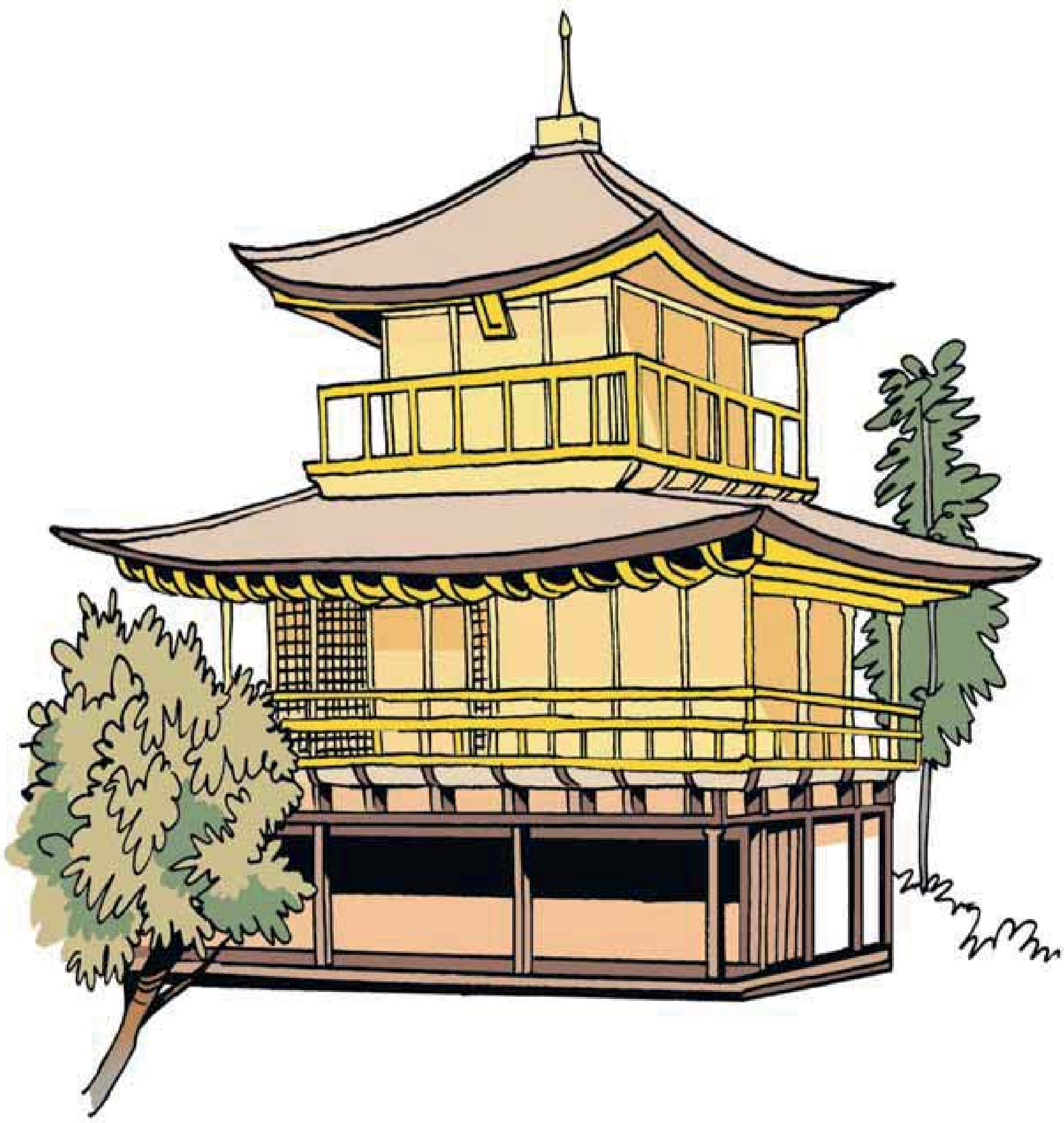
Results 2006



SERVCORP Annual Report

Servcorp Limited
ABN 97 089 222 506

"Choose a job you love, and you will never have to work a day in your life."
- Confucius

Servcorp's aim is to be the World's Finest Serviced Office Operator.

The aim includes a commitment to be the best management team in our industry, a training process second to none, the adoption of efficient business processes and the provision of leading technology services.

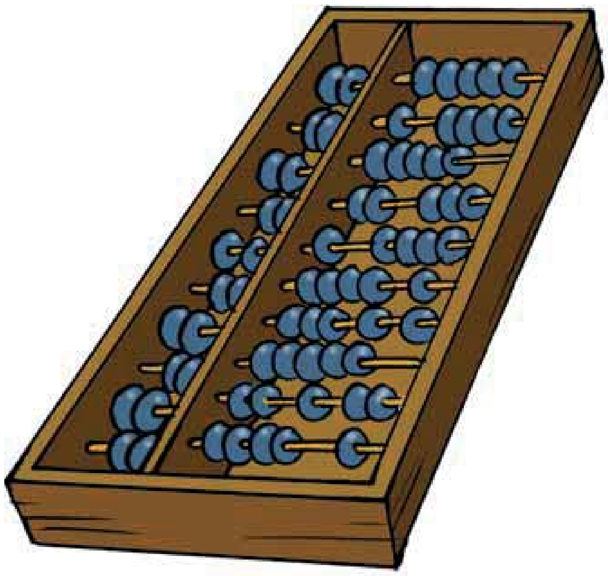
Servcorp focuses on a diversified portfolio of high quality serviced offices in multiple locations. This year we will continue to increase critical mass in cities and countries where Servcorp operates. Servcorp is also committed to the expansion of its virtual office capabilities and to growth in the virtual office client base.

Success is built on over **28 years** experience, a profitable track record, a strong financial capability, an energetic team and a commitment to our clients.

Contents

"A superior man is modest in his speech, but exceeds in his actions."

