SERVCORP LIMITED
ABN 97 089 222 506

APPENDIX 4E

Preliminary Final Report for the financial year ended 30 June 2006

The information in this document should be read in conjunction with the 2006 Financial Report and any public announcements made during the period in accordance with continuous disclosure obligations arising under Corporations Act 2001 and ASX Listing Rules.

Results for announcement to the market

				$A'000
Revenue and other income from ordinary activities	up	18%	to	145,941
Profit from ordinary activities after tax attributable to members	up	48%	to	25,376
Net profit for the period attributable to members	up	48%	to	25,376

Dividends	Total amount $'000	Amount per security	Franked amount per security
Current period			
Final dividend declared	4,826	6.00c	6.00c
Interim dividend paid	3,618	4.50c	4.50c
Previous corresponding period			
Final dividend paid	3,216	4.00c	4.00c
Interim dividend paid	3,015	3.75c	3.75c

Record date for determining entitlements to the dividend	1 September 2006

	30 June 2006 $	**30 June 2005 $**
Net tangible asset backing		
Net tangible asset backing per ordinary security	$1.05	$0.82

Control over entities

Control was gained over a serviced office business trading as Level 39, One Exchange Square, Central, Hong Kong on 15 July 2005.

Control was not lost over any entity during the current period that had a material effect on the profit for the period.

Material interest in entities

There were no material interests in entities that were not controlled entities.

Details of associates and joint venture entities

There were no associates or joint venture entities.

Management Discussion & Analysis

Servcorp recorded an increase in Net Profit Before Tax of 50% to $35,207,000 for the twelve months ended 30 June 2006, (twelve months ended 30 June 2005: $23,497,000). Net Profit After Tax increased by 48% to $25,376,000 for the twelve month period (twelve months ended 30 June 2005: $17,190,000).

Cash generated from operating activities before tax payments increased by 35% to $44,430,000 for the twelve month period (twelve months ended 30 June 2005: $33,019,000).

Net Profit Before Tax attributable to mature floors for the twelve month period increased by 36% to $38,308,000 (twelve months ended 30 June 2005: $28,194,000). The mature floor result for the twelve month period included a non-recurring provision write-back of $1,298,000 which related to the reversal of a floor closure provision for Brussels. The Net Loss Before Tax on immature floors for the twelve month period was $3,101,000 (twelve months ended 30 June 2005: $4,697,000).

OPERATING SUMMARY

As at 30 June 2006 Servcorp operated 57 floors in 18 cities in 11 countries. Average mature floor occupancy for the twelve month period was 85% (twelve months ended 30 June 2005: 85%).

A total of five new floors were opened during the period. These were: Level 27, 101 Collins Street, Melbourne; Level 36, Riparian Plaza, Brisbane; Level 23, Citigroup Tower, Shanghai; Level 39, One Exchange Square, Hong Kong and Level 9, Ariake Frontier Building, Tokyo. Two floors were closed during the period which resulted in a net increase in office capacity for the year of 7%.

Immature floors as at 30 June 2006 were Level 27, 101 Collins Street, Melbourne; Level 23, Citigroup Tower, Shanghai and Level 9, Ariake Frontier Building, Tokyo.

Servcorp Products

As at 30 June 2006 IP telephones had been rolled out to 72% of Servcorp locations. Virtual Office continues to perform strongly with in excess of 6,000 clients now using this product. The rollout of Hottdesk V2 will commence in the first half of fiscal 2007.

Servcorp is currently investigating the possibility of using the Servcorp suite of IT products in an external multi-tenanted environment. The product is called Office^2 and has potential for use in whole buildings. Office^2 will enable landlords to facilitate clients on a “per work station” basis.

Australia & New Zealand

Australia and New Zealand performed strongly during the period. Revenue from ordinary activities increased by 8% to $39.39M when compared to the prior period. Net Profit Before Tax increased by 20% to $8.51M. During the period a new floor opened in Brisbane and a floor was closed in Melbourne with clients relocated to a new location. A business was also purchased from a competitor in Perth during July 2006.

Japan & Asia

Japan and Asia continue to perform strongly, recording an increase in revenue from ordinary activities of 22% to $86.82M. Net Profit Before Tax increased by 47% to $20.51M. One floor opened at the beginning of February 2006 in Tokyo. Servcorp purchased a floor from a competitor in Hong Kong in July 2005. In Shanghai one floor closed and clients were relocated to a new location.

Management Discussion and Analysis Cont –

Europe & Middle East

The performance of the Europe and Middle East segment has improved significantly. Revenue from ordinary activities increased by 22% to $17.71M. A decision was made not to close the Brussels operation, which resulted in a write-back of a closure provision of $1.30M during the period.

Excluding the provision write-back, the segment recorded a Net Profit Before Tax of $4.19M for the period when compared to a Net Profit Before Tax of $0.40M for the twelve months ended 30 June 2005.

The Dubai location continues to perform above expectations. Although we are mindful of current political events, Management continue to look for new opportunities in the region.

The performance of the Paris and Brussels locations continues to improve.

FINANCIAL SUMMARY

Revenue from ordinary activities for the twelve months ended 30 June 2006 was $145.94M, up 18% from the previous corresponding period. Throughout the year the Australian dollar remained relatively stable against the USD, Yen and Euro. When the exchange effect is stripped out, revenue increased by 20% in real terms.

Total expenses increased by 10% for the year ended 30 June 2006 when compared to the prior period. When the exchange effect is stripped out, expenses increased by 13% in real terms.

Significant items in the Net Profit Before Tax included the reversal of the Brussels floor closure provision in the amount of $1,298,000.

Cash and cash equivalents balances were $58.21M as at 30 June 2006, compared with $42.97M as at 30 June 2005.

AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (A-IFRS)

The year ended 30 June 2006 is the first period in which the financial statements have been prepared under A-IFRS. The comparative financial statements for the year ended 30 June 2005 have been restated accordingly.

DIVIDEND

The Directors of Servcorp Limited have declared a fully franked final dividend of 6.00 cents per share increasing the total dividend for the period to 10.50 cents per share, up 36% from the dividend paid in relation to the twelve months ended 30 June 2005.

OUTLOOK

Forecast Net Profit Before Tax on mature floors for the year ending June 2007 is approximately $41.00M, $19.00M for the first half and $22.00M for the second half of 2007, subject to market and economic conditions remaining as they currently are. Net Profit Before Tax will be tempered by immature floor losses as Servcorp continues to expand its business.

Management will continue to grow the core serviced office business and will continue to increase critical mass in existing markets. If all goes according to plan, 2007 will be one of Servcorp's biggest expansion years. Seven floors are scheduled to open in the first half of fiscal 2007 in Sydney, Perth, Tokyo, Beijing, Paris and Singapore. Three additional floors are scheduled to open in the second half of fiscal 2007 in Bahrain, Tokyo and Nagoya.

Subject to Servcorp achieving the above forecasts, the Directors expect to pay an interim dividend for the six months ending 31 December 2006 of 6.00 cents per share, fully franked.

SERVCORP LIMITED
ABN 97 089 222 506

FINANCIAL REPORT

For the financial year ended 30 June 2006

Contents

Income statement
for the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Revenue	2	141,203	120,684	-	-
Other income	2	4,738	3,453	19,918	16,425
		145,941	124,137	19,918	16,425
Service expenses		(39,503)	(35,638)	-	-
Marketing expenses		(6,438)	(6,140)	-	-
Occupancy expenses		(52,829)	(48,691)	(16)	-
Administrative expenses		(11,483)	(9,358)	(1,215)	(626)
Borrowing expenses	2	(54)	(158)	(148)	(142)
Impairment in value of equity loans receivable	3	-	-	-	(4,746)
Reversal of impairment loss in value of equity loans	3	-	-	4,746	-
Other expenses		(427)	(655)	-	-
Total expenses		(110,734)	(100,640)	3,367	(5,514)
Profit before income tax expense		**35,207**	**23,497**	**23,285**	**10,911**
Income tax expense	5	(9,831)	(6,307)	(5,227)	(3,796)
Profit attributable to members of the parent entity	**21**	**25,376**	**17,190**	**18,058**	**7,115**
Earnings per share					
Basic earnings per share	8	$0.316	$0.214	-	-
Diluted earnings per share	8	$0.316	$0.214	-	-

The Income statement is to be read in conjunction with the notes to the financial statements.

Balance sheet
as at 30 June 2006

		Consolidated		The Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current assets					
Cash and cash equivalents	**9**	58,213	42,966	19	174
Trade and other receivables	**10**	14,551	12,538	78,695	76,945
Other financial assets	**12**	6,771	7,188	-	-
Current tax assets	**5**	732	319	-	-
Other	**11**	5,244	6,099	33	24
Total current assets		**85,511**	**69,110**	**78,747**	**77,143**
Non-current assets					
Trade and other receivables	**10**	-	227	-	227
Other financial assets	**12**	19,414	17,910	40,160	35,414
Property, plant and equipment	**13**	29,267	24,952	-	-
Deferred tax assets	**5**	6,688	7,043	25	48
Goodwill	**14**	15,440	15,440	-	-
Total non-current assets		**70,809**	**65,572**	**40,185**	**35,689**
Total assets		**156,320**	**134,682**	**118,932**	**112,832**
Current liabilities					
Trade and other payables	**15**	18,658	20,944	14,910	19,081
Other financial liabilities	**16**	16,532	9,980	-	-
Current tax liabilities	**5**	6,855	6,125	5,806	5,354
Provisions	**18**	2,331	3,181	-	-
Total current liabilities		**44,376**	**40,230**	**20,716**	**24,435**
Non-current liabilities					
Trade and other payables	**15**	4,145	2,281	543	543
Other financial liabilities	**16**	-	2,717	582	1,996
Provisions	**18**	538	564	-	-
Total non-current liabilities		**4,683**	**5,562**	**1,125**	**2,539**
Total liabilities		**49,059**	**45,792**	**21,841**	**26,974**
Net assets		**107,261**	**88,890**	**97,091**	**85,858**
Equity					
Issued capital	**19**	80,694	80,694	80,694	80,694
Reserves	**20**	(8,301)	(7,953)	16	7
Retained earnings	**21**	34,868	16,149	16,381	5,157
Total equity		**107,261**	**88,890**	**97,091**	**85,858**

The Balance sheet is to be read in conjunction with the notes to the financial statements.

Statement of recognised income and expense for the financial year ended 30 June 2006

		Consolidated		The Company	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Translation of foreign operations:					
Exchange differences taken to equity	**20**	(357)	(3,151)	-	-
Net expense recognised directly in equity		**(357)**	**(3,151)**	**-**	**-**
Profit for the financial year	**21**	25,376	17,190	18,058	7,115
Total recognised income and expense for the financial year		**25,019**	**14,039**	**18,058**	**7,115**

The Statement of recognised income and expense is to be read in conjunction with the notes to the financial statements.

