

**SERVCORP LIMITED**  
**ABN 97 089 222 506**

**APPENDIX 4E**

**Preliminary Final Report**  
**For the year ended**  
**30 June 2004**

The information in this document should be read in conjunction with the 2003 Annual 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**

<b>\$A'000</b>			
Revenues from ordinary activities	down	5%	to 107,513
Profit from ordinary activities after tax attributable to members	up	285%	to 9,443
Net profit for the period attributable to members	up	285%	to 9,443
<b>Dividends (distributions)</b>		<b>Total amount</b>	<b>Amount per security</b>
		<b>\$'000</b>	<b>Franked amount per security</b>
<i>Current period</i>			
Final dividend declared		3,006	3.75c
Interim dividend paid		3,006	3.75c
<i>Previous corresponding period</i>			
Final dividend declared		2,998	3.75c
Interim dividend paid		3,178	3.75c
Record date for determining entitlements to the dividend	8 September 2004		

**30 June 2004**  
\$

**30 June 2003**  
\$

**Net Tangible Asset Backing**

Net tangible asset backing per ordinary security \$0.83 \$0.73

**Control over entities**

Control was not gained or lost over any entity during the current period having a material effect on the profit for the period.

**Material interest in entities**

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

**Details of associates and joint venture entities**

There are no associates or joint venture entities.

## Management Discussion & Analysis

Servcorp recorded an increase in Net Profit Before Tax of 160% to \$13,650,000 for the twelve months ended 30<sup>th</sup> June 2004, (2003 - \$5,251,000). Cash generated from operating activities before tax payments increased by 40% to \$22,522,000 for the twelve month period (2003 - \$16,132,000).

### OPERATING SUMMARY

As at June 2004 Servcorp operated 47 floors in 17 cities in 11 countries. Average occupancy increased from 75% in 2003 to 82% in 2004. Over the course of the period there was a continued focus on cost cutting and on maintaining a competitive position within the marketplace.

Profit attributable to mature floors for the twelve-month period was \$14,913,000 whereas the operating loss on immature floors was \$(1,263,000). Immature floors during the period were Nihonbashi and Shinagawa in Tokyo, PWC Tower in Auckland and Oriental Plaza in Beijing.

### Australia & New Zealand

Performance in Australia and New Zealand was strong, recording 32% of total operating revenue. Operating profit for the segment was \$5.52M compared to a breakeven position in the year ending June 2003. During the period four floors in Australia closed, with clients relocated to two new locations.

### Japan & Asia

Japan and Asia continue to perform strongly, recording 57% of total operating revenue. Operating profit increased by 14% to \$9.90M. Japan continues to excel, with the two new floors opened during the period now profitable.

Asia performed strongly, with a distinct turnaround noticed in Shanghai, Bangkok and Hong Kong. Kuala Lumpur continues to perform, while the Singapore market remains competitive. A new floor was opened in Beijing during June 2004.

### Europe & Middle East

The performance of the Europe and Middle East segment has improved, reporting 10% of total operating revenue. The loss for current period dropped by 59% or \$2.53M in absolute terms when compared to the prior period.

The Dubai location performed exceptionally, with nearly 100% occupancy throughout the entire period. The strength of this location compared to the prior period reflects a distinct turnaround in the prospects for the region.

The performance of the Paris location has improved significantly, and the improvement in occupancy levels is now having a positive impact on the business. The Brussels market continues to be tough.

### Servcorp Products

The Virtual Office product continues to perform very well. Memberships during the period increased by 12% compared to the prior period. The change in marketing methodology adopted during the year is largely attributable to the continued strong performance of this product. Servcorp Hottdesk<sup>®</sup> was rolled out during the period and the uptake of the product by existing clients is now having a positive impact at the Net Profit Before Tax line.

## **Management Discussion and Analysis Cont –**

### **FINANCIAL SUMMARY**

Operating revenue for the twelve months ended 30<sup>th</sup> June 2004 was \$104.25M, down 6.4% from the previous corresponding period. The key reason for the decrease was the strength of the Australian dollar against all major currencies. After adjusting for the currency effect, operating revenue actually increased by 2.9%.

Operating costs in the twelve month period decreased by 13.50% or \$14.65M in absolute terms. The rise in the value of the Australian dollar is largely responsible for the drop, however when the foreign exchange effect is stripped out, operating expenses have decreased by 5.00% or \$5.48M in real terms.

Significant items included in the operating profit were as follows:

- \$ (2,002,000) in costs directly related to the closure and relocation of floors.

Cash balances and interest earning financial assets were \$44.32M as at 30<sup>th</sup> June 2004, compared with \$39.17M as at 30<sup>th</sup> June 2003. Total interest-bearing debt decreased by \$1.51M to \$2.52M in the twelve months to 30<sup>th</sup> June 2004.