- Confucius

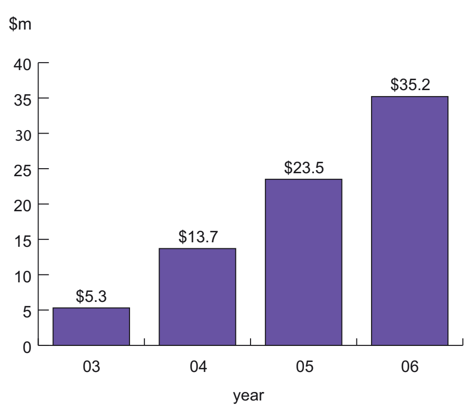


"Study the past if you would define the future"

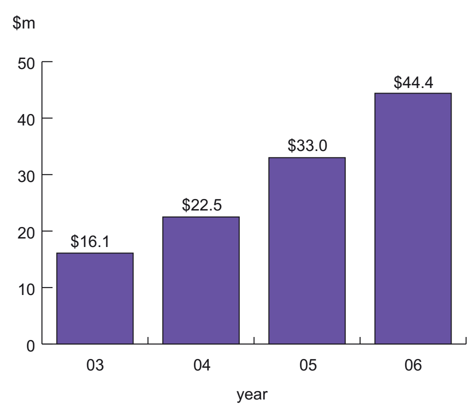
- Confucius

	12 months ended 30 June			
	2003 $'000	2004 $'000	2005 $'000	2006 $'000
Revenue & other income	113,761	107,513	124,137	145,941
Profit before tax	5,251	13,650	23,497	35,207
Net profit after tax	2,455	9,443	17,190	25,376
Net operating cash flows (before tax)	16,132	22,522	33,019	44,430
Cash & cash equivalents	26,125	38,396	42,966	58,213
Interest earning financial assets	13,048	5,921	5,731	5,035
Earnings per share	$0.031	$0.118	$0.214	$0.316

Profit before tax



Net operating cash flows (before tax)



Revenue

12 months to June 2005

$124.1

12 months to June 2006

$145.9m

17.6% increase

projected revenue growth 2007 **15%**

Clients

clients in residence
virtual and serviced office **8,167**

12 months growth in clients **21.0%**

Office numbers grew by 7%

projected 2007

15% growth

Profit before tax

mature location profit

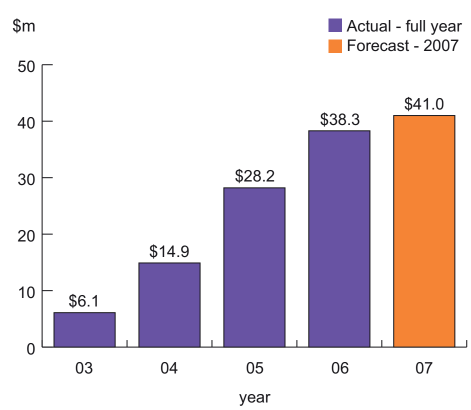
$38.3m

immature location loss

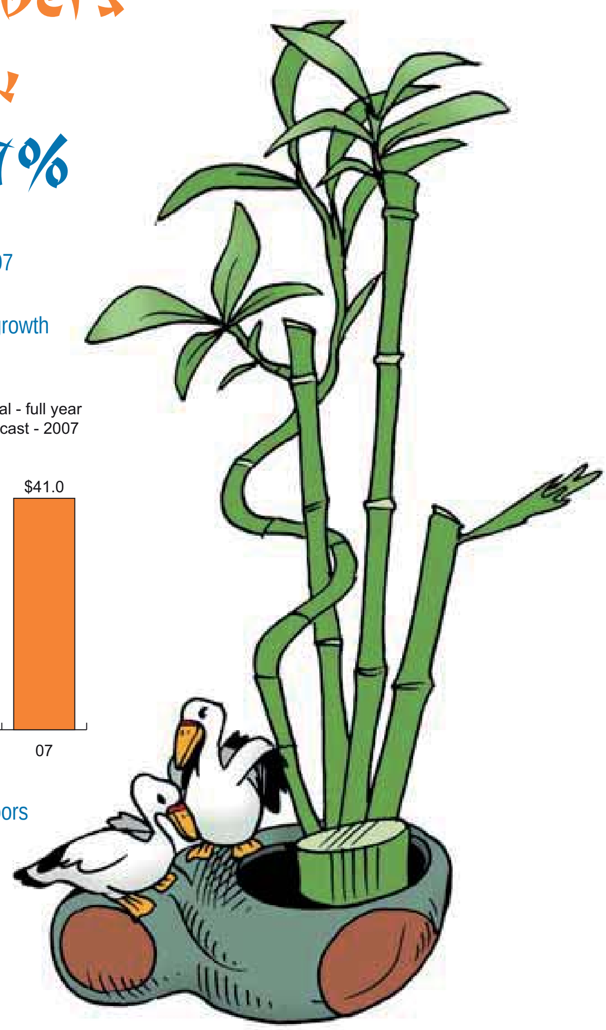
$3.1m

mature location profit
projected 2007

$41.0m



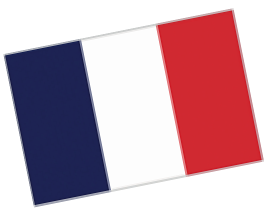
Net profit before tax - mature floors



Locations

■ Openings in 2006 financial year

■ Opened since June 2006



Australia

Adelaide
Level 24, Santos House
91 King William Street

Brisbane
Levels 24 & 30, AMP Place
10 Eagle Street

Level 36, Riparian Plaza
Eagle Street

Canberra
Levels 6 & 11, St George Centre
60 Marcus Clarke Street

Melbourne
Level 40, 140 William Street

Levels 27 & 50, 101 Collins Street

North Ryde
Level 9, Avaya House
123 Epping Road

North Sydney
Levels 4, 17, 21 & 22
201 Miller Street

Perth
Level 28, AMP Tower
140 St Georges Terrace

Level 18, Central Park
152-158 St Georges Terrace

Sydney
Levels 25 & 29, Chifley Tower
2 Chifley Square

Level 57, MLC Centre
Martin Place

Level 17, BNP Paribas Centre
60 Castlereagh Street

Level 26, 44 Market Street

New Zealand

Auckland
Level 20, ASB Bank Centre
135 Albert Street

Level 27, PWC Tower
Quay Street

France

Paris
Levels 2, 3 & 4
17 Square Edouard VII

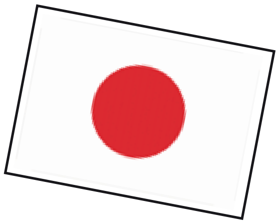
Level 5, Louis Vuitton Building
101 Avenue Des Champs Elysees

Belgium

Brussels
Levels 20 & 21, Bastion Tower
5, Place du Champ de Mars

UAE

Dubai
Levels 41 & 42
Emirates Towers
Sheikh Zayed Road



Asia

Shanghai, China
Level 23, Citigroup Tower
33 Huayuanshiqiao Road
Pudong

Level 29, Shanghai Kerry Centre
1515 Nanjing Road West
Jingan

Beijing, China
Level 6, Office Tower W2 &
Level 19, Office Tower E2
The Towers, Oriental Plaza
No 1 East Chang An Avenue
Dong Cheng District