Cash flow statement
for the financial year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Cash flows from operating activities					
Receipts from customers		157,421	126,339	-	-
Payments to suppliers and employees		(114,569)	(94,648)	(116)	(836)
Dividends and royalties received		-	-	17,276	14,359
Interest and other items of similar nature received		1,679	1,408	2,642	2,066
Interest and other costs of finance paid		(101)	(80)	(148)	(142)
Income tax paid		(9,085)	(5,165)	(7,429)	(3,582)
Net operating cash flows	**27(c)**	**35,345**	**27,854**	**12,225**	**11,865**
Cash flows from investing activities					
Payments for property, plant and equipment		(12,348)	(12,034)	-	-
Payments for financial assets		(200)	(3,000)	-	-
Payments for acquisition of business		(1,645)	-	-	-
Payments for lease deposits		(2,828)	(3,382)	-	-
Proceeds on sale of investments		927	3,000	-	-
Proceeds from sale of property, plant and equipment		199	135	-	-
Proceeds from refund of lease deposits		1,149	-	-	-
Amounts advanced to related parties		-	-	(66)	(21,642)
Repayment of related party loans		-	-	(5,480)	-
Proceeds from repayment of related party loans		-	-	-	16,705
Net investing cash flows		**(14,746)**	**(15,281)**	**(5,546)**	**(4,937)**
Cash flows from financing activities					
Proceeds from issue of equity securities		-	1,539	-	1,539
Proceeds from borrowings		560	-	-	-
Payment for share buy back		-	(2,254)	-	(2,254)
Repayment of borrowings		(589)	(1,314)	-	-
Dividends paid		(6,834)	(6,037)	(6,834)	(6,037)
Net financing cash flows		**(6,863)**	**(8,066)**	**(6,834)**	**(6,752)**
Net increase in cash and cash equivalents		**13,736**	**4,507**	**(155)**	**176**
Cash and cash equivalents at the beginning of the financial year		41,778	38,049	174	(2)
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		851	(778)	-	-
Cash and cash equivalents at the end of the financial year	**27(a)**	**56,365**	**41,778**	**19**	**174**

The Cash flow statement is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements for the financial year ended 30 June 2006

1. Summary of Accounting Policies

Statement of compliance

The financial report as set out on pages 2 to 67 is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards (‘A-IFRS’). Compliance with A-IFRS ensures that the consolidated financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards (‘IFRS’). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 ‘Financial Instruments: Disclosure and Presentation’, as the Australian equivalent Accounting Standard, AASB 132 ‘Financial Instruments: Disclosure and Presentation’ does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the Consolidated Entity.

The financial statements are in the process of being audited.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgements, estimates and assumptions about the carrying value 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 judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS, that have a significant effect on the financial statements and estimates where there is a significant risk of material adjustment in future periods are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 ‘First-time Adoption of Australian Equivalents to International Financial Reporting Standards’. The date of transition was 1 July 2004. An explanation of how the transition from superseded policies to A-IFRS has affected the Company’s and the Consolidated Entity’s financial statements is outlined in Note 32.

This general purpose financial report is the Consolidated Entity’s first full year financial report prepared in accordance with A-IFRS. The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in the financial statements for the year ended 30 June 2005 and in the preparation of the opening A-IFRS Balance sheet at 1 July 2004 (as disclosed in Note 32), the Consolidated Entity’s date of transition, except for the accounting policies in respect of financial instruments. The Consolidated Entity has not restated comparative information for financial instruments including derivatives as permitted under the first-time adoption transitional provisions.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

Basis of preparation (cont)

The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in Note 1 (v).

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

a) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Consolidated Entity, being the Company (the parent entity) and its subsidiaries, as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in Note 25 to the financial statements. 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 values of the identifiable net assets acquired is recognised as goodwill. If after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition the difference is credited to the Income statement 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 within the Consolidated Entity are eliminated in full.

b) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset. 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 Income statement and is not subsequently reversed.

c) Impairment of assets

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

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

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

c) Impairment of assets (cont)

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

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Income statement immediately, unless the relevant assets are carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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 cash generating unit) in prior years. A reversal of the impairment loss is recognised in the Income statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

d) Revenue recognition

Sales revenue
Sales revenue comprises revenue earned net of the amount of consumption tax from the provision of services to entities outside the Consolidated Entity. Rental revenue is typically invoiced in advance and is recognised in the period in which the service is provided.

e) Other income/ expense

Interest income
Interest income is recognised as it accrues.

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

f) Foreign currency

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 balance 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.

Exchange differences are recognised in the Income statement in the period 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 Income statement on disposal of the net investment.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

f) Foreign currency (cont)

Translation of controlled foreign entities
The assets and liabilities of overseas operations are translated at the rates of exchange ruling at the Balance sheet date.

Income and expense items are translated at the average exchange rate for the period unless exchange rates fluctuate significantly. 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 Income statement in the period of disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS is treated as an Australian dollar denominated asset.

g) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings and lease finance charges. Borrowing costs are expensed to the Income statement as incurred.

h) Taxation

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

Deferred tax
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 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 sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. 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.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

h) Taxation (cont)

Deferred tax cont.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period 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 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 period
Current and deferred tax is recognised as an expense or income in the Income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in equity.

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 tax payer 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. Further information about the tax funding arrangement is detailed in Note 5 to the financial statements. 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 (distribution to) equity participants.

Due to the adoption of the transitional provisions, the impact on the financial statements of the Consolidated Entity and the Company, arising from adoption of the tax consolidation regime, was not material. The tax consolidation regime has been applied with effect from 1 July 2004.

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 Taxation 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.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

h) Taxation (cont)

Goods and services tax cont.
Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as a current asset or liability in the Balance sheet.

Cash flows are included in the Cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the Australian Taxation Office are classified as operating cash flows.

i) Receivables

Trade debtors to be settled within 30 days are carried at amounts due. The collectibility of debts is assessed at balance date and a specific allowance is made for any doubtful amounts.

j) Derivative financial instruments

The Consolidated Entity enters into derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates.

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 Income statement.

k) Share based payments

Equity settled share based payments granted after 7 November 2002 that had not vested as at 1 January 2005 are measured at fair value at grant date. Fair value is calculated using the Black Scholes option pricing 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 Management's estimate of options that will eventually vest.

l) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Other financial assets are classified into the following specified categories:

Financial assets at fair value through profit or loss
Investments in fixed rate bonds and reset preference securities held for trading are classified as financial assets and are carried at fair value with any resultant gain or loss recognised through the Income statement.

Loans and receivables
Trade receivables, loans and other receivables including lease deposits are recorded at amortised cost, less impairment.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

m) Property, plant and equipment

Acquisition
Items of property, plant and equipment acquired 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.

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

Property, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation, less impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the item.

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 period of the lease or remaining lease term or estimated useful life, whichever is the shorter, using the straight line method.

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

Buildings	40 years
Leasehold improvements	Shorter of the useful life of the asset or the remaining lease term
Office furniture and fittings	7.7 years
Office equipment	3-4 years
Motor vehicles	6.7 years

Depreciation rates and 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, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

n) Leased assets

Finance leases
Leased plant and equipment
Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a lease liability equal to the fair value of the asset, or if lower the present value of the minimum lease payments, is recorded at the inception of the lease. Contingent rentals are written off as an expense in the accounting period in which they are incurred. Capitalised leased assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the Consolidated Entity will obtain ownership of the assets, the life of the asset.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the Income statement.

Operating leases
Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives
Floor rental is expensed in the accounting period in which it is due and payable in accordance with lease agreements entered into with landlords. Where a rent free period or other lease incentives exist under the terms of a lease agreement, the aggregate rent payable over the lease term is calculated and a charge is made to the Income statement on a straight line basis over the term of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability.

o) Payables

Liabilities are recognised for amounts payable in the future for goods or services received, whether or not billed to the Consolidated Entity or the Company. Trade accounts payable are normally settled within 60 days.

p) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Any difference between the initial recognised amount and the redemption value is recognised in the Income statement over the life of the borrowings using the effective interest rate method.

q) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

q) Provisions (cont)

Make good costs
A provision is made for make good costs on leases that are expected to terminate within eighteen months of the Balance sheet date, where those make good costs can be reliably measured, and can be reasonably expected to occur.

Onerous contracts
An onerous contract is considered to exist where the Consolidated Entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

r) Employee benefits

Wages, salaries and annual leave
The provisions 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 balance sheet 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.

Executive and employee share option schemes
Servcorp Limited has granted options to certain executives and employees under Executive and Employee Share Option Schemes. Further information is set out in Notes 23 and 29 to the financial statements.

Defined contribution superannuation fund
The Company and other controlled entities contribute to a defined contribution superannuation plan. Contributions are charged to the Income statement as they are made. Further information is set out in Note 23. Contributions to defined contribution superannuation plans are expensed as incurred.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

s) Earnings per share (EPS)

Basic earnings per share
Basic EPS is calculated by dividing the net profit attributable to members of the Consolidated Entity for the reporting period, 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, rather than the total number of 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 share.

t) Debt and equity instruments

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

u) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Balance sheet.

v) Comparative information – financial instruments

The Consolidated Entity has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement', as permitted on the first time adoption of A-IFRS. The accounting policies applied to accounting for financial instruments in the current financial year are detailed in Notes 1(j),(l) and (p).

Effect of changing the accounting policies for financial instruments
Had the A-IFRS accounting policies for financial instruments been applied for the comparative year, the effect at 30 June 2005 would be to increase financial assets and consequently retained earnings by $177,000 in relation to the aggregate amount of unrealised gains under forward foreign exchange contracts for anticipated future transactions.

The following accounting policies were applied to financial instruments in the comparative financial year:

Other financial assets
Controlled entities
Investments in controlled entities were carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions were brought to account in the Income statement when they were declared by the Controlled Entities.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

v) Comparative information – financial instruments (cont)

Other companies
Investments in other listed and unlisted companies were carried at the lower of cost and recoverable amount. Dividends were brought to account in the Income statement as they accrued.

Interest bearing financial instruments
Current
Investments in interest bearing financial instruments held for sale were measured at fair market value. Income from these instruments were brought to account in the Income statement as earned.

Non-current
Investments in non-current interest bearing instruments not held for sale were carried at cost on the basis that they will be held until maturity. Income from these instruments were brought to account in the Income statement as they accrued.

Forward foreign currency exchange contracts
The Company actively manages foreign currency exposure of revenue transactions generated offshore. Forward foreign currency exchange contracts taken out to manage foreign exchange exposure were designated to underlying transactions at the inception of the forward foreign currency exchange contract. Foreign exchange risk is managed within the acceptable risk limits, agreed procedures and in compliance with policy guidelines as approved from time to time by the board.

Gains and losses that arise on a hedged instrument were deferred and included in the measurement of the anticipated hedged revenue. The unhedged portion of offshore revenue transactions were translated at the average rate for the month.

In the event of early termination of forward foreign currency exchange contracts of an anticipated transaction, the deferred gains and losses that arose on the forward foreign currency exchange contract prior to its termination were:

- deferred and included in the measurement of the transaction when it took place, where the anticipated transaction was expected to occur; or

- recognised in the Income statement at the date of termination, if the anticipated transaction is no longer expected to occur.

w) AASB accounting standards not yet effective

The Australian Accounting Standards Board (AASB) and Urgent Issues Group (UIG) issued additional standards and interpretations which are effective for periods commencing after the date of these financial statements. The following standards and interpretations have not yet been adopted by the Consolidated Entity:

- AASB 7 Financial Instruments: Disclosures. The application date is the first financial period beginning on or after 1 January 2007.

- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements, AASB 124 Related Party Disclosures - the application date is the first financial reporting period beginning on or after 1 January 2006

- AASB 2005-1 Amendments to Australian Accounting Standards (May 2005) amending AASB 139 Financial Instruments: Recognition and Measurement – the application date is the first financial reporting period beginning on or after 1 January 2006.

Notes to the Financial Statements continued –

1. Summary of Accounting Policies (continued)

w) AASB accounting standards not yet effective (cont)

- AASB 2005-4 Amendments to Australian Accounting Standards (June 2005) amending AASB 139 Financial Instruments: Recognition and Measurement, AASB 132 Financial Instruments: Disclosure and Presentation, AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004). The application date is the first financial period beginning on or after 1 January 2006.

