assets/(liabilities) before set-off	40,628	(854)	39,774	106,831	(67,057)
Set-off of tax	-	-	-	(67,057)	67,057
Net tax assets/(liabilities)*	40,628	(854)	39,774	39,774	-

For personal use only

10 Tax assets and liabilities (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

	2023	2022
	$ '000	$ '000
Temporary difference	**16**	16
Tax losses - capital	**2,086**	2,086
Tax losses - revenue	**28,930**	23,416
	31,032	25,518

The movements in deferred taxes included above are after the offset of deferred tax assets and deferred tax liabilities where there is a legally enforceable right to set off and they relate to income taxes levied by the same taxation authority. The closing deferred tax position above represents the aggregated deferred tax asset or liability position within individual legal entities, with some companies recognising deferred tax assets and others recognising deferred tax liabilities. The closing position is a net deferred tax asset of $42.3 million (2022: $39.8 million).

11 Property, plant and equipment

	Freehold land and buildings	Leasehold improve-ments	Office furniture and fittings	Office equipment	Capital works in progress	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Year ended 30 June 2023						
Balance at the beginning of year	**6,600**	**60,939**	**9,530**	**2,820**	**593**	**80,482**
Additions	**-**	**14,816**	**2,162**	**2,499**	**(73)**	**19,404**
Disposals	**-**	**(607)**	**(404)**	**(522)**	**-**	**(1,533)**
Depreciation expense	**(129)**	**(14,565)**	**(2,812)**	**(1,619)**	**-**	**(19,125)**
Foreign exchange movements	**11**	**1,000**	**106**	**13**	**-**	**1,130**
Net book value	**6,482**	**61,583**	**8,582**	**3,191**	**520**	**80,358**
Cost	7,489	212,499	39,163	48,706	520	308,377
Accumulated depreciation	(1,007)	(150,916)	(30,581)	(45,515)	-	(228,019)
Balance at the end of the year	6,482	61,583	8,582	3,191	520	80,358

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

11 Property, plant and equipment (continued)

	Freehold land and buildings	Leasehold improve-ments	Office furniture and fittings	Office equipment	Capital works in progress	Total
	$ '000	$ '000	$ '000	$ '000	$ '000	$ '000
Year ended 30 June 2022						
Balance at the beginning of year	7,188	67,005	11,214	2,402	2,201	90,010
Additions and transfers	-	9,947	1,688	3,048	(1,608)	13,075
Disposals	-	(1,368)	(11)	(225)	-	(1,604)
Depreciation expense	(118)	(14,214)	(2,980)	(2,348)	-	(19,660)
Foreign exchange movements	(470)	(431)	(381)	(57)	-	(1,339)
Net book value	6,600	60,939	9,530	2,820	593	80,482
Cost	7,501	206,250	38,239	48,804	593	301,387
Accumulated depreciation	(901)	(145,311)	(28,709)	(45,984)	-	(220,905)
Balance at the end of the year	6,600	60,939	9,530	2,820	593	80,482

Leasehold improvements are assessed for indicators of impairment under AASB 136. Refer to note 13 for further details of impairment testing.

12 Intangible asset

Intangible assets relate to assets other than goodwill. For detailed disclosure of goodwill refer to note 14.

	2023	2022
	$ '000	$ '000
Opening balance	**2,075**	787
Additions	**1,185**	1,768
Amortisation	**(827)**	(480)
	2,433	2,075

For personal use only

13 Right of use assets

The Consolidated Entity leases property. Information about leased property for which the Consolidated Entity is a lessee is presented below:

	2023	2022
	$ '000	$ '000
Balance at beginning of year	**259,998**	293,993
Additions to right of use assets	**157,098**	71,099
Amortisation charge for the year	**(101,943)**	(100,020)
Impairment of right of use assets	**(15,061)**	-
Foreign exchange movements	**5,219**	(5,074)
	305,311	259,998

Right of use assets and leasehold improvements are assessed for indicators of impairment under AASB 136. Where impairment indicators exist, the CGU is tested for impairment. This test has respective assets grouped into CGUs to determine its “Value in Use” (ViU). The ViU assessment is conducted using a discounted cash flow methodology requiring the Directors to estimate the discounted future cash flows expected to arise from the respective CGU. When applying the ViU approach to calculate the recoverable amount for each CGU, we deduct the carrying amount of the lease liability both from the CGU’s carrying amount and from its ViU.

The continued inflationary pressure and uncertain economic climate worldwide is expected to continue to impact the business in the financial year to 30 June 2023. As a result of these conditions, the Consolidated Entity carried out a comprehensive review for potential impairments across the whole portfolio at a CGUs level.

Impairment tests for right of use assets are performed on a CGU basis when impairment triggers arise. CGUs are defined as individual cities, being the smallest identifiable group of assets that generate cash flows that are largely independent of other groups of assets. The Consolidated Entity assesses whether there is an indication that a CGU may be impaired, including persistent operating losses, net cash outflows and poor performance against forecasts. The recoverable amounts of right of use assets are based on the higher of fair value less costs to sell and ViU. The Consolidated Entity considered ViU in the impairment testing on a city by city level. Value in use calculations are based on cash flow projections and discount rates that are developed using market participant based assumptions for items of right of use assets. The post-tax WACC used in the Consolidated Entity’s calculations range between 6.7% and 10.4% (2022: 7.1% and 12.0%). Impairment charges are recognised within the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

In the approach detailed above, an impairment loss of $15.1 million was raised in relation to CGUs in Europe and North Asia for the year ended 30 June 2023. As a result of the the extended underperformance, slower than expected recovery from COVID-19 and continued uncertainty in global economic conditions, no previously recognised impairment loss was reversed.

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

14 Goodwill

Allocation of goodwill to cash generating units

Each of the following countries is a stand-alone CGU:
Japan, Australia, New Zealand, China, Malaysia, Singapore, Thailand, Belgium, United Arab Emirates, Bahrain, Qatar, Saudi Arabia, Philippines, Lebanon, Turkey, France, Germany, United States of America, Kuwait and United Kingdom.
Goodwill was allocated to the CGU in which goodwill arose. Not every CGU has goodwill allocated to it.
The carrying amounts of goodwill relating to each group of CGU as at 30 June 2023 were as follows:

	2023	2022
	$ '000	$ '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

The Consolidated Entity tested goodwill for impairment as at 30 June 2023. The recoverable amount of a CGU or group of CGUs to which goodwill is allocated is determined based on the greater of its value in use and its fair value less costs of disposal. Fair value is determined as being the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. If relevant, this fair value assessment less costs of disposal is conducted by management based on extensive knowledge of the industry including the current market conditions prevailing. The value in use (ViU) assessment is conducted using a discounted cash flow methodology requiring the Directors to estimate the discounted future cash flows expected to arise from the CGU.
When applying the ViU approach to calculate the recoverable amount for each CGU, the Consolidated Entity incorporates the use of projected financial information and a discount rate that are developed using market participant based assumptions. The cash-flow projections are based on financial forecasts for the remainder of the useful life five-year financial forecasts developed by management that include revenue projections, capital spending trends, and investment in working capital to support anticipated revenue growth. The selected discount rate considers the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in the Consolidated Entity's reporting units. The Consolidated Entity's methodology for determining recoverable amounts remained consistent for the years presented.
The following key assumptions have been used in calculating the ViU for each country:

- future cash flows are based on forecasts prepared by management. The model excludes cost savings and restructurings that are anticipated but had not been committed to at the date of the determination of the ViU;
- these forecasts exclude the impact of acquisitive growth expected to take place in future periods;
- management considers these forecasts to be a reasonable projection of margins. Cash flows beyond 30 June 2028 have been extrapolated using a nil growth rate which management believes is a reasonable long-term growth rate for any of the markets in which the Consolidated Entity operates.