Hong Kong
Levels 25 & 30
Bank of China Tower
1 Garden Road, Central

Level 39, One Exchange Square
8 Connaught Place, Central

Kuala Lumpur, Malaysia
Level 36, Menara Citibank
165 Jalan Ampang

Level 20,
Menara Standard Chartered Building
30 Jalan Sultan Ismail

Singapore
Levels 30 & 31
Six Battery Road

Penthouse Level
Suntec Tower Three
8 Temasek Boulevard

Level 27, Prudential Tower
30 Cecil Street

Bangkok, Thailand
Levels 8 & 9, Zuellig House
1 Silom Road

Level 29, Central World Tower
999/9 Rama I Road
Khwaeng Patumwan
Khet Patumwan

Level 27, Bangkok City Tower
Cnr Chong Nonsi & South Sathorn Rd

Japan

Tokyo
Level 32, Shinjuku Nomura Building
1-26-2 Nishi-Shinjuku
Shinjuku-ku

Levels 16 & 27, Shiroyama Trust Tower
4-3-1 Toranomon
Minato-ku

Levels 9 & B1, AIG Building
1-1-3 Marunouchi
Chiyoda-ku

Level 14, Hibiya Central Building
1-2-9 Nishi Shimbashi
Minato-ku

Level 11, Aoyama Palacio Tower
3-6-7 Kita-Aoyama
Minato-ku

Level 15, JT Building
2-2-1 Toranomon
Minato-ku

Level 18, Yebisu Garden Place Tower
4-20-3 Ebisu
Shibuya-ku

Level 7, Wakamatsu Building
3-3-6 Nihonbashi
Honcho, Chuo-ku

Level 28, Shinagawa Intercity Building
2-15-1 Konan
Minato-ku

Level 27, Tokyo Sankei Building
1-7-2 Otemachi
Chiyoda-ku

Tokyo Big Sight, Level 9, Tower B
Ariake Frontier Building
3-1-25 Ariake , Koto-ku

Level 21, Shiodome Shibarikyu Building
1-2-3 Kaigan, Minato-ku

Nagoya
Level 4, Nikko Shoken Building
3-2-3 Sakae Naka-ku
Aichi

Osaka
Level 9, Edobori Center Building
2-1-1 Edobori
Nishi-ku

Level 19, Hilton Plaza West
2-2-2 Umeda,
Kita-ku

Opening in 2006 / 2007

Singapore x 2	Opening Sep & Oct 06
Beijing	Opened Sep 06
Paris	Opened Aug 06
The Middle East	Planned Mar 07
Tokyo x 2	Opening Oct 06 & 07
Perth	Opened Jul 06
Sydney	Opened Sep 06
Nagoya	Planned 07

Confucius Bruce says

2006 was another record year for Servcorp, and our fourth consecutive year of solid growth.

Revenue for the year was $145.94 million, an increase of 18% on 2005. Net profit after tax also increased - up an impressive 48% on 2005, to $25.38 million. Our mature floors contributed $38.31 million profit before tax, with all geographic sectors contributing strongly. Earnings per share increased by 48% from 21.4 cents per share to 31.6 cents per share.

The Directors have declared a fully franked final dividend of 6.00 cents per share, bringing total dividends for the year to 10.50 cents or $8.44 million, a 35% increase over 2005. In the absence of any unforeseen circumstances, the Board expects to maintain the interim dividend for financial year 2007 at a fully franked 6.00 cents per share.

In 2006, we focused on consolidation of our business and preparation for future expansion. Nine new floors had been opened in 2005 and management was committed to bring these to early profitability. A further five new floors were opened in 2006, yet disciplined management ensured only three floors remained immature at the end of the 2006 financial year. The Servcorp team is the backbone of our business and this year has seen the continued development of a strong senior management team, creating a depth of talent capable of successfully operating the ever expanding Servcorp world. The confidence that the directors have in this team has enabled commitment to further expansion, with seven new floors scheduled to open in the first half of fiscal 2007.

2006 was another exciting year for our technology. Our proprietary software allows management to proactively control the Group's operations and also allows our clients to control their business in the same way. The CIO is investigating the application of these systems to external operations, in a potentially very lucrative venture. He will comment further on this activity in his IT report.

I travel the world regularly on non-Servcorp business, but always look in on the Servcorp office if there is one in the city I am visiting. I am always delighted by the professional yet friendly welcome that is offered. I visited various offices this year and it is good to see how impressively they are performing. The commitment I witnessed is consistent in Servcorp teams throughout the world.

On behalf of the Board I thank our CEO, Alf Moufarrige, his management team and all the Servcorp team members for their dedication and contributions during the year. Their ongoing commitment to keeping Servcorp as the leader in technology and service has ensured that our company remains superior to our competition. We will continue to strive to maintain our position as the world's finest serviced office provider.

The future for Servcorp is encouraging. We look forward to increasing shareholder wealth in the current financial year and beyond.

Bruce Corlett

"The will to win, the desire to succeed, the urge to reach your full potential...

these are the keys that will unlock the door to personal excellence"

- Confucius

Chief Executive Officer

Another record year.

We are not relaxing as we know the current growth rate cannot continue indefinitely but at this moment we look set for another year of low double digit growth. All locations are continuing to perform satisfactorily but the sheer number of immature floors could put a downward pressure on the NPBT this year.

I am pleased with the new locations that we have signed or are about to sign and believe that Servcorp will be well positioned to continue its growth while ever the world economies remain buoyant.

Our hardworking, talented team has been put under pressure by new IT roll-outs this year but it is my belief that the long term gain will far outweigh the short term pain.

The tech teams are always busy as clients continue to drive their development program and they are now working on Hottdesk Version 2 and of course integration works for Office^2.

In Servcorp we all have great hopes for Office^2. It is on plan by the end of this year and we should have a clear vision of where it is going and whether it will add to Servcorp's bottom line.

After 4 years where Servcorp has seen its NPBT on mature floors rise from $6.1 million to $38 million, it will be great if we can achieve further growth in this coming year. I believe Servcorp's IT lead, its team and its locations will stand it in good stead in what is becoming a more competitive environment.

I would like to thank Bruce Corlett and the Board for their ongoing guidance and input. The teams across the world amaze me with their belief in Servcorp and our culture has grown, even as we expand.

A G Moufarrige

Community service

Servcorp continues to support the Joan Salter Fund which is managed by the Rotary Club of Sydney. Joan was the Servcorp founding General Manager whose life was cut short at the age of 46 from liver and bowel cancer. The Fund maintained a balance for the year of about $570,000 while again supporting a wide range of causes to the tune of over $150,000 during the 05/06 year.

The Joan Salter Fund's focus is to assist with continuing research into the prevention and cure of cancer, as well as having a particular interest in assisting young, seriously or terminally ill members of the community.