- AASB 2005-5 Amendments to Australian Accounting Standards (June 2005) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004) and AASB 139 Financial Instruments: Recognition and Measurement – the application date is the first financial reporting period beginning on or after 1 January 2006.

- AASB 2005-9 Amendments to Australian Accounting Standards (September 2005) amending AASB 139 Financial Instruments: Recognition and Measurement – the application date is the first financial reporting period beginning on or after 1 January 2006.

- UIG 4 Determining whether an arrangement contains a lease – the application date is the first financial reporting period beginning on or after 1 January 2006.

The Consolidated Entity does not anticipate that the adoption of these standards and interpretations will have a material impact on its financial statements on initial adoption. Upon adoption of AASB 7 'Financial Instruments: Disclosures', the Consolidated Entity will be required to disclose additional information about financial instruments, including greater detail as to its risk disclosure. There will be no effect on reported earnings or net assets.

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000

2. Profit from Operations

a) Revenue

Revenue from continuing operations consisted of the following:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Revenue from the rendering of services	**141,203**	**120,684**	**-**	**-**

b) Other income

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Interest income:				
Related parties	-	-	2,343	2,052
Other	2,174	1,862	14	14
Royalties:				
Related parties	-	-	17,276	12,359
Franchise fees:				
Other	226	211	-	-
Dividends received from:				
Related parties	-	-	-	2,000
Net foreign exchange gains	985	-	285	-
Other	1,353	1,380	-	-
	4,738	**3,453**	**19,918**	**16,425**

c) Profit before income tax

Profit before income tax was arrived at after charging/(crediting) the following from/(to) continuing operations:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Net foreign exchange losses	-	98	-	-
Borrowing expenses:				
Interest	29	67	148	142
Finance charges on capitalised leases	25	91	-	-
	54	**158**	**148**	**142**
Depreciation of leasehold improvements	4,674	4,212	-	-
Depreciation of property, plant and equipment	3,634	3,385	-	-
Loss on disposal of property, plant and equipment	231	181	-	-

2. Profit from Operations (continued)

c) Profit before income tax (cont)

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Change in fair value of financial assets classified as fair value through the Income statement	14	(153)	-	-
Net bad and doubtful debts arising from: Third parties	701	450	-	-
Operating lease rental expense: Minimum lease payments	45,822	42,725	-	-
Employee benefit expense: Equity-settled share based payments	9	6	9	6

3. Significant Transactions

Individually significant transactions included in profit from ordinary activities before income tax expense:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Floor closure provision (i)	-	1,597	-	-
Reversal of Brussels closure provision	(1,298)	-	-	-
Impairment in value of equity loans receivable	-	-	-	4,746
Reversal of impairment loss in value of equity loans	-	-	(4,746)	-

Notes:

(i) In 2005 $1,298,000 related to the Brussels floor closure provision.

4. Remuneration of Auditors

	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
a) Auditor of the parent entity (Deloitte Touche Tohmatsu Australia (DTT))				
Audit and review of financial reports	286,201	217,750	185,761	126,830
Other services – tax	95,500	96,706	91,150	84,000
Other services – A-IFRS consultancy	24,571	35,797	24,571	-
Other services – statutory accounts review	8,000	-	-	-
	414,272	**350,253**	**301,482**	**210,830**
b) Other auditors (DTT International Associates)				
Audit and review of financial reports	339,342	231,459	-	-
Other services – tax	188,943	163,808	-	-
Other services – statutory accounts review	47,205	15,828	-	-
	575,490	**411,095**	**-**	**-**
c) Other auditors (KPMG International Associates)				
Audit and review of financial reports (i)	-	14,378	-	-
	-	**14,378**	**-**	**-**
	989,762	**775,726**	**301,482**	**210,830**

The auditor of Servcorp Limited is Deloitte Touche Tohmatsu.

Notes:
(i) KPMG resigned as auditors of Servcorp Paris SARL on 30 December 2004.

5. Income Taxes

a) Income tax recognised in the Income statement

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Tax expense comprises:				
Current tax expense	9,771	8,166	5,546	3,563
(Over)/ under provision in prior years – current tax	(352)	238	(342)	166
(Over)/ under provision in prior years – deferred tax	(386)	2	8	62
Deferred tax expense/ (income) relating to the origination and reversal of temporary differences	798	(2,099)	15	5
Income tax expense	**9,831**	**6,307**	**5,227**	**3,796**
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Profit before income tax expense	35,207	23,497	23,285	10,911
Income tax expense calculated at 30%	10,562	7,049	6,986	3,273
Deductible local taxes	(344)	(381)	-	-
Effect of different tax rates on overseas income	(106)	(802)	-	-
Other deductible/ (non-assessable) items	327	676	(1,425)	295
Tax losses of controlled entities recovered	(76)	(935)	-	-
Income tax (over)/ under provision in prior years	(738)	240	(334)	228
Unused tax losses and tax offsets not recognised as deferred tax assets	206	460	-	-
Income tax expense	**9,831**	**6,307**	**5,227**	**3,796**

The tax rate used in the above reconciliation is the Australian corporate tax rate of 30% (2005: 30%).

5. Income Taxes (continued)

b) Current tax assets and liabilities

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current tax assets:				
Tax refunds receivable	732	319	-	-
	732	**319**	**-**	**-**
Current tax payables:				
Income tax attributable to				
Parent entity	5,806	5,354	5,806	5,354
Subsidiaries	1,049	771	-	-
	6,855	**6,125**	**5,806**	**5,354**

c) Deferred tax balances

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Deferred tax assets comprise:				
Tax losses – revenue	1,472	1,993	-	-
Temporary differences	5,677	5,524	25	48
	7,149	7,517	25	48
Deferred tax liabilities comprise:				
Temporary differences	461	474	-	-
Net deferred tax assets	**6,688**	**7,043**	**25**	**48**
The gross movement of the deferred tax accounts are as follows:				
Balance at the beginning of the financial year	7,043	5,366	48	115
Movements in foreign exchange rates	57	(420)	-	-
Income statement (charge)/credit	(412)	2,097	(23)	(67)
Balance at the end of the financial year	**6,688**	**7,043**	**25**	**48**
Deferred tax assets				
Movements in temporary differences:				
Accruals not currently deductible	(243)	464	(23)	(62)
Doubtful debts	(160)	(136)	-	-
Depreciable and amortisable assets	358	116	-	-
Tax losses	(521)	1,227	-	-
Foreign exchange	153	406	-	(5)
Other	(23)	(158)	-	-
Deferred tax assets	**(436)**	**1,919**	**(23)**	**(67)**
Balance at the beginning of the financial year	7,517	6,041	48	115
Movements in foreign exchange rates	68	(443)	-	-
Income statement (charge)/ credit	(436)	1,919	(23)	(67)
Balance at the end of the financial year	**7,149**	**7,517**	**25**	**48**

5. Income Taxes (continued)

(c) Deferred tax balances (cont)

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Deferred tax liabilities				
Movements in temporary differences:				
Depreciable and amortisable assets	(95)	(136)	-	-
Other	71	(42)	-	-
Deferred tax liabilities	**(24)**	**(178)**	**-**	**-**
Balance at the beginning of the financial year	474	675	-	-
Movements in foreign exchange	11	(23)	-	-
Income statement credit	(24)	(178)	-	-
Balance at the end of the financial year	**461**	**474**	**-**	**-**

d) Unrecognised deferred tax balances

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
The following deferred tax assets have not been brought to account as assets:				
Temporary differences	526	528	-	-
Tax losses – revenue	2,687	3,314	-	-
	3,213	**3,842**	**-**	**-**

Tax losses carried forward

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Consolidated Entity recognised deferred income tax assets of $1,472,051 (2005: $1,992,706) in respect to losses that can be carried forward against future taxable income.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Servcorp Limited.

Entities within the tax consolidated group have entered into a tax-sharing agreement and a tax funding agreement with the head entity. Under the terms of this agreement, Servcorp Limited and each of the entities in the tax consolidated group will agree to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Due to the adoption of the transitional provisions, the impact on the financial statements of the Consolidated Entity, arising from adoption of the tax consolidation regime, was not material. The tax consolidation regime has been applied with effect from 1 July 2004.

6. Segment Information

Inter-segment pricing is determined on an arm's length basis.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Geographical segments
In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. The directors consider this geographical segment to be the primary segment for the basis of reporting.

Business segments
The Consolidated Entity comprises only one business segment which is the provision of executive serviced and virtual offices and associated communications and secretarial services. The directors consider this business segment to be the secondary segment.

6. **Segment Information** (continued)

Geographical segments	Australia & New Zealand $'000	Japan & Asia $'000	Europe & Middle East $'000	Eliminated $'000	Consolidated $'000
2006					
Revenue					
Segment revenue	39,393	86,820	17,710	-	143,923
Other unallocated revenue and other income					2,018
Total revenue and other income					**145,941**
Result					
Segment result	8,513	20,506	5,492	-	34,511
Unallocated corporate profit					696
Profit before income tax expense					35,207
Income tax expense					(9,831)
Net Profit					**25,376**
Depreciation	2,659	4,722	998	(71)	8,308
Non-cash items other than depreciation	432	165	(411)	(1,368)	(1,182)
Individually significant items (i)	-	-	(1,298)	-	(1,298)
Assets					
Segment assets	41,744	92,389	16,490	-	150,623
Unallocated corporate assets					5,697
Consolidated total assets					**156,320**
Acquisitions of non-current assets	5,104	5,520	1,724	-	12,348
Liabilities					
Segment liabilities	25,223	42,957	6,888	-	75,068
Unallocated corporate liabilities					(26,009)
Consolidated total liabilities					**49,059**

Notes:

(i) Individually significant items were in relation to the reversal of the Brussels closure provision. Refer to Note 3.

6. Segment Information (continued)

Geographical segments	Australia & New Zealand $'000	Japan & Asia $'000	Europe & Middle East $'000	Eliminated $'000	Consolidated $'000
2005					
Revenue					
Segment revenue	36,363	71,360	14,502	-	122,225
Other unallocated revenue and other income					1,912
Total revenue and other income					**124,137**
Result					
Segment result	7,072	13,949	414	-	21,435
Unallocated corporate profit					2,062
Profit before income tax expense					23,497
Income tax expense					(6,307)
Net Profit					**17,190**
Depreciation	2,446	3,783	1,022	346	7,597
Non-cash items other than depreciation	227	54	(293)	986	974
Individually significant items (i)	234	675	688	-	1,597
Assets					
Segment assets	31,564	84,276	15,933	-	131,773
Unallocated corporate assets					2,909
Consolidated total assets					**134,682**
Acquisitions of non-current assets	1,295	10,217	522	-	12,034
Liabilities					
Segment liabilities	23,215	40,398	7,565	-	71,178
Unallocated corporate liabilities					(25,386)
Consolidated total liabilities					**45,792**

Notes:

(i) Individually significant items were in relation to floor closure costs. Refer to Note 3.

7. Dividends

Dividends proposed (unrecognised) or paid (recognised) by the Company are:

	Cents per share	Total amount $'000	Date of payment	Tax rate for franking credit	Percentage franked
Recognised amounts					
2005					
Interim – fully paid ordinary shares	3.75	3,015	1 April 2005	30%	100%
Final – fully paid ordinary shares	4.00	3,216	4 October 2005	30%	100%
2006					
Interim – fully paid ordinary shares	4.50	3,618	4 April 2006	30%	100%

Unrecognised amounts
Since the end of the financial year, the directors have declared the following dividend:

Final – fully paid ordinary shares	6.00	4,826	4 October 2006	30%	100%

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

	The Company 2006 $'000	2005 $'000
Dividend franking account		
30% franking credits available	11,353	7,299
Impact on franking account balance of dividends not recognised	2,068	1,378

The balance of the franking account has been adjusted for franking credits that will arise from the payment of income tax provided for in the financial statements, and for franking debits that will arise from the payments of dividends recognised as a liability at reporting date.