For personal use only

For personal use only

14 Goodwill (continued)

- the Consolidated Entity applies a country specific post-tax discount rate to the post-tax cash flows for each country. The country specific discount rate is based on the underlying weighted average cost of capital (WACC) for the Consolidated Entity. The WACC is then adjusted for each country to reflect the assessed market risk specific to that country.

The recoverable amount of goodwill relating to each group of CGU was determined based on ViU calculations, which is based on a discounted cash flow ("DCF") analysis by discounting the estimated future cash flows over the next five year to their present value in order to estimate the value-in-use. Cash flows beyond the five year period have been extrapolated using estimated nil growth rates (2022: nil growth rate).
For the year ended 30 June 2023, the post-tax discount rate applied to the above countries ranged from 6.7%-10.4% (2022: 3.9%-12.0%).
Downside sensitivity analysis has been performed on the assumptions used in the model and concluded that there is no risk of impairment as at 30 June 2023.

15 Trade and other payables

	2023	2022
	$ '000	$ '000
Trade creditors	**5,427**	2,075
Deferred contract liabilities	**19,207**	19,352
Other creditors and accruals	**18,911**	13,527
	43,545	34,954

16 Lease liabilities

The Consolidated Entity has 121 (2022:120) leasing arrangements as lessee comprising leased offices as at 30 June 2023. These leases have been accounted for in line with AASB 16.
Refer to note 13 for a detailed breakdown of the right of use asset amount. Information about lease liabilities and variable lease payments incurred during the year is presented below:

Future minimum lease payments
The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	< 1 year	1 - 5 years	> 5 years	Total undiscounted lease liabilities	Carrying amount
	$ '000	$ '000	$ '000	$ '000	$ '000
2023					
Lease liabilities	**114,261**	**222,524**	**70,198**	**406,983**	**367,845**
2022					
Lease liabilities	96,025	190,989	48,416	335,430	310,780

Lease liabilities included in the Consolidated Statement of Financial Position

	2023	2022
	$ '000	$ '000
Current	**106,037**	89,423
Non-current	**261,808**	221,357
	367,845	310,780

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

16 Lease liabilities (continued)

Amounts recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income

	2023	2022
	$ '000	$ '000
Interest expense on lease liability	**11,221**	10,127
Short term lease expenses	**1,501**	3,768
Amortisation of right of use assets	**101,943**	100,020
COVID-19 rent reductions	**-**	(4,595)
	114,665	109,320

Short term lease expenses are leases with terms of less than 12 months.

Amounts recognised in the Consolidated Statement of Cash Flows

	2023	2022
	$ '000	$ '000
Repayment of lease liabilities relating to current year occupancy (financing cashflows)	**(98,008)**	(99,214)
Repayment of lease liabilities relating to future occupancy years (financing cashflows)	**(5,433)**	(6,557)
	(103,441)	(105,771)

17 Provisions

	2023	2022
	$ '000	$ '000
Current		
Employee benefits	**8,349**	7,252
Other	**4,708**	2,650
	13,057	9,902
Non-current		
Employee benefits	**1,582**	1,494

The current provision for employee benefits includes $8 million of annual leave and vested long service leave entitlements accrued (2022: $7 million).

	Employee benefits	Others	Total
	$ '000	$ '000	$ '000
Year ended 30 June 2023			
Opening balance at 1 July 2022	**8,746**	**2,650**	**11,396**
Additional provisions raised	**5,897**	**8,066**	**13,963**
Provisions utilised	**(4,721)**	**(6,008)**	**(10,729)**
Foreign exchange translation movement	**9**	**-**	**9**
Balance at 30 June 2023	**9,931**	**4,708**	**14,639**

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

17 Provisions (continued)

	Employee benefits	Others	Total
	$ '000	$ '000	$ '000
Opening balance at 1 July 2021	8,926	2,084	11,010
Additional provisions raised	6,354	6,926	13,280
Provisions utilised	(6,272)	(6,361)	(12,633)
Foreign exchange translation movement	(262)	1	(261)
Balance at 30 June 2022	8,746	2,650	11,396

18 Commitments for expenditure

	2023	2022
	$ '000	$ '000
Capital expenditure commitments - property, plant & equipment		
Committed but not provided for and payable		
Not later than 1 year	**15,654**	6,259
	15,654	6,259

19 Contributed equity

	2023	2022
	$ '000	$ '000
96,817,888 (2022: 96,817,888) Ordinary shares	**151,594**	151,594

20 Foreign currency translation reserve (FCTR)

Servcorp has controlled entities operating in 20 countries and its presentation currency is Australian dollars. The assets and liabilities are translated to Australian dollars using the exchange rate at year end; income and expenses are translated using an average exchange rate for the year. On translation of foreign operations, exchange differences are recognised in other comprehensive income and the FCTR.

	2023	2022
	$ '000	$ '000
Balance 1 July	**(18,085)**	(11,639)
Exchange difference on translation of foreign operations	**(2,285)**	(6,446)
Balance at 30 June	**(20,370)**	(18,085)

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

21 Equity settled employee benefits reserve

The equity settled employee benefits reserve arises on the grant of rights to Key Management Personnel (KMP), senior executives and managers in accordance with the provisions of Servcorp's Executive Share Option Scheme and the Servcorp Employee Incentive Plan. Amounts are transferred out of the reserve and into share capital when the rights vest, the rights are exercised and shares issued. Further information about the share-based payments to employees is set out in the Remuneration Report contained in the Annual Report for the year ended 30 June 2023.
For the year ended 30 June 2023 the following rights were granted:

	Balance 1 July	Issued	Forfeited	Balance 30 June
Total options FY23	**2,726,250**	**1,002,000**	**(305,000)**	**3,423,250**
Total options FY22	2,783,750	200,000	(257,500)	2,726,250
Total performance rights FY23	**-**	**160,000**	**-**	**160,000**
Total performance rights FY22	-	-	-	-