### **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Board is currently reviewing the application of International Accounting Standards (IAS) for first time adoption in the year ending June 2006. The most significant impact for Servcorp will be in relation to Accounting for Goodwill. Under current Australian Accounting Standards goodwill is amortized over a period of twenty years. Under IAS amortization is not required. The value of goodwill can be preserved provided that there is no evidence of impairment.

### **DIVIDEND**

The Directors of Servcorp Limited have declared a fully franked final dividend in the amount of 3.75 cents per share. This brings the total dividend paid for the year to 7.5 cents per share.

### **OUTLOOK**

For the year ending June 2005, subject to market conditions remaining as they currently are, Management forecast a Net Profit on mature floors of \$18.00M, \$8.00M in the first half and \$10.00M in the second half. It should be noted that mature floor profits will be tempered by losses in new locations as Servcorp continues to grow its business. Immature floor losses are more difficult to project as the speed which we move depends on the economic conditions in the various regions where floor space is available.

## Consolidated Statement of Financial Performance For the year ended 30 June 2004

	Note	Year ended 30 June 2004 \$A'000	Year ended 30 June 2003 \$A'000
Revenues from rendering of services		104,247	111,327
Interest revenue		1,476	1,846
Other revenues from ordinary activities		1,790	588
<b>Total revenues</b>		<b>107,513</b>	<b>113,761</b>
Service expenses		(31,860)	(35,552)
Marketing expenses		(5,320)	(5,046)
Occupancy expenses		(46,702)	(56,053)
Administrative expenses		(8,704)	(9,225)
Borrowing expenses		(225)	(451)
Other expenses from ordinary activities		(1,052)	(2,183)
<b>Total expenses</b>		<b>(93,863)</b>	<b>(108,510)</b>
<b>Profit from ordinary activities before income tax expense</b>		<b>13,650</b>	<b>5,251</b>
Income tax expense relating to ordinary activities	4	(4,207)	(2,796)
<b>Net profit for the period attributable to members of the parent entity</b>		<b>9,443</b>	<b>2,455</b>
<b>Non-owner transaction changes in equity</b>			
Net movements in foreign currency translation reserve		812	(5,188)
<b>Total changes in equity not resulting from transactions with owners as owners</b>		<b>10,255</b>	<b>(2,733)</b>
<b>Earnings per Share</b>			
Basic Earnings per Share		\$0.118	\$0.029
Diluted Earnings per Share		\$0.116	\$0.029

## Consolidated Statement of Financial Position As at 30 June 2004

	Note	30 June 2004 \$A'000	30 June 2003 \$A'000
<b>Current assets</b>			
Cash assets		38,396	26,125
Receivables		11,756	10,055
Other financial assets	6	5,921	-
Other	5	3,184	3,929
<b>Total current assets</b>		<b>59,257</b>	<b>40,109</b>
<b>Non-current assets</b>			
Other financial assets	6	-	13,098
Property, plant and equipment (net)		22,496	23,964
Intangibles (net)		15,265	15,943
Deferred tax assets		5,774	4,839
Other	7	17,594	15,829
<b>Total non-current assets</b>		<b>61,129</b>	<b>73,673</b>
<b>Total assets</b>		<b>120,386</b>	<b>113,782</b>
<b>Current liabilities</b>			
Payables		25,947	23,953
Interest bearing liabilities		1,778	1,933
Current tax liabilities		2,638	949
Provisions		2,023	1,179
<b>Total current liabilities</b>		<b>32,386</b>	<b>28,014</b>
<b>Non-current liabilities</b>			
Payables		4,823	5,541
Interest bearing liabilities		741	2,096
Deferred tax liabilities		675	979
Provisions		495	423
<b>Total non-current liabilities</b>		<b>6,734</b>	<b>9,039</b>
<b>Total liabilities</b>		<b>39,120</b>	<b>37,053</b>
<b>Net assets</b>		<b>81,266</b>	<b>76,729</b>
<b>Equity</b>			
Contributed equity		81,182	80,896
Reserves		(4,809)	(5,621)
Retained profits		4,893	1,454
<b>Total equity</b>	8	<b>81,266</b>	<b>76,729</b>