8. Earnings Per Share

	Consolidated 2006 $'000	Consolidated 2005 $'000
Earnings reconciliation:		
Net profit	25,376	17,190
Earnings used in the calculation of basic and diluted EPS	25,376	17,190
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic EPS	80,398,310	80,446,478
Shares deemed to be issued for no consideration in respect of:		
Employee options	30,000	30,000
Weighted average number of ordinary shares used in calculation of diluted EPS	80,428,310	80,476,478
Basic earnings per share (cents per share)	$0.316	$0.214
Diluted earnings per share (cents per share)	$0.316	$0.214

Classification of securities as potential ordinary shares
Options
As at 30 June 2006, the Company had on issue 30,000 (2005: 30,000) options over unissued capital. The inclusion of these potential ordinary shares leads to a diluted earnings per share that is not materially different from the basic earnings per share.

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000

9. Cash and Cash Equivalents

Cash		19,448	8,202	19	174
Bank short term deposits		38,765	34,764	-	-
		58,213	**42,966**	**19**	**174**

Bank short term deposits mature within an average of 146 days. These deposits and the interest earning portion of the cash balance earn interest at a weighted average rate of 5.29% (2005: 5.27%).

10. Trade and Other Receivables

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current					
At amortised cost (2005: cost)					
Trade receivables		13,368	12,103	-	-
Less: allowance for doubtful debts		(346)	(245)	-	-
Other debtors		1,529	680	108	1,078
Amounts receivable from controlled entities	**30**	-	-	78,587	75,867
		14,551	**12,538**	**78,695**	**76,945**
Non-current					
At amortised cost (2005: cost)					
Other debtors		-	227	-	227
		-	**227**	**-**	**227**

The weighted average interest rate for the year ended 30 June 2006 on outstanding loan balances was 4.71% for secured loans and 11.18% for unsecured loans (2005: 3.78% for secured loans and 10.90% for unsecured loans).

11. Other Assets

		Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current					
Prepayments		3,638	3,958	33	24
Other		1,606	2,141	-	-
		5,244	**6,099**	**33**	**24**

12. Other Financial Assets

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current					
At fair value (2005: net fair value)					
Investment in fixed rate bonds (i)		2,835	2,872	-	-
Investment in reset preference securities (i)		2,200	2,859	-	-
Forward foreign currency exchange contracts (i)		101	-	-	-
	22	5,136	5,731	**-**	**-**
At amortised cost (2005: cost)					
Lease deposits	**22**	1,635	1,457	-	-
		6,771	**7,188**	**-**	**-**
Non-current					
At cost:					
Shares in controlled entities		-	-	19,076	19,076
Investment – equity loans to controlled entities		-	-	21,084	16,338
At amortised cost (2005: cost)					
Lease deposits	**22**	19,354	17,856	-	-
Other	**22**	60	54	-	-
		19,414	**17,910**	**40,160**	**35,414**

Notes:

(i) Designated as a financial asset at fair value through the Income statement from 1 July 2005.

13. Property, Plant and Equipment

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Land and buildings – at cost	1,626	743	-	-
Accumulated depreciation	(67)	(51)	-	-
	1,559	692	-	-
Leasehold improvements – owned at cost	37,635	29,926	-	-
Accumulated depreciation	(20,615)	(17,032)	-	-
	17,020	12,894	-	-
Leasehold improvements – leased at cost	6,267	6,293	-	-
Accumulated depreciation	(5,603)	(4,914)	-	-
	664	1,379	-	-
Office furniture and fittings – owned at cost	8,423	8,082	-	-
Accumulated depreciation	(3,836)	(3,196)	-	-
	4,587	4,886	-	-
Office furniture and fittings – leased at cost	1,271	1,283	-	-
Accumulated depreciation	(1,176)	(1,054)	-	-
	95	229	-	-
Office equipment – owned at cost	14,783	13,011	-	-
Accumulated depreciation	(9,602)	(8,247)	-	-
	5,181	4,764	-	-
Office equipment – leased	-	1,001	-	-
Accumulated depreciation	-	(1,001)	-	-
	-	-	-	-
Motor vehicles – owned at cost	226	146	-	-
Accumulated depreciation	(65)	(38)	-	-
	161	108	-	-
Capital works in progress – at cost	-	-	-	-
	29,267	**24,952**	**-**	**-**

13. Property, Plant and Equipment (continued)

Reconciliations

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Land and buildings				
Balance at the beginning of the financial year	692	785	-	-
Additions	892	-	-	-
Disposals	-	-	-	-
Depreciation	(16)	(12)	-	-
Net foreign currency differences on translation of self sustaining operations	(9)	(81)	-	-
Balance at the end of the financial year	1,559	692	-	-
Leasehold improvements - owned				
Balance at the beginning of the financial year	12,894	10,524	-	-
Additions	7,166	6,732	-	-
Disposals	(53)	(267)	-	-
Depreciation	(3,967)	(3,379)	-	-
Transfers (to)/ from other class of asset	503	66	-	-
Net foreign currency differences on translation of self sustaining operations	477	(782)	-	-
Balance at the end of the financial year	17,020	12,894	-	-
Leasehold improvements - leased				
Balance at the beginning of the financial year	1,379	2,340	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	(707)	(833)	-	-
Transfers (to)/ from other class of asset	-	-	-	-
Net foreign currency differences on translation of self sustaining operations	(8)	(128)	-	-
Balance at the end of the financial year	664	1,379	-	-

13. Property, Plant and Equipment (continued)

Reconciliations (cont)

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated		The Company	
	2006	**2005**	**2006**	**2005**
	$'000	**$'000**	**$'000**	**$'000**
Office furniture and fittings - owned				
Balance at the beginning of the financial year	4,886	3,918	-	-
Additions	1,373	2,235	-	-
Disposals	(81)	(25)	-	-
Depreciation	(1,150)	(1,006)	-	-
Transfers (to)/ from other class of asset	(500)	2	-	-
Net foreign currency differences on translation of self sustaining operations	59	(238)	-	-
Balance at the end of the financial year	4,587	4,886	-	-
Office furniture and fittings – leased			-	
Balance at the beginning of the financial year	229	393	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	(133)	(152)	-	-
Transfers (to)/ from other class of asset	-	-	-	-
Net foreign currency differences on translation of self sustaining operations	(1)	(12)	-	-
Balance at the end of the financial year	95	229	-	-
Office equipment - owned			-	
Balance at the beginning of the financial year	4,764	3,647	-	-
Additions	2,674	2,978	-	-
Disposals	-	(57)	-	-
Depreciation	(2,306)	(2,155)	-	-
Transfers (to)/ from other class of asset	(3)	446	-	-
Net foreign currency differences on translation of self sustaining operations	52	(95)	-	-
Balance at the end of the financial year	5,181	4,764	-	-

13. **Property, Plant and Equipment** (continued)

Reconciliations (cont)

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

	Consolidated		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Office equipment - leased				
Balance at the beginning of the financial year	-	43	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	-	(41)	-	-
Transfers (to)/ from other class of asset	-	-	-	-
Net foreign currency differences on translation of self sustaining operations	-	(2)	-	-
Balance at the end of the financial year	-	-	-	-
Motor vehicles			-	
Balance at the beginning of the financial year	108	42	-	-
Additions	243	89	-	-
Disposals	(141)	-	-	-
Depreciation	(29)	(19)	-	-
Transfers (to)/ from other class of asset	-	-	-	-
Net foreign currency differences on translation of self sustaining operations	(20)	(4)	-	-
Balance at the end of the financial year	161	108	-	-
Capital works in progress			-	
Balance at the beginning of the financial year	-	804	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	-	-	-	-
Transfers (to)/ from other class of asset	-	(514)	-	-
Net foreign currency differences on translation of self sustaining operations	-	(290)	-	-
Balance at the end of the financial year	-	-	-	-

Aggregate depreciation incurred during the year was recognised as an expense and is disclosed in Note 2 to the financial statements.

	Consolidated		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

14. Goodwill

Gross carrying amount and net book value				
Balance at the beginning of the financial year	15,440	15,440	-	-
Balance at the end of the financial year	**15,440**	**15,440**	**-**	**-**

At each reporting date, the Consolidated Entity assessed the recoverable amount of goodwill, and determined that goodwill was not impaired.

Allocation of goodwill to cash generating units
There are eleven geographical groups of cash generating units as follows: Japan, Australia, New Zealand, China, Hong Kong, Malaysia, Singapore, Thailand, Belgium, United Arab Emirates and France.

Goodwill was allocated to the regions in which goodwill arose.

The carrying amount of goodwill relating to cash generating units as at 30 June 2006 were as follows:

	Consolidated	
	2006	2005
	$'000	$'000
Japan	9,161	9,161
France	2,187	2,187
Australia	2,114	2,114
New Zealand	785	785
Singapore	706	706
Thailand	326	326
China	161	161
	15,440	**15,440**

The recoverable amount of goodwill relating to each cash generating unit was determined based on value-in-use calculations, which uses cash flow projections based on financial forecasts approved by management, covering a five year period. The discount rate applied was 11.50% p.a. (2005: 11.50% p.a.).

Management have applied assumptions to the future forecast cash flows based on historic performance and historic growth. The assumptions did not include any acquisitions or capital expansions.

15. Trade and Other Payables

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current					
At amortised cost (2005: cost)					
Trade creditors		3,297	7,468	-	-
Deferred income		10,101	8,259	-	-
Deferred lease incentive		534	851	-	-
Other creditors and accruals		4,726	4,366	366	471
Amounts payable to controlled entities	**30**	-	-	14,544	18,610
		18,658	**20,944**	**14,910**	**19,081**
Non-current					
At amortised cost (2005: cost)					
Deferred lease incentive		4,145	2,281	-	-
Loans from controlled entities – unsecured (i)	**30**	-	-	543	543
		4,145	**2,281**	**543**	**543**

Notes:

(i) *The* unsecured loans from controlled entities bear interest at a floating rate. The weighted average rate for the year ended 30 June 2006 on outstanding unsecured loan balances were 11.18% (2005: 10.90%).

16. Other Financial Liabilities

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current					
At amortised cost (2005: cost)					
Bank overdraft (i)	**22**	1,848	1,188	-	-
Bank loans – secured (ii)	**22**	521	92	-	-
Finance lease liabilities (iv)	**24**	15	592	-	-
Security deposits	**22**	14,148	8,108	-	-
		16,532	**9,980**	**-**	**-**
Non-current					
At amortised cost (2005: cost)					
Finance lease liabilities (iv)	**24**	-	15	-	-
Loans from controlled entities – unsecured (iii)	**30**	-	-	582	1,996
Security deposits		-	2,702	-	-
		-	**2,717**	**582**	**1,996**

Notes:

(i) In the consolidated financial report, the bank overdrafts are denominated in Yen and Renminbi, and are unsecured. Interest at a rate of 1.86% (2005: 1.90%) is applicable to the Yen outstanding balance. Interest at a rate of 5.31% (2005: Nil) is applicable to the Renminbi outstanding balance.

(ii) The bank loan is denominated in Yen and is secured by a mortgage over property, the current market value of which exceeds the value of the bank loan. The interest rate on the loan is 1.48% (2005: 1.45%).