Servcorp holds charity functions and balls, runs raffles and undertakes donation drives all year round in all locations. Every dollar that is raised by our teams on the floor is matched dollar for dollar by Servcorp. This year we supported the following organisations:

- The Rotary Club of Sydney
- MRC Cancer Research
- The Cancer Council
- MS Society
- Westmead Hospital
- St Vincent's Hospital, Sydney
- The Mater Hospital
- Breast Cancer Foundation
- NETS - Pediatric ambulances
- MAKNA - KL Cancer Council
- Womens Aid Organisation

Servcorp also contributed to many other local charitable organisations around the world. In 2007 we have budgeted to donate in excess of $300,000 to various charities.

In 2004 the Joan Salter Fund, Sydney Rotary and the Cancer Council of NSW, established the Sydney Rotary Research Fellowship into the causes and prevention of cancer stemming from lifestyle choices. We have committed $150,000 to this project called CLEAR over three years. 2006 will be the third year of this project and we look forward to some positive results from the study.

We are proud of the fact that, as a small Aussie company, what we put back into the community is focused on bringing real change and benefits to people, in particular young people who suffer from debilitating diseases.

We will keep you updated.

Development

The 05/06 year has been an extremely successful one for the Servcorp IT Development team. The systems that we talked about developing in last year's annual report are very near completion.

Servcorp's information management system called OTIIS has been deployed to 75% of the company at time of print.

1. OTIIS has been designed to reduce administration time for our managers on the floor, enabling them to focus on sales and better customer service.

2. It has streamlined the provisioning of new clients both in offices and as virtual, improving accuracy and the customer experience.

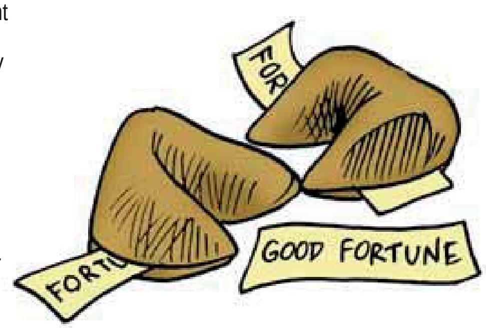
3. It has created transparency for managers, senior managers and general managers so that they may manage the facilities in a proactive fashion and increase profitability throughout the month as opposed to a reactive fashion in response to reduced income that only becomes apparent at the end of the month.

4. It has enabled Servcorp to have a global online inventory management system.

Hottdesk V2 using the integrated information supplied by OTIIS changes the customer experience in a managed workspace. Hottdesk V2 enables the Servcorp client to work from anywhere and choose the services that they would like delivered to their desktop. In addition to this, it enables Servcorp clients to manage all of their telecommunication facilities online. Hottdesk V2 allows the client to completely control their workspace from provisioning on how they want their phone answered through to managing their business costs online.

The combination of OTIIS and Hottdesk V2 is extremely powerful within the Servcorp business. We believe that it has commercial applications for any multi-tenant environment. We are investigating these opportunities through a Servcorp subsidiary called Office Squared. The first fully managed Office^2 proto-type building goes online July 1 2007.

In addition to the dramatic management improvements that Servcorp has made internally we are still focusing on delivering the world's best technology solutions to our end users. We have done substantial development work to deliver IP telephony soft phones to our virtual clients and are at the proto-typing stages of providing the world's first secure multi-tenant environment wireless solution. It is easy to put hardware into a business centre. Creating the world's best managed workspace that integrates space, technology and people is ground breaking. Servcorp has achieved and delivered this.



Dial *1 for IT H.E.L.P.
Worksmart Screen Console
Debtors
O.T.I.I.S.
Call Accounting
Servcorp Smart Office®
Servcorp Hottdesk®

A Deloitte Technology Fast 50 winner, awarded for IT excellence.

Our IT solutions are second to none

Our IT Solutions make us the best in the industry. Cisco agree:

"Servcorp has uniquely enhanced the Unified Communications system we provide by developing their own highly impressive applications to enable simplified provisioning and management of multi-tenant office services. The services Servcorp delivers through the combination of world class products from Cisco Systems like CallManager and their own comprehensive tools such as the Hottdesk Suite of products will change the way we view managed workspace. Their products are unique in the market place and we look forward to the opportunities they create".

Owen Chan
President of Cisco Systems, Asia Pacific

"He that would perfect his work
must first
sharpen his tools."