Inputs used to determine fair value at grant date

	SRVAE Performance Rights	SRVAF Options	SRVAD Options	SRVAC Options	SRVAB Options
Grant date	1 Dec 2022	1 Dec 2022	11 May 2022	6 Aug 2021	27 Aug 2020
Share price at grant date	$3.39	$3.39	$3.35	$3.21	$2.29 - $2.48
Exercise price	$Nil	$3.50	$3.54	$3.35	$2.48
Expected volatility	28.34%	28.34%	30.29%	56.29%	54.78% - 54.87%
Expected life	1,034 days	1,735 days	1,826 days	1,826 days	1,779 - 1,825 days
Expected dividends	6.77%	6.77%	5.60%	10.11%	7.53%
Risk free interest rate	3.42%	3.42%	2.77%	0.66%	0.26% - 0.36%
Fair value at grant date	$2.7982	$0.4302	$0.5145	$0.7206	$0.5368 - $0.5825

On 19 December 2022, 1,002,000 unquoted options over unissued shares in Servcorp Limited were issued to senior executives and managers. The options expire 1 September 2027 with vesting conditions of continual service until 1 September 2025. The contractual life of the options is 4 years and 9 months, with the last exercise date occurring 1 September 2027 (unless the options lapse earlier in accordance with the terms). The fair value of the services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes model.
On 19 December 2022, 160,000 unquoted performance rights over unissued shares in Servcorp Limited were issued to senior executives. The performance rights expire on 30 September 2025 with vesting conditions of cumulative EPS of 10% per annum over the three financial years ending 30 June 2025 and continual service until 1 September 2025 (vesting date). The exercise period is 30 days from vesting date to expiry date. The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using Black-Scholes model.
Options over unissued ordinary shares in Servcorp Limited, cancelled due to the optionholders ceasing to be an employee of Servcorp Limited, are as follows:

21 December 2022	125,000 options expiring on 18 September 2025
19 May 2023	157,500 options expiring on 18 September 2025
19 May 2023	12,500 options expiring on 3 September 2026
30 June 2023	10,000 options expiring on 18 September 2025

For personal use only

For personal use only

21 Equity settled employee benefits reserve (continued)

The movements in the equity settled employee benefits reserve are as follows:

	2023 $ '000	2022 $ '000
Balance 1 July	**832**	372
Total movement taken to reserve	**106**	460
Balance 30 June	**938**	832

The Consolidated Entity recognised $0.1 million (2022: $0.5 million) as a share based payment expense for the year ended 30 June 2023. These costs have been included in administrative expenses.

22 Distributions

Recognised distributions

Ordinary distributions paid/payable and distribution per share:

		Cents per share	Total amount $ '000	Date of payment	Tax rate for franking credits	Percentage franked
2023						
Final	Fully paid ordinary shares	10.00	9,682	6 October 2022	30 %	- %
Interim	Fully paid ordinary shares	10.00	9,682	5 April 2023	30 %	- %
2022						
Final	Fully paid ordinary shares	9.00	8,714	7 October 2021	30 %	- %
Interim	Fully paid ordinary shares	10.00	9,682	6 April 2022	30 %	- %

Unrecognised amounts

Since the end of the financial year, the Directors have declared the following dividend:

Final	Fully paid ordinary shares	12.00	11,618	5 October 2023	30 %	20 %

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 Company and the impact of taxation legislation.

Dividend franking account

	2023 $ '000	2022 $ '000
30% franking credit available	**1,129**	3,065

The above available balance is based on the dividend franking account at year-end adjusted for:

- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date;

The tax rate at which paid dividends have been franked at 30 June 2023 is 30% (2022: 30%). Dividends declared and unpaid will be franked at the rate of 30% as at 30 June 2023 (2022: 30%).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

23 Capital structure and risks

This section outlines the market, credit and liquidity risks that the Consolidated Entity is exposed to and how it manages these risks. Capital comprises shareholders' equity and financing arrangements.

Capital management

The Company's Audit and Risk Committee oversees the establishment of the capital and financial risk management system, which identifies, evaluates, classifies, monitors, qualifies and reports significant risks to the Board of Directors. All controlled entities in the Consolidated Entity apply this risk management system to manage their own risks.

The Company's objective when managing capital is to ensure that entities within the Consolidated Entity will be able to continue as a going concern while maximising the return to stakeholders.

The Company's overall strategy remains unchanged from the prior year. The capital structure of the Consolidated Entity consists of equity attributable to equity holders of the parent company issued capital, reserves and retained earnings.

The Consolidated Entity operates globally, primarily through subsidiary companies established in the markets in which the Consolidated Entity operates. Operating cash flows are used to maintain and expand the Consolidated Entity, as well as to make routine outflows of tax and dividend payments.

Financing facilities and liquidity

The Consolidated Entity has access to financing facilities.

Bank guarantees have been issued to secure rental bonds over premises. Details are in note 31.

Payroll and other facilities have been established to facilitate the encashment of cheques, and to accommodate direct entry payroll and direct entry supplier payments.

The Consolidated Entity has access to the following finance facilities:

	2023 $ '000	2022 $ '000
Total facilities available		
Bank guarantees	**30,000**	27,000
Bank overdrafts and loans	**559**	551
Payroll/other facilities	**4,150**	4,150
	34,709	31,701
Facilities utilised at reporting date		
Bank guarantees	**26,598**	23,147
Bank overdrafts and loans	**50**	90
	26,648	23,237
Facilities not utilised at reporting date		
Bank guarantees	**3,402**	3,853
Bank overdrafts and loans	**509**	461
Payroll/other facilities	**4,150**	4,150
	8,061	8,464

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

24 Financial risk management

The Consolidated Entity activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Consolidated Entity enters into forward foreign currency exchange contracts to economically hedge anticipated transactions.

(a) Financial risk management objectives

The financial risks that result from the Consolidated Entity's activities are credit risk and market risk (interest rate risk and foreign exchange risk).

The Consolidated Entity's corporate treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Consolidated Entity.

The Consolidated Entity does not apply hedge accounting. The use of financial derivatives is governed by policies approved by the Board of Directors.

The Consolidated Entity's corporate treasury function reports to the Company's Audit and Risk Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

(b) Market risk

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Consolidated Entity enters into forward foreign currency exchange contracts to economically hedge anticipated transactions.

(i) Foreign exchange risk

The Consolidated Entity operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

The Consolidated Entity's foreign exchange risk arises primarily from:

- risk of fluctuations in foreign exchange rates to the Australian dollar (the functional and presentation currency);
- firm commitments of receipts and payments settled in foreign currencies or with prices dependent on foreign currencies;
- investments in foreign operations; and
- loans and trading accounts to foreign operations.

Foreign currency assets and liabilities

For accounting purposes, net investment in foreign operations are revalued at the end of each reporting year with the movement reflected as a movement in the foreign currency translation reserve. Borrowings and forward exchange contracts not forming part of the net investment in foreign operations are revalued at the end of each reporting year with the fair value movement reflected in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as exchange gains or losses.