(iii) The unsecured loans from controlled entities bear interest at a floating rate. The weighted average interest rate for the year ended 30 June 2006 on outstanding unsecured loan balances was 11.18% (2005: 10.90%).

(iv) Secured by the assets leased.

17. Financing Arrangements

The Consolidated Entity and the Company have access to the following lines of credit:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Total facilities available:				
Bank guarantees (i)	10,274	9,141	10,274	9,141
Bank overdrafts (iv)	9,832	4,735	1,015	1,250
Lease facilities (ii)	43	1,274	43	986
Bill acceptance / payroll / other facilities (iii)	2,274	2,168	2,274	2,168
	22,423	**17,318**	**13,606**	**13,545**
Facilities utilised at balance date:				
Bank guarantees (i)	8,632	7,129	8,632	7,129
Bank overdrafts (iv)	2,389	1,188	15	-
Lease facilities (ii)	30	607	30	319
	11,051	**8,924**	**8,677**	**7,448**
Facilities not utilised at balance date:				
Bank guarantees (i)	1,642	2,012	1,642	2,012
Bank overdrafts (iv)	7,443	3,547	1,000	1,250
Lease facilities (ii)	13	667	13	667
Bill acceptance / payroll / other facilities (iii)	2,274	2,168	2,274	2,168
	11,372	**8,394**	**4,929**	**6,097**

Notes:

(i) Bank guarantees have been issued to secure rental bonds over premises. The guarantees are secured by a cross guarantee and indemnity between Servcorp Limited and its Australian and New Zealand controlled entities.

A guarantee has also been established to secure an overdraft limit in the form of a term deposit.

(ii) Lease facilities have been established to finance the fitout of new locations. The facilities are secured by the assets under lease, the current market value of which exceeds the value of the lease liability. Facilities established are both fixed and revolving in nature.

(iii) Bill acceptance, payroll and other facilities have been established to facilitate the encashment of cheques, to accommodate direct entry payroll and direct entry supplier payments.

(iv) Bank overdraft limits have been established to fund working capital as required. All bank overdraft facilities are unsecured.

18. Provisions

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current					
Employee benefits	**22**	2,001	1,190	-	-
Provision for make good costs (i)		68	653	-	-
Provision for litigation costs (ii)		-	40	-	-
Provision for floor closure costs (iii)		-	1,298	-	-
Other		262	-	-	-
		2,331	**3,181**	**-**	**-**
Non-current					
Employee benefits	**22**	538	564	-	-
		538	**564**	**-**	**-**

Consolidated

	Make good costs $'000	Litigation costs $'000	Floor closure costs $'000	Other $'000
Balance at the beginning of the financial year	653	40	1,298	-
Reductions arising from payments	(373)	(40)	-	-
Reductions resulting from the re-measurement of the estimated future sacrifice or the settlement of the provision without cost to the entity	(212)	-	(1,298)	-
Additional provisions recognised	-	-	-	262
Balance at the end of the financial year	**68**	**-**	**-**	**262**

Notes:

(i) An amount of $68,000 (2005: $653,000) has been provided for the make good of one floor that is due to close within eighteen months of the balance sheet date.

(ii) An amount of Nil (2005: $40,000) has been provided for legal costs.

(iii) Management reviewed its decision to close the Brussels location and consequently reversed the closure provision of $1,298,000 in December 2005.

19. Issued Capital

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Fully paid ordinary shares 80,398,310 (2005: 80,398,310)	80,694	80,694	80,694	80,694
Movements in issued capital				
Balance at the beginning of the financial year	80,694	81,182	80,694	81,182
Shares issued				
Nil (2005: 1,178,000) from the exercise of options under the Share Option Schemes	-	1,767	-	1,767
Shares bought back				
Nil (2005: 926,044) shares	-	(2,255)	-	(2,255)
Balance at the end of the financial year	**80,694**	**80,694**	**80,694**	**80,694**

Share buy-back
On 4 May 2005, the Company completed a buy-back of 926,044 ordinary shares, representing approximately 1.1% of ordinary shares on issue at that date. The cost of the share buy-back included consideration of $2,223,000 and transaction costs of $32,000. The consideration was allocated in the following proportions:

Share capital	$2,255,000
Retained earnings	Nil

Options
Ordinary shares were issued pursuant to exercise of options as follows:
Nil shares were issued in the current year (2005: 1,178,000 were issued at $1.50 per share). Further details of the Executive and Employee Share Option Scheme are detailed in Note 23 to the financial statements.

Terms and conditions
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at members' meetings. Fully paid ordinary shares carry one vote per share.

In the event of winding up of the Company, holders of ordinary shares are entitled to any excess after payment of all debts and liabilities of the Company and costs of winding up.

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000

20. Reserves

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Employee equity-settled benefits reserve	16	7	16	7
Foreign currency translation reserve	(8,317)	(7,960)	-	-
	(8,301)	**(7,953)**	**16**	**7**
Movements during the financial year				
Foreign currency translation reserve				
Balance at the beginning of the financial year	(7,960)	(4,809)	-	-
Deferred exchange differences arising from monetary items considered part of the investment in self-sustaining foreign operations	546	(2,264)	-	-
Translation of foreign operations	(903)	(887)	-	-
Balance at the end of the financial year	**(8,317)**	**(7,960)**	**-**	**-**

The foreign currency translation reserve records the foreign currency movements arising from the translation of foreign operations and the translation of monetary items forming part of the net investment in foreign operations.

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Employee equity-settled benefits reserve				
Balance at the beginning of the financial year	7	1	7	1
Share based payment	9	6	9	6
Balance at the end of the financial year	**16**	**7**	**16**	**7**

The employee equity-settled benefits reserve arises on the grant of share options to the Chief Financial Officer T Wallace as detailed in Note 29.

21. Retained Earnings

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Retained earnings at the beginning of the financial year		16,149	4,996	5,157	4,079
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139 (refer Note 1(v))		177	-	-	-
Restated balance at the beginning of the financial year		16,326	4,996	5,157	4,079
Net profit for the period		25,376	17,190	18,058	7,115
		41,702	**22,186**	**23,215**	**11,194**
Dividends paid	**7**	(6,834)	(6,037)	(6,834)	(6,037)
Retained earnings at the end of the financial year		**34,868**	**16,149**	**16,381**	**5,157**

22. Additional Financial Instruments Disclosure

a) Interest rate risk

Interest rate risk exposures

The Consolidated Entity's exposure to interest rate risk and the effective weighted average interest rates for the different classes of financial assets and financial liabilities are set out below:

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in 1 year or less	Fixed interest maturing in 1-5 years	Fixed interest maturing in More than 5 years	Non-interest bearing	Total
		%	$'000	$'000	$'000	$'000	$'000	$'000
2006								
Financial assets								
Cash and cash equivalents	**9**	5.29%	2,782	38,765	-	-	16,666	58,213
Receivables	**10**	-	-	-	-	-	14,551	14,551
Lease deposits	**12**	-	-	-	-	-	20,989	20,989
Investments	**12**	5.57%	-	5,035	-	-	101	5,136
Other	**12**	-	-	-	-	-	60	60
			2,782	43,800	-	-	52,367	98,949
Financial liabilities								
Bank overdrafts and loans	**16**	2.74%	1,848	-	521	-	-	2,369
Payables	**15**	-	-	-	-	-	22,803	22,803
Lease liabilities	**24**	8.34%	-	15	-	-	-	15
Security deposits	**16**	-	-	-	-	-	14,148	14,148
Employee benefits	**18**	-	-	-	-	-	2,539	2,539
			1,848	15	521	-	39,490	41,874
			934	**43,785**	**(521)**	**-**	**12,877**	**57,075**
2005								
Financial assets								
Cash and cash equivalents	**9**	5.27%	2,702	34,764	-	-	5,500	42,966
Receivables	**10**	-	-	-	-	-	12,765	12,765
Lease deposits	**12**	-	-	-	-	-	19,313	19,313
Investments	**12**	6.06%	-	5,731	-	-	-	5,731
Other	**12**	-	-	-	-	-	54	54
			2,702	40,495	-	-	37,632	80,829
Financial liabilities								
Bank overdrafts and loans	**16**	1.87%	1,188	92	-	-	-	1,280
Payables	**15**	-	-	-	-	-	23,225	23,225
Lease liabilities	**24**	7.16%	-	592	15	-	-	607
Security deposits	**16**	-	-	-	-	-	10,810	10,810
Employee benefits	**18**	-	-	-	-	-	1,754	1,754
			1,188	684	15	-	35,789	37,676
			1,514	**39,811**	**(15)**	**-**	**1,843**	**43,153**

22. Additional Financial Instruments Disclosure (continued)

b) Foreign exchange risk

The Consolidated Entity actively manages foreign exchange risk.

The policy involves entering into forward foreign currency exchange contracts to hedge anticipated transactions so as to manage foreign exchange risk.

The following table sets out the details of forward foreign currency exchange contracts in place as at 30 June 2006.

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2006	2005	2006 ¥ Million	2005 ¥ Million	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Outstanding contracts								
Sell Japanese yen	81.86	76.47	600	150	7,329	1,962	101	177
Not later than one year								

c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

On-balance sheet financial instruments

The credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised on the Balance sheet, is the carrying amount, net of any allowances for losses.

The Consolidated Entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various countries.

The Consolidated Entity is not materially exposed to any individual customer.

d) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities traded on active liquid markets with standard terms and conditions are determined with reference to quoted market prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- the fair value of derivative instruments, included in hedged assets and liabilities, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Transaction costs are included in the determination of net fair value.

22. Additional Financial Instruments Disclosure (continued)

d) Fair value of financial instruments (cont)

Financial risk management objectives

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 enter into or trade financial instruments, for speculative purposes. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the Board of Directors.

e) *Liquidity risk management*

The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities. The Consolidated Entity continuously monitors forecast and actual cash flows and matches maturity profiles of financial assets and liabilities.

f) *Interest rate risk management*

The Consolidated Entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. Risk is managed by maintaining an appropriate mix between fixed and floating rate for secured and unsecured debt.

The carrying amounts and net fair values of financial assets and liabilities as at 30 June 2006 were as follows:

		Consolidated			
		Carrying amount		**Net fair value**	
		2006	**2005**	**2006**	**2005**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash	**9**	58,213	42,966	58,213	42,966
Receivables	**10**	14,551	12,765	14,551	12,765
Lease deposits	**12**	20,989	19,313	20,989	19,313
Investments:					
Fixed rate bonds	**12**	2,835	2,872	2,835	2,872
Reset preference securities	**12**	2,200	2,859	2,200	2,859
Forward foreign currency exchange contracts	**12**	101	-	101	-
Other	**12**	60	54	60	54
		98,949	**80,829**	**98,949**	**80,829**
Financial liabilities					
Bank overdrafts and loans	**16**	2,369	1,280	2,369	1,280
Payables	**15**	22,803	23,225	22,803	23,225
Finance lease liabilities	**16**	15	607	15	607
Employee benefits	**18**	2,539	1,754	2,539	1,754
Security deposits	**16**	14,148	10,810	14,148	10,810
		41,874	**37,676**	**41,874**	**37,676**

23. Employee Benefits

Defined contribution fund
Controlled entities in the Consolidated Entity contribute to a superannuation fund established for the benefit of employees. The Servcorp Superannuation Fund provides benefits which reflect accumulated contributions and plan earnings. Contributions by the Company's controlled entities are based on a percentage of salaries. The Company's controlled entities are legally obliged to contribute to the fund, unless an employee nominates a fund of their choice, or until the employee ceases to be employed by the Consolidated Entity.