## Consolidated Statement of Cash Flows For the year ended 30 June 2004

Note	Year ended 30 June 2004 \$A'000	Year ended 30 June 2003 \$A'000
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	107,658	107,206
Cash payments in the course of operations	(86,537)	(92,182)
Interest received	1,632	1,541
Borrowing costs paid	(231)	(433)
Income taxes paid	(3,632)	(4,114)
	<b>18,890</b>	<b>12,018</b>
<b>Cash flows from investing activities</b>		
Payment for plant and equipment	(6,868)	(5,247)
Payment for financial assets	-	(12,998)
Payment for lease deposits	(1,573)	-
Proceeds from disposal of financial assets	7,161	-
Proceeds from disposal of plant and equipment	352	12
Proceeds from refund of lease deposits	1,139	-
	<b>211</b>	<b>(18,233)</b>
<b>Cash flows related to financing activities</b>		
Proceeds from issue of shares	286	650
Share buy back	-	(5,324)
Lease payments	(1,978)	(2,156)
Dividends paid	(6,004)	(6,346)
	<b>(7,696)</b>	<b>(13,176)</b>
<b>Net increase/(decrease) in cash held</b>		
Cash at beginning of period	26,125	46,385
Exchange rate adjustments to cash	519	(869)
<b>Cash at the end of financial year</b>	<b>38,049</b>	<b>26,125</b>

### Non-cash financing and investing activities

Finance leases amounting to Nil were entered into during the year ended 30 June 2004 to purchase items of property, plant and equipment (Nil in prior year)

## Notes to the Appendix 4E For the year ended 30 June 2004

### 1. Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The accounting policies and measurement bases used in the preliminary final report are consistent with those applied and disclosed in the 30 June 2003 Annual Financial Report.

The preliminary final report has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

	Year ended 30 June 2004 \$A'000	Year ended 30 June 2003 \$A'000
<b>2. Profit from Ordinary Activities before Income Tax Expense</b>		
Profit from ordinary activities before income tax expense has been arrived at after charging/ (crediting) the following items:		
Depreciation of plant and equipment	3,388	4,226
Amortisation of:		
Goodwill	679	972
Leasehold Improvements	4,393	6,320
<b>3. Significant Transactions</b>		
Individually significant transactions included in profit from ordinary activities before income tax expense:		
Floor closure costs	2,002	1,866



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Year ended 30 June 2004 \$A'000	Year ended 30 June 2003 \$A'000
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**Notes to the Appendix 4E continued –**

**4. Income Tax Expense**

In the current period income tax expense does not differ by more than 15% from the amount of income tax prima facie payable on the profits before tax.

Prima facie income tax expense on operating profit at 30% (2003: 30%)	4,095	1,575
Assessable/(deductible) local taxes	(158)	(16)
Effect of different tax rates on overseas income	(377)	(16)
Other non (assessable)/deductible items	718	837
Tax losses of controlled entities recovered	(131)	(67)
Income tax over provision in prior years	(242)	(305)
Future income tax benefit not recognised	302	788
<b>Income tax expense</b>	<b>4,207</b>	<b>2,796</b>

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

The directors have elected for those entities within the consolidated entity that are wholly-owned Australian resident entities to be taxed as a single entity from 1 July 2002. The adoption of the tax consolidation system has been formally notified to the Australian Taxation Office. The head entity within the tax consolidated group for the purposes of the tax consolidation system is Servcorp Limited.

Entities within the tax consolidated group are in a tax-sharing 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.

Due to the adoption of the transitional provisions, the impact on the financial statements of the economic entity, arising from adoption of the tax consolidation regime, was not material.

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	Year ended 30 June 2004 \$A'000	Year ended 30 June 2003 \$A'000
<b>Notes to the Appendix 4E continued –</b>		
<b>5. Other Current Assets</b>		
Prepayments	2,491	2,356
Lease Deposits	189	492
Other	504	1,081
	<b>3,184</b>	<b>3,929</b>
<b>6. Other Financial Assets</b>		
<b>Current</b>		
Investment in fixed rate bonds at realisable value	5,921	-
	<b>5,921</b>	<b>-</b>
<b>Non-current</b>		
Unlisted shares at cost	-	50
Investment in floating rate notes	-	2,911
Investment in fixed rate bonds	-	6,042
Investment in reset preference securities	-	4,095
	<b>-</b>	<b>13,098</b>
<b>7. Other Non-Current Assets</b>		
Lease deposits	17,536	15,776
Other	58	53
	<b>17,594</b>	<b>15,829</b>
<b>8. Equity Reconciliation</b>		
Opening equity	76,729	90,478
Movement in foreign currency translation reserve	812	(5,188)
(Decrease)/increase in capital	286	* (4,674)
Current period profit	9,443	2,455
Dividends paid	(6,004)	(6,342)
	<b>81,266</b>	<b>76,729</b>
*In the period from April 2003 to June 2003 the Company completed a share buy-back of 4,803,313 shares for a total consideration of \$5,324,495.		
<b>9. Notes to the Consolidated Statement of Cash Flows</b>		
<b>Reconciliation of cash</b>		
Cash on hand and at bank	98	118
Deposits on call	36,971	26,007
Cash in transit	1,327	-
Bank overdraft	(347)	-
	<b>38,049</b>	<b>26,125</b>