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

24 Financial risk management (continued)

Foreign currency sensitivity analysis

The following table summarises the material sensitivity of financial instruments held at reporting date to movements in the exchange rate of the Australian dollar to foreign exchange rates, with all other variables held constant. The sensitivity is based on reasonably possible changes, over a financial year, using the observed range of actual historical rates for the preceding five-year period.

Sensitivity analysis – foreign exchange risk and interest rate risk

	Impact on profit		Impact on equity	
	2023	2022	2023	2022
Pre-tax gain/(loss)	**$ '000**	**$ '000**	**$ '000**	**$ '000**
AUD/USD +6% (2022: +6%)	**(676)**	(507)	**2,842**	3,462
AUD/USD - 6% (2022: -6%)	**596**	400	**(3,148)**	(3,926)
AUD/AED +7% (2022: +6%)	**1,151**	1,107	**72**	78
AUD/AED -7% (2022: -6%)	**(1,326)**	(1,256)	**(81)**	(89)
AUD/JPY +7% (2022: +7%)	**(2,088)**	(1,384)	**3,030**	3,710
AUD/JPY -7% (2022: -7%)	**2,382**	3,424	**(3,434)**	(4,290)
AUD/EUR +4% (2022: +3%)	**(54)**	(48)	**151**	166
AUD/EUR -4% (2022: -3%)	**58**	51	**(87)**	(178)
AUD/HKD +5% (2022: +5%)	**379**	365	**-**	-
AUD/HKD -5% (2022: -5%)	**(421)**	(406)	**-**	-
AUD/RMB +2% (2022: +3%)	**(203)**	(276)	**(276)**	4
AUD/RMB -2% (2022: -3%)	**(213)**	293	**293**	(4)
AUD/SGD +5% (2022: +4%)	**(530)**	(491)	**-**	-
AUD/SGD -5% (2022: -4%)	**584**	535	**-**	-
AUD/QAR +7% (2022: +6%)	**(157)**	(133)	**-**	-
AUD/QAR -7% (2022: -6%)	**181**	151	**-**	-

Forward foreign currency exchange contracts

The following table sets out the details of forward foreign currency exchange contracts in place as at 30 June 2023. These are level 2 fair value measurements derived from inputs as defined in note 25.

	Average exchange rate		Foreign currency		Fair value movement	
			2023	2022	2023	2022
	2023	2022	million	million	$ '000	$ '000
Outstanding contracts						
Sell JPY						
No later than one year	**-**	81.47	**-**	100	**-**	116
Later than one year and not later than five years	**-**	78.80	**-**	900	**-**	732
Sell USD						
No later than one year	**0.69**	-	**1**	-	**(39)**	-
Later than one year and not later than five years	**0.67**	0.69	**4**	3	**(36)**	(82)

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

24 Financial risk management (continued)

(ii) Interest rate risk

Interest rate risk on cash or short term deposits is not considered to be a material risk due to the short-term nature of these financial instruments.

The following table summarises the sensitivity of the financial instruments held at reporting date, following a movement to interest rates, with all other variables held constant. The sensitivity is based on reasonably possible changes over a financial year, using the observed range of actual historical rates. Nil impact on equity.

	Impact on profit	
	2023	2022
	$ '000	$ '000
Pre-tax gain/(loss)		
AUD balances		
125 basis point increase	**435**	628
125 basis point decrease	**(218)**	(467)
Other balances		
125 basis point increase	**23**	63
125 basis point decrease	**(15)**	(39)

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of short, medium and long term funding. The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities.

The following table details the Consolidated Entity's expected maturity for its financial assets. The table below was drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned.

2023	Less than 1 month $ '000	1 to 3 months $ '000	3 months to 1 year $ '000	1 to 5 years $ '000	5 + years $ '000	Total $ '000	Weighted average effective interest rate %
Non-interest bearing							
Receivables	**27,778**	**-**	**-**	**-**	**-**	**27,778**	
Lease deposits	**45**	**1,584**	**3,916**	**22,153**	**8,536**	**36,234**	
Forward foreign currency exchange contracts	**-**	**-**	**1,449**	**5,944**	**-**	**7,393**	
Listed ordinary shares	**6,393**	**-**	**-**	**-**	**-**	**6,393**	
Interest bearing							
Cash and cash equivalents	**69,481**	**-**	**-**	**-**	**-**	**69,481**	**3.53**
Bank short term deposits	**13,324**	**22,527**	**32**	**-**	**-**	**35,883**	**2.14**
Variable rate securities	**4,597**	**-**	**-**	**-**	**-**	**4,597**	**3.76**
	121,618	**24,111**	**5,397**	**28,097**	**8,536**	**187,759**	

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

24 Financial risk management (continued)

(c) Liquidity risk (continued)

2022	Less than 1 month $ '000	1 to 3 months $ '000	3 months to 1 year $ '000	1 to 5 years $ '000	5 + years $ '000	Total $ '000	Weighted average effective interest rate %
Non-interest bearing							
Receivables	19,958	-	-	-	-	19,958	
Lease deposits	2,104	3,856	7,923	16,098	8,715	38,696	
Forward foreign currency exchange contracts	-	-	1,227	15,755	-	16,982	
Listed ordinary shares	3,056	-	-	-	-	3,056	
Interest bearing							
Cash and cash equivalents	54,440	-	-	-	-	54,440	0.78
Bank short term deposits	18,211	22,770	5,345	-	-	46,326	1.42
Variable rate securities	4,408	-	-	-	-	4,408	3.77
	102,177	26,626	14,495	31,853	8,715	183,866	

The following table details the Consolidated Entity's remaining contractual maturity for its financial liabilities. The table is based on the earliest date on which undiscounted cash flows of financial liabilities are contractually to be paid. The table includes both principal and interest cash flows.

2023	Less than 1 month $ '000	1 to 3 months $ '000	3 months to 1 year $ '000	1 to 5 years $ '000	5 + years $ '000	Total $ '000	Weighted average effective interest rate %
Non-interest bearing							
Payables	**5,427**	**18,911**	**-**	**-**	**-**	**24,338**	
Forward foreign currency exchange contracts	**-**	**-**	**1,501**	**6,005**	**-**	**7,506**	
Security deposits	**-**	**-**	**27,160**	**-**	**-**	**27,160**	
Interest bearing							
Lease liability	**13,229**	**16,853**	**84,179**	**222,524**	**70,199**	**406,984**	**3.33**
	18,656	**35,764**	**112,840**	**228,529**	**70,199**	**465,988**	

2022	Less than 1 month $ '000	1 to 3 months $ '000	3 months to 1 year $ '000	1 to 5 years $ '000	5 + years $ '000	Total $ '000	Weighted average effective interest rate %
Non-interest bearing							
Payables	2,075	13,527	-	-	-	15,602	
Forward foreign currency exchange contracts	-	-	1,067	14,196	-	15,263	
Security deposits	-	-	27,288	-	-	27,288	
Interest bearing							
Lease liability	11,643	15,185	69,197	190,989	48,416	335,430	3.00
	13,718	28,712	97,552	205,185	48,416	393,583	

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

24 Financial risk management (continued)

(d) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of any counterparties having similar characteristics. Security deposits are received from customers when entering into a contract which reduces the credit risk. Security deposits held are disclosed in the Consolidated Statement of Financial Position.