- Confucius

Servcorp team

The Board

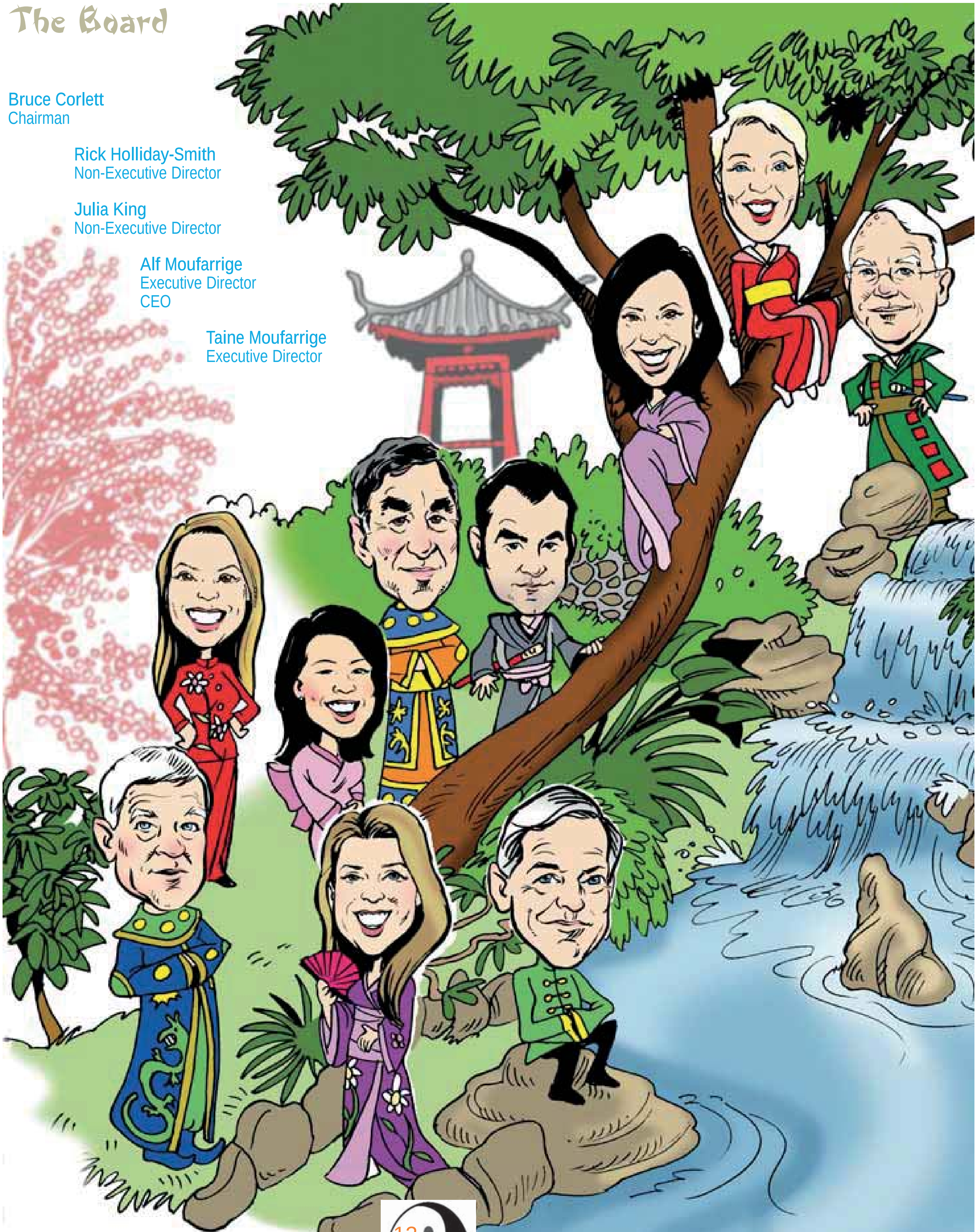
Bruce Corlett
Chairman

Rick Holliday-Smith
Non-Executive Director

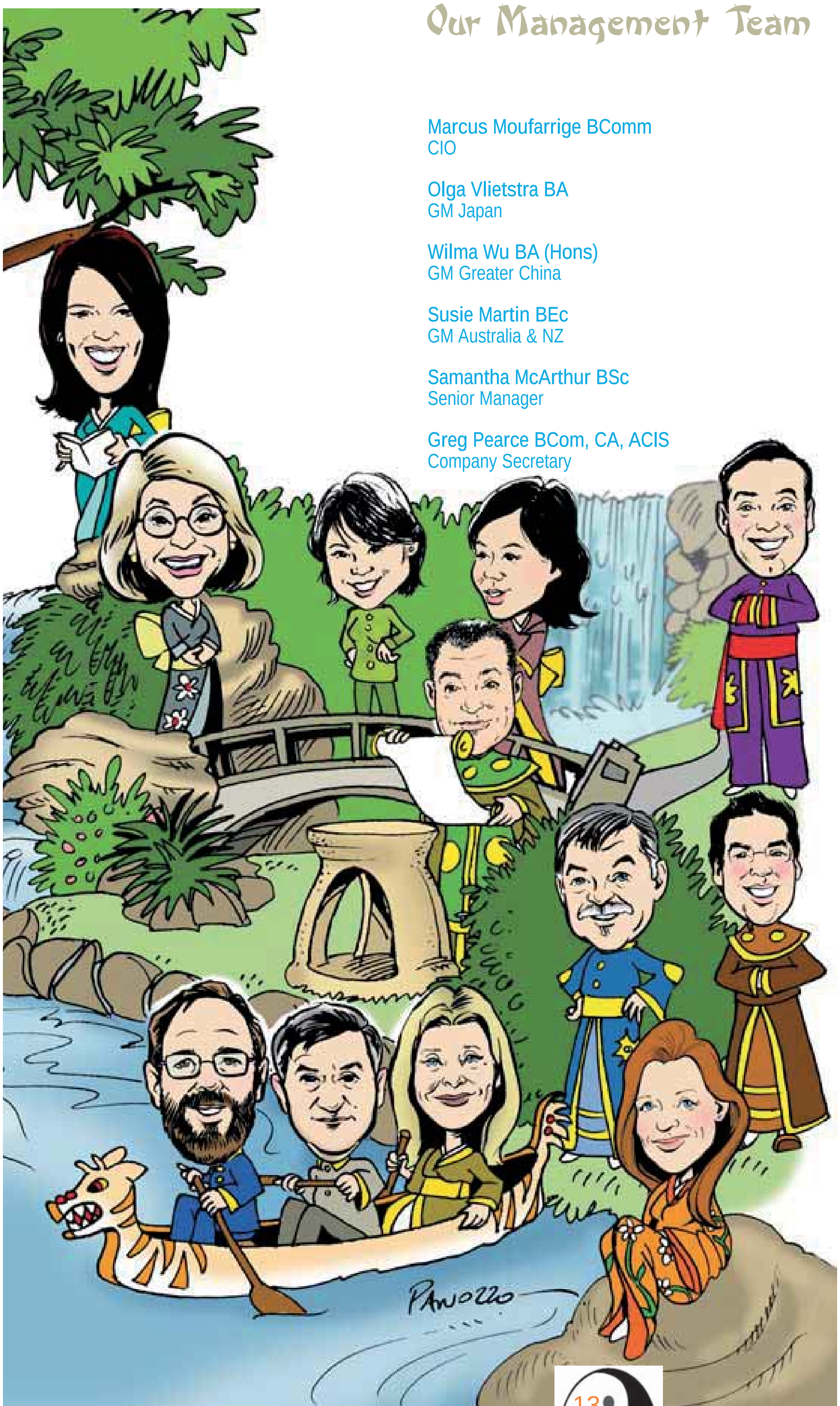
Julia King
Non-Executive Director

Alf Moufarrige
Executive Director
CEO

Taine Moufarrige
Executive Director



Our Management Team



Marcus Moufarrige BComm
CIO

Olga Vlietstra BA
GM Japan

Wilma Wu BA (Hons)
GM Greater China

Susie Martin BEc
GM Australia & NZ

Samantha McArthur BSc
Senior Manager

Greg Pearce BCom, CA, ACIS
Company Secretary

Thomas Wallace BBS, ACA
Chief Financial Officer

Steve Lombardo BSc
Chief Technology Officer

Richard Baldwin Dip Ag, Dip Oen
GM ITS

Kureha Ogawa BA
Senior Manager Japan

Jannifer Koo BBus, G.Dip Mktg Mgt
Senior Manager, Shanghai

Liane Gorman
Senior Manager Concepts

Warren James
Manager, International Property Portfolio

Lachlan Buchanan BComm
Property Project Manager

Kristie Thomas BArts, BBus
International Sales Manager (Offices)

Megan Gale
International Sales Manager (Virtual)

Jennifer Stephenson BBus
International Marketing Manager

The Board and Senior Management thank the hardworking Servcorp Team.

They make SERVCORP the best!