The directors, based on the advice of the trustees of the fund, are not aware of any changes in circumstances since the date of the most recent financial statements of the fund which would have a material impact on the overall financial position of the fund.

Details of contributions to funds during the year and contributions payable as at 30 June 2006 are as follows:

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Employer contributions to the fund	937	794	-	-
Employer contributions to other funds	100	48	-	-
Employer contributions payable to the fund	-	-	-	-

Options granted to employees
Executive and employee share option schemes
An initial issue of options under these two schemes was granted on 29 November 1999. These options had an expiry date of 29 November 2004. The options were exercisable any time after the expiration of two years from the issue of the options and prior to the expiry of the options, at a price of $1.50 per share. The options expired on the earlier of five years from the date of issue or the date which the option holder ceased to be a director or employee of the Company or any of its controlled entities.

	The Company	
	2006 Number	2005 Number
Share option schemes		
Balance at the beginning of the financial year	30,000	1,208,000
Exercised during the financial year	-	(1,178,000)
Balance at the end of the financial year	**30,000**	**30,000**

Granted during the financial year
No options were granted during the financial year ended 30 June 2006.

30,000 options were issued under the Executive Share Option Scheme on 21 May 2004 with an exercise price of $2.00 and an expiry date of 21 May 2009. No amount was payable by the recipient on receipt of the options.

Options issued under Executive and Employee Share Option Schemes carry no rights to dividends and have no voting rights.

23. Employee Benefits (continued)

Exercised during the financial year

No. of options exercised	Grant date	Exercise date	Expiry date	Exercise price	No. of shares issued	Fair value at grant date	Fair value at exercise date
2006							
-	-	-	-	-	-	-	-
-					**-**	**-**	**-**
2005							
200,000	16/12/99	3/9/04	16/12/04	$1.50	200,000	$300,000	$490,000
150,000	29/11/99	3/9/04	29/11/04	$1.50	150,000	$225,000	$367,500
62,000	16/12/99	3/9/04	16/12/04	$1.50	62,000	$93,000	$151,900
20,000	16/12/99	7/9/04	16/12/04	$1.50	20,000	$30,000	$49,200
45,000	16/12/99	23/9/04	16/12/04	$1.50	45,000	$67,500	$112,500
50,000	16/12/99	30/9/04	16/12/04	$1.50	50,000	$75,000	$125,000
32,000	16/12/99	8/10/04	16/12/04	$1.50	32,000	$48,000	$75,520
10,000	16/12/99	12/11/04	16/12/04	$1.50	10,000	$15,000	$26,400
11,000	16/12/99	19/11/04	16/12/04	$1.50	11,000	$16,500	$27,720
150,000	29/11/99	19/11/04	29/11/04	$1.50	150,000	$225,000	$378,000
5,000	16/12/99	26/11/04	16/12/04	$1.50	5,000	$7,500	$12,250
10,000	16/12/99	30/11/04	16/12/04	$1.50	10,000	$15,000	$26,800
150,000	29/11/99	30/11/04	29/11/04	$1.50	150,000	$225,000	$402,000
130,000	16/12/99	7/12/04	16/12/04	$1.50	130,000	$195,000	$354,900
90,000	16/12/99	10/12/04	16/12/04	$1.50	90,000	$135,000	$243,000
63,000	16/12/99	13/12/04	16/12/04	$1.50	63,000	$94,500	$170,100
1,178,000					**1,178,000**	**1,767,000**	**3,012,790**

The fair value of the consideration received is measured as the nominal value of cash receipts on conversion.

Lapsed during the financial year

Nil (2005: Nil) options expired under the Executive and Employee Share Option Schemes during the financial year ended 30 June 2006.

Balance at the end of the financial year

Grant date	Expiry date	Vested	Exercise price	Number of options outstanding 2006	2005	2004
21 May 2004	21 May 2009	Yes	$2.00	30,000	30,000	1,208,000

The fair value of the services received is measured by the fair value of the equity instruments granted.

24. Commitments for Expenditure

	Consolidated		The Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Capital expenditure commitments – property, plant and equipment				
Contracted but not provided for and payable:				
Not later than one year	4,619	880	-	-
Later than one year but not later than five years	-	-	-	-
Later than five years	-	-	-	-
	4,619	**880**	**-**	**-**
Non-cancellable operating lease commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Not later than one year	54,156	37,935	-	-
Later than one year but not later than five years	108,015	75,162	-	-
Later than five years	31,064	9,200	-	-
	193,235	**122,297**	**-**	**-**

The Consolidated Entity leases property and equipment under operating leases expiring from one to eleven years.

Operating leases
Leasing arrangements
Operating leases have been entered into to operate serviced office floors.The average lease term is 7 years, exclusive of option periods. The Consolidated Entity does not have an option to purchase the leased asset at the expiry of the lease period.

24. Commitments for Expenditure (continued)

Finance lease liabilities

	Minimum future lease payments				**Present value of minimum future lease payments**			
	Consolidated		**The Company**		**Consolidated**		**The Company**	
	2006 $'000	**2005 $'000**	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**	**2006 $'000**	**2005 $'000**
No later than 1 year	15	647	-	-	15	588	-	-
Later than 1 year and not later than 5 years	-	19	-	-	-	19	-	-
Later than 5 years	-	-	-	-	-	-	-	-
Minimum lease payments (i)	15	666	-	-	15	607	-	-
Less future finance charges	-	(59)	-	-	-	-	-	-
Present value of minimum lease payments	15	607	-	-	15	607	-	-
Included in the financial statements as (Note 16):								
Current borrowings					15	592		-
Non-current borrowings					-	15		-
					15	**607**		**-**

Notes:

(i) Minimum future lease payments includes the aggregate of all lease payments and any guaranteed residual.

25. Subsidiaries

Name of entity	Country of incorporation	Ownership interest 2006 %	2005 %
Parent entity			
Servcorp Limited (iii)	Australia		
Controlled entities			
Servcorp Australian Holdings Pty Ltd	Australia	100	100
Servcorp Offshore Holdings Pty Ltd (ii)	Australia	100	100
Servcorp Exchange Square Pty Ltd	Australia	100	100
Servcorp (Miller Street) 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 (ii)	Australia	100	100
Servcorp Administration Pty Ltd	Australia	100	100
Servcorp Adelaide Pty Ltd	Australia	100	100
Servcorp Bridge Street Pty Ltd	Australia	100	100
Servcorp Brisbane Pty Ltd	Australia	100	100
Servcorp Castlereagh Street Pty Ltd	Australia	100	100
Servcorp Chifley 25 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
(formerly Servcorp Optus Centre Pty Ltd)			
Servcorp Sydney Virtual Pty Ltd	Australia	100	100
Servcorp William Street Pty Ltd	Australia	100	100
Servcorp Melbourne 50 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	-
Office Squared Pty Ltd	Australia	100	-
Servcorp WA 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 Serviced Offices Pte Ltd	Singapore	100	100
Servcorp Battery Road Pte Ltd	Singapore	100	100
Servcorp Marina Pte Ltd	Singapore	100	100
Servcorp Franchising Pte Ltd	Singapore	100	100
Servcorp Singapore Holdings Pte Ltd	Singapore	100	100

25. Subsidiaries (continued)

	Country of incorporation	Ownership interest 2006 %	2005 %
Controlled entities (cont)			
Servcorp Hong Kong Limited	Hong Kong	100	100
Servcorp Communications Limited	Hong Kong	100	100
Servcorp Business Services (Shanghai) Co. Ltd	China	100	100
Servcorp Business Service (Beijing) Co. Ltd	China	100	100
Amalthea Nominees (Malaysia) Sdn Bhd	Malaysia	100	100
Servcorp Thai Holdings Limited	Thailand	100	100
Servcorp Company Limited	Thailand	100	100
Headquarters Co. Limited	Thailand	100	100
Servcorp Japan KK	Japan	100	100
Servcorp Tokyo KK	Japan	100	100
Servcorp Nippon International KK	Japan	100	100
Management International KK	Japan	100	100
Servcorp Ginza KK	Japan	100	100
Servcorp Shinagawa KK	Japan	100	100
Servcorp Nagoya KK	Japan	100	100
Servcorp Otemachi KK	Japan	-	100
Servcorp Umeda KK	Japan	-	100
Servcorp Japan Holdings KK	Japan	-	100
Servcorp Paris SARL	France	100	100
Servcorp Brussels SPRL	Belgium	100	100
Servcorp LLC (i)	UAE	49	49
Servcorp UK Limited	United Kingdom	100	100
Servcorp Communications Limited	United Kingdom	-	100
Servcorp Consultancy Limited	United Kingdom	-	100
Servcorp Hammersmith Limited	United Kingdom	-	100
Servcorp Lombard Street Limited	United Kingdom	-	100
Servcorp Management Limited	United Kingdom	-	100
Servcorp Serviced Offices Limited	United Kingdom	-	100
Servcorp Virtual Limited	United Kingdom	-	100
Servcorp Wyvols Limited	United Kingdom	-	100
Servcorp Minories Limited	United Kingdom	-	100

Notes:

(i) A Company in the Consolidated Entity exercises control over Servcorp LLC despite owning 49% of the issued capital. Arrangements are in place that entitle the Company or its controlled entities to all the benefits and risks of ownership not withstanding that the majority shareholding may be vested in another party.

(ii) Servcorp Holdings Pty Ltd and Servcorp Offshore Holdings Pty Ltd have each entered into a deed of guarantee and indemnity with Servcorp Limited in relation to loans owing from their respective subsidiaries. Servcorp Holdings Pty Ltd and Servcorp Offshore Holdings Pty Ltd have each entered into a deed of cross guarantee.

(iii) Servcorp Limited is the head entity within the tax consolidated group.

26. Acquisition / Disposal of Controlled Entities

The following controlled entities were acquired or disposed of during the financial year. The operating results of each entity have been included in the consolidated operating profit from the date of the acquisition and up to the date of disposal:

	Consideration $'000	The Consolidated Entity's interest %
Acquisitions		
2006		
Office Squared Pty Ltd	-	100
The entity was formed on 4 April 2006		
Servcorp Market St Pty Ltd	-	100
The entity was formed on 14 March 2006		
Servcorp WA Pty Ltd	-	100
The entity was formed on 9 May 2006		
Acquisitions		
2005		
Servcorp Brisbane Riverside Pty Ltd	-	100
The entity was formed on 21 September 2004		
Servcorp Wellington Limited	-	100
The entity was formed on 8 June 2005		
Servcorp Nagoya KK	-	100
The entity was formed on 1 July 2004		
Servcorp Japan Holdings KK	-	100
The entity was formed on 5 August 2004		
Servcorp Otemachi KK	-	100
The entity was formed on 6 October 2004		
Servcorp Umeda KK	-	100
The entity was formed on 6 October 2004		

26. Acquisition / Disposal of Controlled Entities (continued)

	Country of incorporation	The Consolidated Entity's interest %
Disposals (i)		
2006		
Servcorp Communications Limited	United Kingdom	100
Servcorp Consultancy Limited	United Kingdom	100
Servcorp Hammersmith Limited	United Kingdom	100
Servcorp Lombard Street Limited	United Kingdom	100
Servcorp Management Limited	United Kingdom	100
Servcorp Serviced Offices Limited	United Kingdom	100
Servcorp Virtual Limited	United Kingdom	100
Servcorp Wyvols Limited	United Kingdom	100
Servcorp Minories Limited	United Kingdom	100
Servcorp Otemachi KK	Japan	100
Servcorp Umeda KK	Japan	100
Servcorp Japan Holdings KK	Japan	100

Disposals
2005
Nil

Notes:
(i) As at 30 June 2006 these companies were liquidated.