Credit risk on cash and short-term fixed deposits is limited because counterparties are banks with high credit ratings assigned by international credit rating agencies. These liquid funds are managed centrally by the Company's senior management on a daily basis.

25 Fair value measurement of financial instruments

Fair value hierarchy

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	Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

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 Company's investment in subsidiaries.

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

The table below shows the assigned level for each asset and liability held at fair value by the Consolidated Entity:

30 June 2023	**Level 1 $ '000**	**Level 2 $ '000**	**Level 3 $ '000**	**Total $ '000**
Financial assets				
Bank hybrid variable rate securities	**4,597**	**-**	**-**	**4,597**
Listed ordinary shares	**6,393**	**-**	**-**	**6,393**
Forward foreign currency exchange contracts	**-**	**566**	**-**	**566**
30 June 2022	**Level 1 $ '000**	**Level 2 $ '000**	**Level 3 $ '000**	**Total $ '000**
Financial assets				
Bank hybrid variable rate securities	4,408	-	-	4,408
Listed ordinary shares	3,056	-	-	3,056
Forward foreign currency exchange contracts	-	766	-	766

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

25 Fair value measurement of financial instruments (continued)

Fair value hierarchy (continued)

There were no transfers between the fair value hierarchy levels during the 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 2023 $ '000	Fair value 2022 $ '000	Fair value hierarchy	Valuation technique & key inputs
Asset category				
Bank hybrid variable rate securities	4,597	4,408	Level 1	Quoted prices in an active market
Listed ordinary shares	6,393	3,056	Level 1	Quoted prices in an active market
Forward foreign currency exchange contracts	566	766	Level 2	Future cash flows are estimated based on observable forward exchange rates

26 Organisational structure

This section explains how the Consolidated Entity is structured, and disclosures for the parent entity.

Subsidiary entities

The Consolidated Financial Statements of Servcorp incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities over which the Consolidated Entity has power to direct the activities of the entity and an exposure to and ability to influence its variable returns from its involvement with the entity.

An entity, including a structured entity, is considered a subsidiary when we determine that the Company has control over the entity. Control exists when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Consolidated Entity assesses power by examining existing rights that give the Company the current ability to direct the relevant activities of the entity. The effect of all transactions between entities in the Consolidated Entity have been eliminated on consolidation.

Controlled entities are fully consolidated from the date control is obtained until the date that control ceases. Inter-entity transactions and balances are eliminated.

Name of entity	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Parent entity			
Servcorp Limited	Australia		
Controlled entities			
Servcorp Australian Holdings Pty Ltd	Australia	**100**	100
Servcorp Offshore Holdings Pty Ltd	Australia	**100**	100
Servcorp Exchange Square Pty Ltd	Australia	**100**	100
Servcorp Air Office Pty Ltd	Australia	**100**	100
Servcorp (North Ryde) Pty Ltd	Australia	**100**	100
Servcorp Smart Office Pty Ltd	Australia	**100**	100
Servcorp Smart Homes Pty Ltd	Australia	**100**	100
Servcorp Business Service (Beijing) Pty Ltd	Australia	**100**	100
Servcorp Virtual Pty Ltd	Australia	**100**	100
Servcorp Holdings Pty Ltd	Australia	**100**	100
Servcorp Administration Pty Ltd	Australia	**100**	100
Servcorp Adelaide Pty Ltd	Australia	**100**	100
Servcorp Barangaroo Pty Ltd	Australia	**100**	100

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

26 Organisational structure (continued)

Subsidiary entities (continued)

Name of entity	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Servcorp Brisbane Pty Ltd	Australia	**100**	100
Servcorp Mount Street Pty Ltd (formerly Servcorp Workspaces Pty Ltd)	Australia	**100**	100
Servcorp Gateway Pty Ltd	Australia	**100**	100
Servcorp Chifley 29 Pty Ltd	Australia	**100**	100
Servcorp Communications Pty Ltd	Australia	**100**	100
Servcorp IT Pty Ltd	Australia	**100**	100
Servcorp Melbourne Virtual Pty Ltd	Australia	**100**	100
Servcorp MLC Centre Pty Ltd	Australia	**100**	100
Servcorp Melbourne 27 Pty Ltd	Australia	**100**	100
Servcorp Sydney Virtual Pty Ltd	Australia	**100**	100
Servcorp William Street Pty Ltd	Australia	**100**	100
Servcorp Melbourne 18 Pty Ltd	Australia	**100**	100
Servcorp Perth Pty Ltd	Australia	**100**	100
Servcorp Brisbane Riverside Pty Ltd	Australia	**100**	100
Servcorp Market Street Pty Ltd	Australia	**100**	100
Office Squared Pty Ltd	Australia	**100**	100
Servcorp WA Pty Ltd	Australia	**100**	100
Servcorp Parramatta Pty Ltd	Australia	**100**	100
Servcorp Sydney 56 Pty Ltd	Australia	**100**	100
Servcorp Norwest Pty Ltd	Australia	**100**	100
Servcorp Level 12 Pty Ltd	Australia	**100**	100
Servcorp Western Australia Pty Ltd	Australia	**100**	100
Office Squared (Nexus) Pty Ltd	Australia	**100**	100
Servcorp SA 30 Pty Ltd	Australia	**100**	100
Servcorp City Square Pty Ltd	Australia	**100**	100
Servcorp North Sydney 32 Pty Ltd	Australia	**100**	100
Servcorp Docklands Pty Ltd	Australia	**100**	100
Servcorp Sydney 22 Pty Ltd	Australia	**100**	100
Servcorp Hobart Pty Ltd	Australia	**100**	100
Servcorp Brisbane 400 Pty Ltd	Australia	**100**	100
Servcorp Southbank Pty Ltd	Australia	**100**	100
Office Squared (Atlas) Pty Ltd	Australia	**100**	100
Gnee Pty Ltd	Australia	**100**	100
Servcorp Enterprise Pty Ltd	Australia	**100**	100
Servcorp Realm Pty Ltd	Australia	**100**	-
Servcorp Nishi Canberra Pty Ltd	Australia	**100**	-
Beechreef (New Zealand) Limited	New Zealand	**100**	100
Servcorp New Zealand Limited	New Zealand	**100**	100
Company Headquarters Limited	New Zealand	**100**	100
Servcorp Wellington Limited	New Zealand	**100**	100
Servcorp Queen Street Limited	New Zealand	**100**	100

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

26 Organisational structure (continued)

Subsidiary entities (continued)