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	Current period	Previous corresponding period
<b>Notes to the Appendix 4E continued –</b>		
<b>10. Earnings per Share</b>		
Calculation of the following in accordance with AASB 1027: <i>Earnings per Share</i>		
(a) Basic EPS	\$0.118	\$0.029
(b) Diluted EPS	\$0.116	\$0.029
(c) Earnings reconciliation		
Net profit/(loss) after income tax	9,443	2,455
Basic earnings	9,443	2,455
Diluted earnings	9,443	2,455
	<b>Number of shares</b>	<b>Number of shares</b>
(d) Weighted average number of ordinary shares outstanding during the period used in the calculation of:		
Number of basic earnings per share	80,014,486	83,847,977
Effect of share options on issue	1,208,000	-
Number of diluted earnings per share	81,222,486	83,847,977

**11. Dividends**

	Payment date	Total amount \$'000	Cents per share	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend:					
Current year	8 April 2004	3,006	3.75c	3.75c	N/a
Previous year	8 April 2003	3,178	3.75c	3.75c	N/a
Final dividend paid in respect of previous financial year:					
Final dividend	1 October 2003	2,998	3.75c	3.75c	N/a
Final dividend declared in respect of this financial year:					
Final dividend	1 October 2004	3,006	3.75c	3.75c	N/a

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.

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	Year ended 30 June 2004 \$A'000	Year ended 30 June 2003 \$A'000
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**Notes to the Appendix 4E continued –**

**11. Dividends continued -**

**Dividend Franking Account**

Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements and after deducting franking credits to be used in payment of the above dividends and those dividends required to be treated as interest expense.

30% franking credits available	2,017	2,063
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**12. Contingent Liabilities and Contingent Assets**

The details and estimated maximum amounts of contingent liabilities and contingent assets that may become payable or receivable respectively are set out below.

**a) Fly Away Programme**

The Company has a contingent liability for unredeemed Fly Away programme points (2003 it was called the Drive Away programme.) The Fly Away Programme is an incentive program for agents to refer business to the Company. The Company provides awards to agents who reach a set level of points. The contingent liability is based on average cost of awards for agents in each band of points with points accruing incrementally within bandings.

Unredeemed Fly Away liability	246	254
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**b) Rent Review Negotiations**

A company in the consolidated entity has a contingent asset in relation to a potential refund of overpaid rent for the year ending June 2004. A rent refund is due based on the amount of rent already paid over and above current market rents. Negotiations are still on-going with the landlord, however, management believe that it is probable that these amounts will be recovered.

Rent review asset	756	-
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**c) Previous Executive Director's Termination**

The company had a contingent liability at 30 June 2003 for the performance based element of the termination package offered to Bryan Pashby. The Company's liability under this package ranged from zero to \$225,000, dependant on the performance of the Company.

Director's termination liability	-	225
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**Notes to the Appendix 4E continued –**

**13. Segment Information**

The group operates in a single business segment, serviced offices, in three main geographic locations.

**30 June 2004**

<b>Services</b>	<b>Australia and New Zealand \$'000</b>	<b>Japan and Asia \$'000</b>	<b>Europe &amp; Middle East \$'000</b>	<b>Elims \$'000</b>	<b>Consol \$'000</b>
Revenue					
External segment revenue	33,988	60,886	11,080	-	105,954
Inter-segment revenue	10,756	902	-	(11,658)	-
Total segment revenue	44,744	61,788	11,080	(11,658)	105,954
Other unallocated revenue					1,559
Total revenue					107,513
Segment result	5,522	9,903	(1,786)	-	13,639
Unallocated result					11
Operating profit before tax					13,650
Income tax expense					(4,207)
Operating profit after tax					9,443
Net profit					9,443

**30 June 2003**

<b>Services</b>	<b>Australia and New Zealand \$'000</b>	<b>Japan and Asia \$'000</b>	<b>Europe &amp; Middle East \$'000</b>	<b>Elims \$'000</b>	<b>Consol \$'000</b>
Revenue					
External segment revenue	34,059	66,634	11,007	-	111,700
Inter-segment revenue	10,992	1,688	1,972	(14,652)	-
Total segment revenue	45,051	68,322	12,979	(14,652)	111,700
Other unallocated revenue					2,061
Total revenue					113,761
Segment result	(35)	8,711	(4,320)	-	4,356
Unallocated result					895
Operating profit before tax					5,251
Income tax expense					(2,796)
Operating profit after tax					2,455
Net profit					2,455

## Annual meeting

The annual meeting will be held as follows:

Place

Level 29 Chifley Tower Sydney

Date

Thursday 11 November 2004

Time

5pm

Approximate date the annual report will be available

Friday 8 October 2004

## 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

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- 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: 25 August 2004

(Director/~~Company Secretary~~)

Print name: A G Moufarrige