Corporate Governance

The Board has responsibility for the long-term health and prosperity of Servcorp. The directors are responsible to the shareholders for the performance of the Company and the Consolidated Entity and to ensure that it is properly managed.

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

Details of Servcorp's compliance are set out below, and in the ASX principles compliance statement on pages 17 to 21 of this report.

Role of the Board

The Board has adopted a formal statement of matters reserved for the Board. The central role of the Board is to set the Company's strategic direction and to oversee the Company's management and business activities.

The Board's primary responsibilities are:

- the protection and enhancement of long-term shareholder value;
- ensuring Servcorp has appropriate corporate governance structures in place;
- providing strategic direction, including reviewing and determining goals for management;
- monitoring management's performance within that framework;
- appointing the Managing Director and evaluating his performance and remuneration;
- monitoring business performance and results;
- identifying areas of significant risk and ensuring adequate controls are in place to manage those risks;
- establishing appropriate standards of ethical behaviour and a culture of corporate and social responsibility;
- approving executive remuneration policies;
- ratifying the appointment of the Chief Financial Officer and the Company Secretary;
- ensuring compliance with continuous disclosure policy in accordance with the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange;
- reporting to shareholders;
- approval of the commitment to new locations;
- ensuring the Board is, and remains, appropriately skilled to meet the changing needs of the Company.

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

Composition of the Board

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

The Board comprises five directors (two executive and three non-executive). The non-executive directors are all independent.

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

The Chairman of the Board, Mr Bruce Corlett, is an independent non-executive director.

The non-executive directors bring to the Board an appropriate range of skills, experience and expertise to ensure that Servcorp is run in the best interest of all stakeholders. The skills, experience and expertise of each director in office at the date of this annual report is set out on page 22 of this annual report. The Board will continue to be made up of a majority of independent non-executive directors. The performance of non-executive directors was reviewed during the year.

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

Names of directors in office at the date of this annual report

Director	First appointed	Non-executive	Independent	Retiring at 2006 AGM	Seeking re-election at 2006 AGM
B Corlett	19 October 1999	Yes	Yes	No	No
R Holliday-Smith	19 October 1999	Yes	Yes	No	No
J King	24 August 1999	Yes	Yes	Yes	Yes
A Moufarrige	24 August 1999	No	No	No	No
T Moufarrige	25 November 2004	No	No	No	No

Directors' independence

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

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

None of the non-executive directors have ever been employed by Servcorp. Ms J King is the sister of Mr A Moufarrige, but she has no joint financial interests in Servcorp or otherwise. Ms King is an experienced business woman who sits on several other public company boards. Ms King, and the other independent directors, believe her relationship with Mr A Moufarrige does not impair her exercising independent judgement.

Election of directors

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

Any changes to directorships will be dealt with by the full Board and accordingly a Nomination Committee has not been established.

Independent professional advice

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

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Servcorp.

Codes of conduct, outlining the standards of personal and corporate behaviour to be observed, form part of Servcorp's management manuals.

Director and officer dealings in Company shares

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

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

Directors must discuss proposed purchases or sales of shares in the Company with the Chairman before proceeding. This is a new principle adopted this year. Directors must also notify the Company Secretary before they buy or sell shares in the Company. This is reported to the Board.

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

Conflict of interest

In accordance with the Corporations Act 2001 and the Company's Constitution directors must keep the Board advised, on an ongoing basis, of any interest that would potentially conflict with those of Servcorp. Where the Board believes that an actual or potential significant conflict exists, the director concerned, if appropriate, will not take part in any discussions or decision making process on the matter and abstains from voting on the item being considered. Details of director related entity transactions with the Company and the Consolidated Entity are set out in Note 30 to the financial statements.

Continuous disclosure

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

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

Communication with stakeholders

Servcorp is committed to increasing the transparency and quality of its communication so that we are regarded as outstanding corporate citizens. At present, information is communicated to shareholders and financial markets through the distribution of the annual report, the release of the half-year and full-year results, and market announcements to the ASX when required. The Company's annual report, result releases and market announcements are placed on its website.

Servcorp encourages effective participation at general meetings. The Managing Director provides a detailed report and is available to answer questions at the Company's annual general meeting. The Company's auditors are invited to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted and the independence of the auditor in relation to the conduct of the audit.

Auditor independence

The Company's auditors Deloitte Touche Tohmatsu (Deloitte) were appointed at the annual general meeting of the Company on 6 November 2003. The Lead Partner, Mr P G Forrester, will be due for rotation following completion of the audit for the year ending 30 June 2008.

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

Committees

The Board does not delegate major decisions to committees. Committees are responsible for considering detailed issues and making recommendations to the Board. The Board has established three committees to assist in the implementation of its corporate governance practices.

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

- Mr R Holliday-Smith (Chairman)
- Mr B Corlett
- Ms J King

The members are all independent non-executive directors. The chairman of the Audit and Risk Committee is independent and is not the chairman of the Board.

The role of the Audit and Risk Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management procedures and the external audit function. In doing so, it is the committee's responsibility to maintain free and open communication between the committee and the external auditors and the management of Servcorp.

The external auditors, the Managing Director, the Chief Financial Officer and other senior management attend committee meetings by invitation.

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

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

- reviewing the financial report and other financial information distributed externally;
- reviewing accounting policies to ensure compliance with Accounting Standards and Urgent Issues Group Interpretations;
- improving the quality of the accounting function;
- reviewing external audit reports to ensure that where major deficiencies or breakdown in controls or procedures have been identified appropriate and prompt remedial action is taken by management;
- reviewing the Company's policies and procedures for compliance with Australian equivalents to International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- reviewing the nomination, independence and performance of the auditor;
- liaising with the external auditors and ensuring that the statutory annual audit and half-yearly review are conducted in an effective manner;
- monitoring the establishment of an appropriate internal control framework and considering enhancements;
- monitoring the establishment of appropriate ethical standards;
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001, ASX Listing Rules and all other regulatory requirements;
- addressing any matters outstanding with the auditors, Australian Taxation Office, Australian Securities & Investments Commission, ASX and financial institutions;
- reviewing reports on any major defalcations, frauds and thefts from the Company.

Governance Committee
The Governance Committee's charter is to monitor the ongoing compliance with the ASX Corporate Governance Council's best practice recommendations. The Governance Committee members are two independent non-executive directors and two management representatives:

- Mr B Corlett (Chairman)
- Mr R Holliday-Smith (Non-Executive Director)
- Mr M Moufarrige (CIO)
- Mr G Pearce (Company Secretary)

The Governance Committee did not meet during the year. The Board has reviewed the Company's governance structures to ensure they comply with ASX principles.