Name of entity	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Servcorp Quay Street Limited	New Zealand	**100**	-
Servcorp BFH W.L.L	Bahrain	**100**	100
Servcorp Brussels Sprl	Belgium	**100**	100
Servcorp Business Service (Shanghai) Co. Ltd	China	**100**	100
Servcorp Business Service (Beijing) Co., Ltd	China	**100**	100
Beijing Servcorp Sihui Business Service Co., Ltd	China	**100**	100
Guangzhou Servcorp Business Service Co., Ltd	China	**100**	100
Chengdu Servcorp (OAC) Business Service Co., Ltd	China	**100**	100
Servcorp Hong Kong Limited	China	**100**	100
Servcorp HK Central Limited	China	**100**	100
Shanghai Servcorp Business Service Co., Ltd	China	**100**	100
Servcorp Paris SARL	France	**100**	100
Servcorp Edouard VII SARL	France	**100**	100
Servcorp Berlin GmbH	Germany	**100**	100
Servcorp Japan KK	Japan	**100**	100
Servcorp Tokyo KK	Japan	**100**	100
Servcorp Shinagawa KK	Japan	**100**	100
Servcorp Co-working GK	Japan	**100**	100
Servcorp Phoenicia SAL	Lebanon	**100**	100
Amalthea Nominees (Malaysia) Sdn Bhd	Malaysia	**100**	100
Office Squared Malaysia Sdn Bhd	Malaysia	**100**	100
SRV KL Sdn Bhd	Malaysia	**100**	100
SRV Central Sdn Bhd	Malaysia	**100**	100
Servcorp Manila, Inc. (in liquidation)	Philippines	**100**	100
Servcorp Bonifacio, Inc.	Philippines	**100**	100
Jeddah Branch of Servcorp Square Pte Ltd	Saudi Arabia	**100**	100
Riyadh Branch of Servcorp Square Pte Ltd	Saudi Arabia	**100**	100
Al Khobar Branch of Servcorp Square Pte Ltd	Saudi Arabia	**100**	100
Servcorp Serviced Offices Pte. Ltd	Singapore	**100**	100
Servcorp Franchising Pte. Ltd	Singapore	**100**	100
Servcorp Battery Road Pte. Ltd	Singapore	**100**	100
Servcorp Marina Pte. Ltd	Singapore	**100**	100
Servcorp Singapore Holdings Pte. Ltd	Singapore	**100**	100
Servcorp Hottdesk Singapore Pte. Ltd	Singapore	**100**	100
Servcorp Metropolis Pte. Ltd	Singapore	**100**	100
Servcorp Square Pte. Ltd	Singapore	**100**	100
Servcorp SR Pte. Ltd	Singapore	**100**	100
Servcorp Co., Ltd	Thailand	**100**	100
Servcorp Thai Holdings Ltd	Thailand	**100**	100
Headquarters Co., Ltd	Thailand	**100**	100
Servcorp Is Merkezi Isletmeciligi Limited Sirketi	Turkey	**100**	100

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

26 Organisational structure (continued)

Subsidiary entities (continued)

Name of entity	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Servcorp Sixteen Paylasimli Ofis Isletmeciligi Limited Sirketi	Turkey	**100**	100
Servcorp Level 54 DMCC	UAE	**100**	100
Servcorp EMEIA Holdings Ltd	UAE	**100**	100
Servcorp UK Limited	UK	**100**	100
Servcorp Leadenhall Limited	UK	**100**	100
Servcorp Mayfair Limited	UK	**100**	100
Servcorp Europe Holdings Limited	UK	**100**	100
Servcorp US Holdings, Inc	USA	**100**	100
Servcorp America LLC	USA	**100**	100
Servcorp New York LLC	USA	**100**	100
Servcorp Washington LLC	USA	**100**	100
Servcorp Houston LLC	USA	**100**	100
Servcorp State Street LLC	USA	**100**	100
Servcorp Fulton Street LLC	USA	**100**	100
Servcorp West Lake LLC	USA	**100**	100
Servcorp Battery Park LLC	USA	**100**	100
Servcorp Madison LLC	USA	**100**	100
Servcorp Manhattan LLC	USA	**100**	100
Servcorp Philadelphia LLC (in liquidation)	USA	**100**	100
Servcorp Dallas LLC (in liquidation)	USA	**100**	100

The following subsidiaries are not wholly owned by the Consolidated Entity. However, the Consolidated Entity still controls these subsidiaries because it has power to direct the activities of the entity and an exposure to and ability to influence its variable returns from its involvement with the entity. These entities are fully consolidated from the date control is obtained until the date that control ceases. Inter-entity transactions and balances are eliminated. The table below sets out the Company's ownership interest:

Name of subsidiary	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Servcorp Aswad Real Estate Company WLL	Kuwait	**49**	49
Servcorp Qatar LLC	Qatar	**49**	49
Servcorp LLC	UAE	**49**	49
Servcorp Administration Services WLL	UAE	**49**	49

A Company in the Consolidated Entity exercises control over Servcorp Aswad Real Estate Company WLL, Servcorp Qatar LLC, Servcorp LLC and Servcorp Administration Services WLL despite owning 49% of the issued capital. Arrangements are in place that entitle the Company or its controlled entities to the benefits and risks of ownership notwithstanding that the majority shareholding may be vested in another party.

For personal use only

26 Organisational structure (continued)

Name of joint venture	Country of incorporation	Ownership interest 2023 %	Ownership interest 2022 %
Etihad Towers Service Offices LLC	UAE	**49**	49

A subsidiary in the Consolidated Entity entered into a joint venture with Emirates Consortium LLC. The joint venture is accounted for using the equity method in the Consolidated Financial Statements. The investment in the joint venture has been fully impaired in prior years.

27 Key management personnel remuneration

Compensation of key management personnel

The key management personnel of the Company are the Directors and Executives of the Consolidated Entity who have the authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly. Key management personnel compensation is as follows.

	2023 $ '000	2022 $ '000
Long term and short term employee benefits	**1,321**	3,936
Post-employment benefits	**116**	213
Termination benefits	**-**	397
Share-based payments	**216**	365
	1,653	4,911

Dividends totaling $19.4 million have been paid during the year (2022: $18.4 million), which include amounts paid to Directors and other key management personnel.

Details of key management personnel

The Directors of the Company at any time during or since the end of the financial year 30 June 2023 are:

Non-executive Directors		
The Hon. Mark Vaile	Chair and Non-Executive Director	Appointed June 2011
Wallis Graham	Non-Executive Director	Appointed October 2017
Tony McGrath	Non-Executive Director	Appointed August 2019
Executive Director		
Alf Moufarrige AO	Chief Executive Officer	Appointed August 1999
Other Group-level executive *		
David Hunt	Chief Financial Officer & Head of SEA	Appointed April 2022

* In prior years, the Regional executives were included as KMP. In April 2022, the Directors appointed a new CFO, whose involvement includes elevated levels of responsibility in the business, and encompassed a wider operational focus. As a result, the authority for planning, directing and controlling the activities of the Consolidated Entity have resided with the CEO and CFO from 1 July 2022.