	Consolidated		The Company	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

27. Notes to the Cash Flow Statement

a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash on hand and at bank, short-term deposits at call, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the Cash flow statement are reconciled to the related items in the Balance sheet as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Cash	19,448	8,202	19	174
Short term deposits	38,765	34,764	-	-
Bank overdraft	(1,848)	(1,188)	-	-
	56,365	**41,778**	**19**	**174**

b) Net cash outflow on acquisition of business

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Cash and cash equivalents consideration	1,645	-	-	-
Less cash and cash equivalents balances acquired	-	-	-	-
	1,645	**-**	**-**	**-**

c) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Profit after income tax	25,376	17,190	18,058	7,115
Add/(less) non-cash items:				
Movements in provisions	(1,182)	974	-	-
Depreciation of non-current assets	8,308	7,597	-	-
Loss on disposal of non-current assets	231	181	-	-
Increase in current tax liability	335	3,239	452	3,317
Decrease/(increase) in deferred tax balances	453	(2,225)	23	1,181
Unrealised foreign exchange loss	65	79	-	-
Impairment in value of equity loans receivable	-	-	-	4,746
Reversal of impairment loss in value of equity loans	-	-	(4,746)	-
Effect of tax consolidation on tax balances	-	-	(2,654)	(4,278)
Equity-settled share based payment	9	-	9	-
Other	(44)	-	-	-
Changes in assets and liabilities adjusted for the effect of the acquisition of a business during the financial period:				
(Increase)/decrease in prepayments	320	(3,103)	(9)	3
(Increase)/decrease in trade debtors	(135)	(2,367)	-	-
(Increase)/decrease in current assets	426	(4)	1,197	-
Increase in deferred income	1,775	1,262	-	-
Increase in client security deposits	3,036	310	-	-
Increase/(decrease) in accounts payable	(3,628)	4,721	(105)	(219)
Net cash provided from operating activities	**35,345**	**27,854**	**12,225**	**11,865**

27. Notes to the Consolidated Statement of Cash Flows (continued)

d) Financing facilities
Refer to Note 17.

28. Key Management Personnel Remuneration

The remuneration committee reviews the remuneration packages of all key management personnel (specified directors and specified executives) on an annual basis and makes recommendations to the Board. The following tables outline the nature and amount of the elements of the remuneration of the key management personnel of Servcorp Limited and controlled entities for the year ended 30 June 2006. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries. During the financial year ended 30 June 2006 no service contracts were in place for the key management personnel of Servcorp Limited.

The specified directors of Servcorp Limited during the year were:

A Moufarrige	Managing Director
T Moufarrige	Executive Director
B Corlett	Chairman
R Holliday-Smith	Non-Executive Director
J King	Non-Executive Director

	Short-term employee benefits			Post employment		Share based payment	Total
	Salary and fees $	Bonus $	Non-monetary $	Super $	Prescribed benefits $	Equity options $	$
Directors							
A Moufarrige (iii)							
2006	202,829	200,000	120,951	36,018	-	-	559,798
2005	197,154	-	113,302	28,007	-	-	338,463
T Moufarrige (iii)							
2006	183,224	90,000	7,061	27,450	-	-	307,735
2005	162,394	45,000	6,697	15,277	-	-	229,368
B Corlett (iii)							
2006	90,000	-	-	8,100	-	-	98,100
2005	85,000	-	-	7,650	-	-	92,650
R Holliday-Smith (iii)							
2006	55,000	-	-	4,950	-	-	59,950
2005	50,000	-	-	4,500	-	-	54,500
J King (iii)							
2006	55,000	-	-	4,950	-	-	59,950
2005	50,000	-	-	4,500	-	-	54,500
Aggregate							
2006	586,053	290,000	128,012	81,468	-	-	1,085,533
Disclosed 2005 (ii)	544,548	45,000	119,999	59,934	-	-	769,481

28. Key Management Personnel Remuneration (continued)

Notes:

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

(ii) "Aggregate disclosed 2005" are the totals which were disclosed in the 2005 annual report.

(iii) Key management personnel of the Company.

The specified executives of the Consolidated Entity during the year were:

M Moufarrige	General Manager Asia and CIO
R Baldwin	General Manager ITS
O Vlietstra	General Manager Japan
T Wallace	Chief Financial Officer
S Lombardo	Chief Technology Officer

	Short-term employee benefits			**Post employment**		**Share based payment**	**Total**
	Salary and fees	**Bonus**	**Non-monetary**	**Super**	**Prescribed benefits**	**Equity options**	
	$	**$**	**$**	**$**	**$**	**$**	**$**
Specified executives							
M Moufarrige (i)							
2006	183,136	85,000	20,061	23,850	-	-	312,047
2005	162,883	45,000	6,972	18,428	-	-	233,283
R Baldwin (i)							
2006	172,091	62,500	-	21,815	-	-	256,406
2005	140,759	35,000	-	14,750	-	-	190,509
O Vlietstra (i)							
2006	163,462	93,492	12,088	-	-	-	269,042
2005	101,977	72,311	11,766	-	-	-	186,054
T Wallace (i), (iii)							
2006	153,374	43,000	-	19,630	-	9,127	225,131
2005	139,614	23,500	-	7,199	-	6,389	176,702
S Lombardo (i)							
2006	144,142	10,000	-	13,800	-	-	167,942
2005	127,819	21,209	-	13,391	-	-	162,419
Aggregate							
2006	816,205	293,992	32,149	79,095	-	9,127	1,230,568
Disclosed 2005 (ii)	673,052	197,020	18,738	53,768	-	6,389	948,967

28. Key Management Personnel Remuneration (continued)

Notes:

(i) The short term incentive component of executive remuneration may comprise an annual cash bonus. Bonuses are performance based and are linked to the performance of the individual and to the net profit before tax of the Consolidated Entity.

Cash bonuses are usually paid following the finalisation of the results of the Consolidated Entity. Linking bonus payments to the net profit before tax of the Consolidated Entity ensures that a variable reward is only paid when value is created for the shareholders. The short term incentive plan is reviewed annually.

Executive remuneration does not include a fixed bonus related portion. Performance targets are agreed with executives at the start of each year and are aligned to specific business objectives for which the individual is responsible.

(ii) "Aggregate disclosed 2005" are the totals which were disclosed in the 2005 annual report.

(iii) Equity option details for T Wallace are disclosed in Note 23.

The aggregate compensation of the key management personnel of the Consolidated Entity and the Company, are as follows:

	Consolidated		**The Company**	
	2006 $	**2005 $**	**2006 $**	**2005 $**
Short-term employee benefits:				
Salaries and fees, bonus and non-monetary benefits	2,146,411	1,598,357	200,000	185,000
Post employment benefits – superannuation	160,563	113,702	18,000	16,650
Share based payment – equity options	9,127	6,389	-	-
	2,316,101	1,718,448	218,000	201,650

29. Executive Share Option Scheme

The Consolidated Entity has an ownership based remuneration scheme for key management personnel (including executive directors) of the Company.

Each key management personnel share option converts into one ordinary share of Servcorp Limited when exercised. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends or voting rights. Options may be exercised at any time from the date of vesting to the date of expiry.

Executive Share Options issued by Servcorp Limited

	Balance at 1/7/05	Granted	Exercised	Balance at 30/06/06	Vested and exercisable	Net vested
	No.	**No.**	**No.**	**No.**	**No.**	**No.**
T Wallace	30,000	-	-	30,000	30,000	30,000
	30,000	**-**	**-**	**30,000**	**30,000**	**30,000**

Further details of options granted to employees under the Executive and Employee Share Option Scheme are disclosed in Note 23.

During the financial year Nil (2005: 500,000) options were exercised by key management personnel into Nil (2005: 500,000) ordinary shares in Servcorp Limited. No amounts remain unpaid on options exercised during the financial year as at 30 June 2006.

No options were issued to key management personnel during the year.

The fair value of the share options granted during the financial year was Nil (2005: $0.55). Options were valued using the Black Scholes option pricing model. Where relevant, 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. Expected volatility is based on the historical share volatility over the past 5 years.

Inputs into the model

Grant date	21 May 2004
Exercise price	$2.00
Expected volatility	44.76%
Option life	3 years
Dividend yield	5.23%
Risk free interest rate	5.43%
Dividend effect	0.963

30. Related Party Disclosures

Other than the details disclosed in this note, no key management personnel have entered into any other material contracts with the Consolidated Entity or the Company during the financial year, and no material contracts involving directors' interests or specified executives existed at balance date. Details of key management personnel remuneration are disclosed in Note 28 to the financial statements.

Key management personnel holdings of shares
Fully paid ordinary shares of Servcorp Limited

	Balance at 1/7/05	Received on exercise of options	Net change	Balance at 30/06/06
	No.	No.	No.	No.
Specified directors				
B Corlett	326,502	-	13,895	340,397
R Holliday-Smith	250,000	-	-	250,000
J King	87,500	-	-	87,500
A Moufarrige	48,223,023	-	(500)	48,222,523
T Moufarrige	150,000	-	(90,008)	59,992
Specified executives				
R Baldwin	45,000	-	-	45,000
S Lombardo	-	-	-	-
M Moufarrige	172,500	-	(43,658)	128,842
O Vlietstra	10,000	-	-	10,000
T Wallace	-	-	-	-
	49,264,525	**-**	**(120,271)**	**49,144,254**

Equity interests in subsidiaries
Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 25 to the financial statements.

Other transactions with the Company or its controlled entities
The Consolidated Entity has a lease with Tekfon Pty Ltd for the use of Tekfon's premises for storage. A director of the Company, Mr A Moufarrige, has an interest in and is a director of Tekfon Pty Ltd.

Enideb Pty Ltd operates the Servcorp franchise in Canberra. A relative of a director of the Company, Mr A Moufarrige, has an interest in Enideb Pty Ltd. Mr A Moufarrige has no interest in the affairs of Enideb Pty Ltd.

Rumble Australia Pty Ltd provided consulting services for the development of proprietary software to a Company in the Consolidated Entity. Consulting fees of $14,419 (2005: $17,631) were paid on arms length terms. A director of the Company, Mr A Moufarrige, has an interest in and is a director of Rumble Australia Pty Ltd.

During the previous financial year, the Consolidated Entity returned unclaimed security deposits held in relation to clients that terminated prior to Servcorp's Initial Public Offering to Renlana Pty Ltd, on behalf of the various entities that had operated the Servcorp business at that time. A director of the Company, Mr A Moufarrige, has an interest in and is a director of Renlana Pty Ltd.

A director of the Company, Mr A Moufarrige, has an interest in and is a director of Sovori Pty Ltd. Mr T Moufarrige, a director of the Company is also a director of Sovori Pty Ltd.

A director of the Company, Mr A Moufarrige, has an interest in and is a director of MRC Biotech Pty Ltd.

30. Related Party Disclosures (continued)

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

The value of the transactions during the year with directors and their director-related entities were as follows:

Director	Director-related entity	Transaction	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
A Moufarrige	Tekfon Pty Ltd	Premises rental	49	44	-	-
A Moufarrige	Enideb Pty Ltd	Franchisee	417	422	-	-
A Moufarrige	Rumble Australia Pty Ltd	Consulting	14	18	-	-
A Moufarrige	Renlana Pty Ltd	Security deposit return	-	253	-	-
A Moufarrige, T Moufarrige	Sovori Pty Ltd	Reimbursements	23	6	-	-
A Moufarrige	MRC Biotech Pty Ltd	Reimbursements	13	-	-	-

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

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
Current receivable				
Enideb Pty Ltd	41	34	-	-

30. Related Party Disclosures (continued)

Other transactions with the Company and its controlled entities
From time to time directors of the Company and its controlled entities, or their director related entities, may purchase goods 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.