For personal use only

For personal use only

27 Key management personnel remuneration (continued)

Key management personnel related party transactions

Several key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted in conjunction with the Consolidated Entity in the reporting year or prior year. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. For further details and information related to key management personnel remuneration, please refer to the Remuneration Report.

From time to time Directors of the Company and its controlled entities, or their Director-related entities, may purchase services from or provide services to the Consolidated Entity. These purchases or sales are on the same terms and conditions as those entered into by other employees, suppliers or customers of the Consolidated Entity and are trivial or domestic in nature. All transactions with Director-related entities are disclosed to the Board and reviewed to ensure they bring a benefit to the Consolidated Entity.

Related parties entered into the following transactions with the Consolidated Entity.

Mr. A G Moufarrige has an interest in and is a Director of Tekfon Pty Ltd (Tekfon). Servcorp has a lease on arm's length terms with Tekfon for the use of Tekfon's premises for storage. Servcorp utilises off-site storage facilities in many of its global locations, for storage of office furniture and retention of records. Tekfon's premises are in a suburb of Sydney, and have been utilised by Servcorp's Sydney locations and head office for storage since before the Consolidated Entity's IPO in 1999. Research confirms that the lease is at arm's length terms for similar facilities in the area. The Board, with Mr. A G Moufarrige absent, reviews the lease with Tekfon on an annual basis to ensure that the terms are at market rate or better.

A relative of Mr. A G Moufarrige has an interest in Enideb Pty Ltd (Enideb). Mr. A G Moufarrige has no interest in the affairs of Enideb. Enideb operates the Servcorp franchise in Canberra on arm's length terms. The Canberra franchise has been operating for more than 29 years, and the Canberra locations bring a benefit to Servcorp's operations. The Board reviews the terms of the franchise agreement on a regular basis to ensure that it is conducted on proper commercial terms, consistent with any other franchise operations. Effective 3 July 2023, companies within the Consolidated Entity acquired the serviced office businesses carried on by Enideb Pty Ltd. The franchise agreement was terminated upon acquisition.

Relatives of Mr. A G Moufarrige have an interest in Refrigerated Display Lighting Pty Ltd (RDL) (formely Nualight AUSNZ Pty Ltd), Light Energy Australia Pty Ltd (LEA) and Ility Pty Ltd, who are clients of Servcorp in Sydney, Melbourne, Adelaide, Wellington, New York, London and China. Mr A G Moufarrige has no interest in the affairs of RDL, LEA or Ility.

Mr. A G Moufarrige has an interest in and is a Director of Sovori Pty Ltd (Sovori). Mr. A G Moufarrige has personal credit cards which, in the main, are used to pay for Servcorp expenses during his business travels. For convenience, these are paid by Servcorp whilst he travels and they are then reconciled upon his return and personal expenses are repaid, on a monthly basis, to Servcorp by Sovori.

Servcorp has in excess of 21,000 clients globally. From time to time a client will be an entity which is defined as a Director related party, even though the Director has had no involvement in the decision to become a client of Servcorp. The following disclosures fall into this category.

Mrs. W Graham has an involvement with ECP Management, LP (ECP), a US-based private equity firm. ECP is a client of Servcorp in Sydney. Mrs. W Graham did not have any involvement in negotiation of the arrangement with ECP, which are at arm's length terms.

The terms and conditions of the transactions with Directors and their Director-related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director-related parties on an arm's length basis.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

27 Key management personnel remuneration (continued)

Key management personnel related party transactions (continued)

Director	Director related entity	Transaction	2023 $	2022 $
A G Moufarrige	Tekfon Pty Ltd	Premises rental	**103,272**	97,544
	Enideb Pty Ltd	Franchisee	**513,038**	385,301
	Sovori Pty Ltd	Reimbursements	**299,389**	178,520
	Refrigerated Display Lighting Pty Ltd and Light Energy Australia Pty Ltd	Client	**1,365**	1,915
	Ility Pty Ltd	Client	**95,231**	111,303
W Graham	ECP Management, LP	Client	**3,067**	4,172

Amounts receivable from and payable to Directors and their Director-related entities at balance sheet date arising from these transactions were as follows:

Current receivables/(payable)	2023 $	2022 $
Tekfon Pty Ltd	**-**	(8,206)
Enideb Pty Ltd	**11,906**	29,790
Ility Pty Ltd	**9,109**	8,769
ECP Management, LP	**262**	-

28 Auditors' remuneration

KPMG and related network firms

	2023 $	2022 $
Core audit fee:		
KPMG Australia	**896,844**	854,138
KPMG Overseas firms	**1,093,648**	970,501
Total audit fees	**1,990,492**	1,824,639
Non-audit services: other advisory services	**7,541**	4,115
	1,998,033	1,828,754

29 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2023 (30 June 2022: None).

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

30 Events occurring after the reporting date

The Financial Report was authorised for issue on 24 August 2023 by the Board of Directors.

On 24 August 2023 the Directors declared a final dividend of 12.00 cents per share franked to 20%, payable on 5 October 2023.

On 3 July 2023, the Consolidated Entity completed the acquisition of two serviced office businesses in Canberra, ACT, Australia. The businesses were previously owned by Enideb Pty Ltd, a related entity. The purchase price was $4.2 million which was independently valued and appraised.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

31 Parent entity

The financial information for the parent entity, Servcorp Limited, is prepared on the same basis as the Consolidated Financial Statements.

	2023 $ '000	2022 $ '000
Statement of Financial Position		
Assets		
Current assets	**127,669**	132,279
Non-current assets	**32,754**	32,766
Total Assets	**160,423**	165,045
Liabilities		
Current liabilities	**95**	354
Non-current liabilities	**1,458**	370
Total Liabilities	**1,553**	724
Net assets	**158,870**	164,321
Equity		
Contributed equity	**151,594**	151,594
Retained earnings	**12,009**	17,460
Share buy back reserve	**(4,733)**	(4,733)
Total Equity	**158,870**	164,321
Statement of Profit or Loss and Other Comprehensive Income		
Total profit or loss for the year	**13,806**	2,705
Total comprehensive income	**13,806**	2,705

As at 30 June 2023:

- Servcorp Limited guaranteed Company Headquarters Limited (a subsidiary) as part of a New Zealand lease;
- Servcorp Limited has a Corporate Guarantee and Indemnity with the Australian and New Zealand Banking Group Limited, pursuant to which the bank agreed to make available to the Consolidated Entity of $30 million interchangeable facility for general corporate purposes. The liability under the deed by and between the Australian and New Zealand companies is limited to $52 million. Refer to note 23 for details;
- there were no contingent liabilities of the parent entity;
- there were no commitments for the acquisition of property, plant and equipment by the parent entity.

For personal use only

Notes to the Consolidated Financial Statements

For the year ended 30 June 2023

32 Reconciliation of profit to operating cash flow

Reconciliation of result for the year to cashflows from operating activities

For the purpose of presentation in the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash at bank and short term deposits at call.

	2023	2022
	$ '000	$ '000
Profit for the year	**11,067**	28,021
Non-cash flows in profit:		
Increase in provisions	**3,243**	670
Depreciation and amortisation of non-current assets	**19,952**	20,140
Share of profits of joint venture	**556**	334
Impairment of non-current assets	**15,061**	-
Loss/gain on sales of financial assets	**(70)**	181
Loss on disposal of non-current assets	**789**	1,466
Amortisation of right of use assets	**101,943**	100,020
Decrease/(Increase) in current tax asset	**5,596**	(8,118)
Decrease/(increase) in deferred tax balances	**(2,509)**	994
Unrealised foreign exchange gain	**2,571**	(5,987)
Share based payment expense	**106**	460
Changes in assets and liabilities:		
(Increase)/Decrease in prepayments	**(2,476)**	306
Decrease in trade debtors and other receivables	**(7,820)**	5,243
(Increase)/decrease in current and non-current assets	**(941)**	(461)
Decrease in client security deposits	**(128)**	(922)
Increase/(decrease) in accounts payable	**8,591**	3,236
Cashflows from operations	**155,531**	145,583

For personal use only

Servcorp Limited

97 089 222 506

Directors' Declaration

The Directors of the Servcorp Limited 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;

b) the attached Consolidated Financial Statements are in compliance with International Financial Reporting Standards, as stated in Note 1 to the Consolidated Financial Report;

c) in the Directors' opinion, the attached Consolidated Financial Statements and notes thereto and the Remuneration Report on pages 16 to 28 in the Directors' report are in accordance with the *Corporations Act 2001*, including:

   i. compliance with accounting standards and the Corporations Regulations 2001; and

   ii. giving a true and fair view of the financial position as at 30 June 2023 and performance for the financial year ended on that date;

d) the Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

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



A G Moufarrige AO
Managing Director and CEO

Dated 24 August 2023

For personal use only

For personal use only

Independent Auditor's Report

To the shareholders of Servcorp Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Servcorp Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Consolidated Entity's*** financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2023;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Consolidated Entity*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Consolidated Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

For personal use only

Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Accounting for leases;
- Recoverability of right-of-use assets and leasehold improvements;

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for leases (Right-of-use assets $305.3m and lease liability $367.8m)

Refer to Note 13 'Right of use assets' and Note 16 'Lease Liabilities' in the Financial Report

The key audit matter	How the matter was addressed in our audit
Accounting for leases is a key audit matter due to the: • significance of leases to the financial statements; and • large volume of individualised lease agreements which increase the complexity and judgement required by management in determining the right-of-use asset and lease liability balances. We focused our testing on the accounting for leases that were new, renewed and modified during the financial year. The Consolidated Entity, when calculating the right-of-use asset and lease liability balances, applied judgement to determine the effective date, expected lease term, incremental borrowing rate (IBR), and application of the rent review terms and lease incentives. These were key features subject to our audit testing. We involved our senior audit team members in assessing this key audit matter, along with our debt advisory specialists.	Our procedures included: • Assessing the appropriateness of the Consolidated Entity's accounting policies against the requirements of the accounting standard (AASB 16 *Leases*) and our understanding of the business. • Assessing the completeness of the Consolidated Entity's leases by: – For each location published on the Servcorp global website, we checked for a corresponding lease at the location to the Consolidated Entity's lease listing. • For new, renewed and modified leases, we: - Compared the key inputs used in the Consolidated Entity's lease calculation model including the effective date, expected lease term, fixed rent payments, rent review terms, lease incentives and renewal options, to underlying source documents including the current lease agreements. - Using the above key inputs and adopted incremental borrowing rate (IBR), we recalculated the lease balances including the right-of-use asset, lease liability, depreciation and interest expense. - Compared our re-calculated lease balances to the amounts recorded by the Consolidated Entity for the financial year and investigated any significant variances.

For personal use only

	• Working together with our debt advisory specialists, we independently assessed against accounting standard requirements Servcorp's methodology to determine the IBRs including reference rates and credit spreads applied. • We assessed the financial statement disclosures in the financial report using our understanding obtained from our testing, against the accounting standard requirements.

Recoverability of right-of-use assets ($305.3m) and leasehold improvements ($61.6m)	
Refer to Note 11 'Property, plant and equipment' and Note 13 'Right of use assets' in the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The recoverability of right-of-use assets and leasehold improvements is a key audit matter due to: • the significance of these assets to the financial statements; and • the impact of the current economic conditions on the business globally. We focused on the significant forward-looking assumptions the Consolidated Entity applied in its value-in-use (VIU) model, including: • Forecast pricing and occupancy growth rates – these assumptions are influenced by duration, renewal and terms of tenant contracts, demand from tenants, competitive market conditions and the current economic outlook on each Cash Generating Unit (CGU); • Forecast operating cash flows – estimating projected cash flow forecasts is inherently subjective and susceptible to differences in outcome, in particular due to external market conditions; and • Discount rates - these are subjective in nature and vary according to the specific conditions and environment of the relevant CGU. We involve our valuations specialists with this assessment.	Our procedures included: • Together with our valuation specialists, we assessed the appropriateness of the VIU methodology applied by the Consolidated Entity to perform its impairment test against the requirements of the accounting standards (AASB 136 *Impairment of assets*). • We assessed the integrity of the VIU model used, including the accuracy of the underlying calculation formulas. • We assessed the accuracy of previous Consolidated Entity's forecasts to inform our evaluation of forecasts incorporated in the models. • We compared the forecast cash flows contained in the VIU model to forecasts presented to the Board. • We assessed the Consolidated Entity's indicators of impairment analysis for each cash generating unit (CGU) based on business performance. • We challenged the Consolidated Entity's significant forecast cash flow and growth assumptions, such as pricing and occupancy rates, in light of expected continuation of challenging market conditions. We used our

For personal use only

The Consolidated Entity has a high number of individual CGUs during the year necessitating our consideration of the Consolidated Entity's determination of CGUs, based on the smallest group of assets to generate largely independent cash inflows. The Consolidated Entity has recorded a total impairment of $15.1m in this financial year.	knowledge of the Consolidated Entity, their past performance, business plan and customers, and our industry experience. • Working with our valuation specialists, we independently developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors specific to the Consolidated Entity and the industry it operates in. • We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates and discount rates, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and to focus our further procedures. • We considered the Consolidated Entity's determination of their CGUs based on our understanding of the operations of the Consolidated Entity's business, and how independent cash inflows were generated, against the requirements of the accounting standards. • We assessed the disclosures in the financial report using our understanding of the information obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Servcorp Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Consolidated Entity and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Consolidated Entity and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf This description forms part of our Auditor's Report.

For personal use only

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Servcorp Limited for the year ended 30 June 2023, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 16 to 28 of the Directors' report for the year ended 30 June 2023.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Kim Lawry

Partner

Sydney

24 August 2023



Ashley Trang

Partner

Sydney

24 August 2023

For personal use only