Wholly-owned group
Details of interests in wholly-owned controlled entities are set out in Note 25. Details of dealings with these entities are set out below.

Loans
Loans between entities in the wholly-owned group are repayable at call. Interest is charged monthly on outstanding balances. The weighted average interest rate for the year ended 30 June 2006 on outstanding loan balances was 4.71% for secured loans and 11.18% for unsecured loans (2005: 3.78% for secured loans and 10.90% for unsecured loans).

Interest revenue brought to account by the Company in relation to these loans during the year:

	The Company 2006 $'000	The Company 2005 $'000
Interest revenue	2,343	2,052
Balances with entities within the wholly-owned group		
The aggregate amounts receivable from, and payable to, wholly-owned controlled entities by the Company at balance date and the significant transactions comprising the movement in the balance are:		
Current receivables		
Amounts receivable from controlled entities (i)	78,587	75,867

Current receivables comprise of day to day funding of expenses

	The Company	
	2006 $'000	2005 $'000

30. Related Party Disclosures (continued)

	2006 $'000	2005 $'000
Current payables		
Amounts payable to controlled entities	14,544	18,610
Current payables comprise of day to day funding of expenses		
Non-current payables		
Loans from controlled entities – unsecured	543	543
Non-current other financial liabilities		
Loans from controlled entities – unsecured	582	1,996
Non-current payables and other financial liabilities comprise of the transfer of funds for investment purposes and interest		
Dividends		
Dividends received or due and receivable by the Company from wholly-owned controlled entities	-	2,000
Royalties		
Royalties received or due and receivable by the Company from wholly-owned controlled entities	17,276	12,359

Notes:

(i) During the financial year, under the tax sharing agreement, Servcorp Limited recognised a net receivable of $2,570,400 (2005: $2,055,895) from its wholly-owned subsidiaries within the tax consolidated group for the year ended 30 June 2006.

31. Acquisition of Businesses

The financial statements for the year ended 30 June 2006 include changes in the composition of the Consolidated Entity as follows:

Business combinations

Servcorp Hong Kong Limited
Servcorp Hong Kong Limited acquired a serviced office business trading as Level 39 One Exchange Square, Central, Hong Kong from Level One Limited, on 15 July 2005. The cash consideration paid for the business, assets, liabilities and customer licence agreements was $1,645,367. The components of the consideration were:

	Fair value at acquisition $'000	**Pre-acquisition net book value $'000**
Property, plant and equipment	754	589
Prepaid rent	1,173	-
Security deposits	(282)	(282)
	1,645	**307**

The amount of the loss since the acquisition date included in the Consolidated Entity's results for the year ended 30 June 2006 was $632,322.

The impact on the Consolidated Entity's revenue and net profit from the acquired business if it operated from the beginning of the financial period commencing 1 July 2005 to the date of acquisition is considered to be immaterial.

32. Impacts of the Adoption of Australian Equivalents to International Financial Reporting Standards

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with the Australian equivalents to International Financial Reporting Standards (A-IFRS). The transition to A-IFRS is accounted for in accordance with Accounting Standards AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition was 1 July 2005.

An explanation of how the transition from superseded accounting policies to A-IFRS has affected the Consolidated Entity and the Company's Balance sheet and Income statement are set out in the following tables and the notes that accompany the tables.

For the years ended 30 June 2004 and 30 June 2005, there were no material differences between the Cash flow statement presented under A-IFRS and the cash flow presented under the superseded policies.

To explain how Servcorp Limited's reported Income statement and Balance sheet are affected by this change, information previously published under Australian GAAP (A-GAAP) is restated under A-IFRS in the tables below. These restatements include:

- Table A – Summary reconciliation of Retained Profits and Balance sheet of the Consolidated Entity and the Company presented under A-GAAP to that under A-IFRS as at 1 July 2004; and

- Table B – Summary reconciliation of Profit after tax and Balance sheet of the Consolidated Entity and the Company presented under A-GAAP to that under A-IFRS for the financial year ended 30 June 2005.

Summary of impact of A-IFRS

As at 30 June 2005 the impact on total equity is an overall increase of $1,974,000. Where A-IFRS adjustments have a significant or material impact on equity, a description is included in Note 32 (i) to (v).

32. Impacts of the Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

Table A - Summary reconciliation of Retained Profits and Balance sheet of the Consolidated Entity and the Company presented under A-GAAP to that under A-IFRS as at 1 July 2004;

	Consolidated 1 July 2004 $'000	The Company 1 July 2004 $'000
Reconciliation of total assets and total liabilities		
Total assets (A-GAAP)	**120,386**	**96,238**
Increase/(decrease)in:		
Property, plant and equipment(ii)	(334)	-
Intangibles (iv)	176	-
Deferred tax assets (iii)	267	-
Total assets (A-IFRS)	**120,495**	**96,238**
Total liabilities (A-GAAP)	**39,120**	**10,976**
Total liabilities (A-IFRS)	**39,120**	**10,976**
Reconciliation of equity		
Total equity (A-GAAP)	**81,266**	**85,262**
Increase/(decrease)in:		
Opening retained profits (i), (ii), (iii), (iv)	108	(1)
Reserves (i)	1	1
Total equity (A-IFRS)	**81,375**	**85,262**

32. Impacts of the Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

Table B - Summary reconciliation of Profit After Tax and Balance sheet of the Consolidated Entity and the Company presented under A-GAAP to that under A-IFRS for the financial year ended 30 June 2005;

	Consolidated 30 June 2005 $'000	**The Company 30 June 2005 $'000**
Reconciliation of profit after tax		
Profit from ordinary activities after income tax expense (A-GAAP)	**15,293**	**6,372**
Employee benefits (i)	(6)	(6)
Amortisation expense (iv)	910	-
Other – intangible capitalised project costs (ii)	334	-
Income tax expense (iii), (v)	659	749
Profit from ordinary activities after income tax expense (A-IFRS)	**17,190**	**7,115**
Reconciliation of total assets and total liabilities		
Total assets (A-GAAP)	**132,862**	**108,503**
Increase/(decrease)in:		
Receivables (i), (iii)	-	5,678
Goodwill (iv)	1,086	-
Current tax assets (iii)	319	-
Deferred tax assets (iii)	415	(1,349)
Total assets (A-IFRS)	**134,682**	**112,832**
Total liabilities (A-GAAP)	**45,946**	**23,394**
Increase/(decrease)in:		
Payables (iii)	-	3,621
Current tax liabilities (iii)	319	-
Deferred tax liabilities (iii)	(473)	(41)
Total liabilities (A-IFRS)	**45,792**	**26,974**
Reconciliation of equity		
Total equity (A-GAAP)	**86,916**	**85,109**
Increase/(decrease)in:		
Opening retained profits (i), (ii), (iii)	108	(1)
Current year profits (i), (iii), (iv), (v)	1,897	743
Reserves (i), (v)	(31)	7
Total equity (A-IFRS)	**88,890**	**85,858**

32. Impacts of the Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

(i) Share based payments

From 1 July 2005, *AASB 2 Share Based Payments* requires the Consolidated Entity's and the Company's Executive and Employee Share Option Scheme to be treated as share based compensation. Under this approach equity-settled share based payments are recognised at the fair value of the share options at grant date and recognised over the expected vesting period of the options.

In accordance with *AASB 2 Share Based Payments,* we have calculated an increase in contributed equity of $1,000 that requires recognition at the date of transition, 1 July 2004.

For the financial year ended 30 June 2005, share based payments of $6,000 (included in the employee benefits expense) which were not recognised under the superseded policies were recognised under A-IFRS, with a corresponding increase in the employee equity-settled benefits reserve.

These adjustments had no material tax or deferred tax consequences.

(ii) Intangible capitalised project costs

Capitalised in-house project costs of $334,000 that existed at 30 June 2004 were written off under A-GAAP during the financial year ended 30 June 2005. The full amount of this balance related to capitalised in-house wages and salaries. Under A-IFRS, this amount is required to be written off as incurred and as such has been adjusted through retained earnings at the date of transition, 1 July 2004.

This adjustment had no material tax or deferred tax consequences.

(iii) Income tax

Under superseded policies, the Consolidated Entity and the Company adopted tax effect accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences.

Under A-IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax bases.

Accordingly, for the date of transition, 1 July 2004, we have calculated an increase in the retained profits of $267,000 for deferred tax assets recognised in respect of tax losses on the basis that their recoupment is probable.

For the financial year ended 30 June 2005, deferred tax assets relating to the recognition of tax losses of $888,000 were recognised inclusive of foreign exchange translation impacts. The deferred tax liability of $473,000 was netted off to deferred tax assets.

Current tax assets of $319,000 relating to tax refunds were reclassified from current tax liabilities.

For the financial year ended 30 June 2005, the Company applied UIG 1052 'Tax Consolidation Accounting'. Under this method, the members of the tax consolidated group use a 'separate tax payer within group' approach to recognise their own tax balances. Deferred tax balances of wholly-owned subsidiaries in a tax consolidated group are not recognised by the head entity. These balances were recognised under the superseded policies. The adjustment to derecognise the deferred tax balances of wholly-owned subsidiaries in the Company's separate financial statements is made by decreasing the tax expense, and consequently retained earnings by $749,000.

32. Impacts of the Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

(iv) Goodwill

The Consolidated Entity has elected not to restate business combinations that occurred prior to the date of transition to A-IFRS, and accordingly, the carrying amount of goodwill at the date of transition has not changed.

However, goodwill, which was amortised under superseded policies is not amortised under A-IFRS from the date of transition. The effect of the change is an increase in the carrying amount of goodwill by $910,000 and an increase in net profit before tax of $910,000 for the financial year ended 30 June 2005.

The impact on goodwill at transition date 30 June 2004 also includes a write-back of $176,000 relating to a discount on acquisition held in the Balance sheet that can no longer be recognised under A-IFRS.

There was no tax effect as deferred taxes are not recognised for temporary differences arising from goodwill amortisation.

(v) Cumulative exchange differences

At the date of transition, the Consolidated Entity has elected not to apply the exemption in *AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards under* which the cumulative translation for all foreign operations represented in the foreign currency translation reserve (FCTR) is transferred to retained earnings at 1 July 2004.

As required by *AASB 121 The Effects of Changes in Foreign Exchange Rates,* the Consolidated Entity has determined that the presentation currency of the Consolidated Entity continues to be the Australian dollar.

Accordingly, assets and liabilities of subsidiaries with a foreign currency as their functional currency are translated into Australian dollars at each period's closing rate and any exchange movements are recorded through the FCTR.

The cumulative monetary effect of exchange differences for the financial year ended 30 June 2005 as a result of the transition to A-IFRS was $38,000.

33. Subsequent Events

On 20 July 2006 a company in the Consolidated Entity acquired a serviced office business trading as Level 18, Central Park, Perth, Australia. The consideration paid for the business, assets, liabilities and customer licences purchased was $1,365,232.

Annual meeting

The annual meeting will be held as follows:

Place	Level 29 Chifley Tower Sydney

Compliance statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

   Identify other standards used

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3. This report does give a true and fair view of the matters disclosed.

4. This report is based on accounts that are in the process of being audited.

5. If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available.

6. The entity has a formally constituted audit committee.

Sign here: .... Date: 22 August 2006
(Director/~~Company Secretary~~)

Print name: T A Moufarrige