Remuneration Committee
The Board formally re-established the Remuneration Committee during the year. The Remuneration Committee members during the year were:

- Ms J King (Chair)
- Mr B Corlett (Non-Executive Director)
- Mr T Moufarrige (Executive Director)

The role of the Remuneration Committee is to assist the Board by adopting remuneration policy and practices that:

- supports the Board's overall stategy and objectives;
- attracts and retains key employees;
- links total remuneration to financial performance and the attainment of stategic objective.

Specifically this will include:

- remuneration policy and its application to the Managing Director and those who report to the Managing Director;
- adoption of short-term and long-term incentive plans;
- determination of levels of reward to the Managing Director and approval of rewards to those who report to the Managing Director;
- ensuring the total remuneration policy and practices are designed with full consideration of all tax, accounting, legal and regulatory requirements.

The Remuneration Committee is committed to the principles of accountability, transparency and to ensuring that remuneration arrangments demonstrate a clear link between reward and performance.

The Remuneration Committee meets as required. The committee met twice during the year. The Managing Director may attend committee meetings by invitation to assist the committee in its deliberations.

ASX principles compliance statement

This table provides a description of the manner in which Servcorp complies with the ASX Principles of Good Corporate Governance and Best Practice Recommendations, or where applicable, an explanation of any departures from the Principles.

Principle 1	Lay solid foundations for management and oversight *Recognise and publish the respective roles and responsibilities of board and management*
Recommendation 1.1	Formalise and disclose the functions reserved to the board and those delegated to management.
Servcorp Board Response	The Board has adopted a charter that sets out the responsibilities reserved by the Board and those delegated to the Managing Director.
Principle 2	Structure the board to add value *Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties*
Recommendation 2.1	A majority of the board should be independent directors.
Servcorp Board Reponse	The Board has a majority of independent directors. All the currently serving non-executive directors are independent.
Recommendation 2.2	The chairperson should be an independent director.
Servcorp Board Response	The Chairman is an independent director.
Recommendation 2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.
Servcorp Board Response	The roles of Chairman and Managing Director/CEO are separated.
Recommendation 2.4	The board should establish a nomination committee.
Servcorp Board Response	The Board has not established a nomination committee. Given the size of the current Board, efficiencies are not forthcoming from a separate committee structure. Selection and appointment of new directors is undertaken by consideration of the full Board. Any director appointed by the Board must retire from office at the next annual general meeting and seek re-election by shareholders.
Recommendation 2.5	Provide the information indicated in Guide to reporting on Principle 2.
Servcorp Board Response	All relevant information is included in the corporate governance section on pages 14 to 21 of the annual report.
Principle 3	Promote ethical and responsible decision-making *Actively promote ethical and responsible decision making*
Recommendation 3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: 3.1.1 The practices necessary to maintain confidence in the company's integrity. 3.1.2 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
Servcorp Board Response	The Company has established codes of conduct and ethical standards which all directors, executives and employees are expected to uphold and promote.
Recommendation 3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.

ASX principles compliance statement (cont)

Servcorp Board Response	The Board has approved a policy concerning trading in company securities, the details of which are disclosed in the corporate governance section of this annual report.
Recommendation 3.3	Provide the information indicated in Guide to reporting on Principle 3.
Servcorp Board Response	The information is made publicly available by inclusion of the main provisions in the annual report. Complete versions are not available on the Company's website as they form part of manuals which are proprietary and confidential.
Principle 4	Safeguard integrity in financial reporting *Have a structure to independently verify and safeguard the integrity of the company's financial reporting*
Recommendation 4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.
Servcorp Board Response	The Chief Executive Officer and Chief Financial Officer provide such letters of assurance to the Board for each half-year and full-year result.
Recommendation 4.2	The board should establish an audit committee.
Servcorp Board Response	The Board has established an Audit and Risk Committee.
Recommendation 4.3	Structure the audit committee so that it consists of: • only non-executive directors; • a majority of independent directors; • an independent chairperson, who is not chairperson of the board; • at least three members.
Servcorp Board Response	All three members of the Audit and Risk Committee are independent and the Chairman of the committee is not the Chairman of the Board.
Recommendation 4.4	The audit committee should have a formal charter.
Servcorp Board Response	The Audit and Risk Committee has a formal charter which sets out its specific roles and responsibilities and composition requirements.
Recommendation 4.5	Provide the information indicated in Guide to reporting on Principle 4: • details of the names and qualifications of those appointed to the audit committee; • the number of meetings of the audit committee and names of the attendees.
Servcorp Board Response	This information is provided on pages 16, 22 and 23 of this annual report.
Recommendation 4.5 (cont)	• Procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.
Servcorp Board Response	The external auditor, Deloitte Touche Tohmatsu (DTT), under the scrutiny of the Audit and Risk Committee, presently conducts the statutory audits in return for reasonable fees. DTT were appointed at the annual general meeting of the Company held on 6 November 2003. The committee also has specific responsibility for recommending the appointment or dismissal of external auditors and monitoring any non-audit work carried out by the external audit firm. No director has any association, past or present, with the external auditor. DTT rotate their audit engagement partner every five years.

ASX principles compliance statement (cont)

Principle 5	Make timely and balanced disclosure *Promote timely and balanced disclosure of all material matters concerning the company*
Recommendation 5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.
Servcorp Board Response	The Company has established a continuous disclosure compliance plan. The Board and management continually monitor information and events and their obligation to report any matters. Responsibility for communications to the ASX on all material matters rests with the Company Secretary following consultation with the Chairman and Managing Director.
Recommendation 5.2	Provide the information indicated in Guide to reporting on Principle 5.
Servcorp Board Response	There is no further information to be provided.
Principle 6	Respect the rights of shareholders *Respect the rights of shareholders and facilitate the effective exercise of those rights*
Recommendation 6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
Servcorp Board Response	Servcorp aims to communicate clearly and transparently with shareholders and the community. Servcorp places all company announcements on its website and also displays annual and half-year reports. Shareholders are given a reasonable opportunity to ask questions at the annual general meeting.
Recommendation 6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor’s report.
Servcorp Board Response	Servcorp’s external auditor attends all annual general meetings and is available to answer shareholder questions.
Principle 7	Recognise and manage risk *Establish a sound system of risk oversight and management and internal control*
Recommendation 7.1	The board or appropriate board committee should establish policies on risk oversight and management.
Servcorp Board Response	The Company does not have formal written policies on risk oversight and management. The Board has established an Audit and Risk Committee that is comprised only of non-executive directors. The Committee reviews the Company’s risk management strategy, its adequacy and effectiveness and the communication of risks to the Board. Day to day responsibility is delegated to the Chief Executive Officer. The Chief Executive Officer is responsible for: • Identification of risk; • Monitoring risk; • Communication of risk events to the Board; and • Responding to risk events, with Board authority. The Board defines risk to be any event that, if it occurs, will have a material impact on the ability of the Company to achieve its objectives. Risk is considered across the financial, operational and organisational aspects of the Company’s affairs.
Recommendation 7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:

ASX principles compliance statement (cont)

Recommendation 7.2 (cont)	7.2.1 The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board. 7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.
Servcorp Board Response	The Chief Executive Officer and Chief Financial Officer provide such assurance.
Recommendation 7.3	Provide the information indicated in Guide to reporting on Principle 7.
Servcorp Board Response	This information is provided above.
Principle 8	Encourage enhanced performance *Fairly review and actively encourage enhanced board and management effectiveness*
Recommendation 8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.
Servcorp Board Response	The Board operates under a code of conduct which recognises that strong ethical values must be at the heart of director and Board performance. The Board as a whole evaluates individual director's performance and also the Board's performance. As a tool to evaluation a questionnaire is completed annually by the non-executive directors with the responses assessed and discussed by the Board as a whole.
Principle 9	Remunerate fairly and responsibly *Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined*
Recommendation 9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.
Servcorp Board Response	Servcorp's remuneration policies are discussed in the remuneration report on pages 25 to 27 of this annual report.
Recommendation 9.2	The board should establish a remuneration committee.
Servcorp Board Response	The Board has established a Remuneration Committee.
Recommendation 9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.
Servcorp Board Response	This information is provided in the remuneration report on page 26 of this annual report.
Recommendation 9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.
Servcorp Board Response	All equity-settled share based payments have been made in accordance with Servcorp's Executive and Employee Share Option Schemes. Both schemes had approval granted by shareholders at the November 2000 annual general meeting.

ASX principles compliance statement (cont)

Recommendation 9.5	Provide the information indicated in Guide to reporting on Principle 9. • Disclosure of the company's remuneration policies referred to in best practice recommendation 9.1 and in Box 9.1.
Servcorp Board Response	Details of Servcorp's remuneration policies for short-term employee benefits, post employment benefits and share based payments are set out in the remuneration report on pages 25 to 27 of this annual report.
Recommendation 9.5 (cont)	• The names of the members of the remuneration committee and their attendance at meetings of the committee.
Servcorp Board Response	This information is provided on pages 16 and 23 of this annual report.
Recommendation 9.5 (cont)	• The existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive directors.
Servcorp Board Response	There are no such schemes in existence.
Principle 10	Recognise the legitimate interests of stakeholders *Recognise legal and other obligations to all legitimate stakeholders*
Recommendation 10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.
Servcorp Board Response	The Board operates under a code of conduct which recognises that strong ethical values must be at the heart of the director and Board performance. They guide compliance with legal requirements and ethical responsibilities, and also set a standard for employees and directors dealing with Servcorp's obligations to external stakeholders. In regard to stakeholders, the Company: • Reports its financial performance twice a year to the Australian Stock Exchange; • Maintains a website; • Publishes all external announcements to the website and maintains these announcements for at least two years; • At general meetings, shareholders are given a reasonable opportunity to ask questions; • Analyst briefings are held following the release of the half-year and full-year financial results.

Directors' Report

The directors present their report together with the Financial Report of Servcorp Limited ("the Company") and the consolidated Financial Report of the "Consolidated Entity", being the Company and its controlled entities, for the financial year ended 30 June 2006.

Directors

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

Alf Moufarrige
Managing director

Chief Executive Officer
Appointed August 1999

Alf is one of the global leaders in the serviced office industry, with over 25 years of experience. Alf is primarily responsible for Servcorp's expansion, profitability, cash generation and currency management.

Directorships of listed entities in the last three years:

None.

Bruce Corlett
Chairman and independent non-executive director
BA, LLB

Member of Audit and Risk Committee
Chairman of Governance Committee
Member of Remuneration Committee
Appointed October 1999

Over the past 30 years Bruce has been a director of many publicly listed companies. His current directorships include Adsteam Marine Limited (Chairman), Stockland Trust Group and Trust Company of Australia Limited (Chairman).

Directorships of listed entities in the last three years:

- Adsteam Marine Limited since March 1997;
- Stockland Trust Group since October 1996;
- Tooth and Co. Limited since September 1999;
- Trust Company of Australia Limited since October 2000.

Rick Holliday-Smith
Independent non-executive director
BA (Hons), CA, FAICD

Chairman of Audit and Risk Committee
Member of Governance Committee
Appointed October 1999

Rick spent over 11 years in Chicago in the roles of Divisional President of global trading and sales for NationsBank, N.A. and, prior to that, Chief Executive Officer of Chicago Research and Trading Group Limited. Rick also spent over 4 years in London as Managing Director of HongKongBank Limited, a wholly owned merchant banking subsidiary of HSBC Bank.

Rick is currently a director of ASX Limited, Cochlear Limited and DCA Group Limited. He is also Chairman of Snowy Hydro Limited. Rick has a Bachelor of Arts (Hons) from Macquarie University, is a Chartered Accountant and is a Fellow of the Australian Institute of Company Directors.

Directorships of listed entities in the last three years:

- ASX Limited since July 2006;
- Cochlear Limited since February 2005;
- DCA Group Limited since October 2004;
- Exco Resources NL from June 1998 to November 2005;
- MIA Group Limited from May 2000 to September 2004;
- SFE Corporation Limited from April 2002 to July 2006 (Chairman).

Julia King
Independent non-executive director

Member of Audit and Risk Committee
Chair of Remuneration Committee
Appointed August 1999

Julia has had more than 30 years experience in strategic marketing and advertising. She was Chief Executive of the LVMH fashion group in Oceania and developed the business in this area. Prior to joining LVMH Julia was Managing Director of Lintas, a multinational advertising agency.

Julia is currently a non-executive director of John Fairfax Holdings Limited, Retail Cube Limited, Opera Australia and Carla Zampatti. She has been on the Australian Government's Task Force for the restructure of the wool industry and a member of the Council of the National Library.

Directorships of listed entities in the last three years:

- John Fairfax Holdings Limited since July 1995;
- Retail Cube Limited since January 2006.

Taine Moufarrige
Executive director
BA, LLB

Member of Remuneration Committee
Appointed November 2004

Prior to joining Servcorp, Taine practiced as a solicitor. Taine joined Servcorp in 1996 as a Trainee Manager following which he became a Manager, then General Manager for Australia, NZ and the Middle East. Taine is now responsible for operations in Australia, NZ, the Middle East and Asia and for the strategic growth of the Company in these regions. Taine played a key role in establishing Servcorp locations in Paris, Dubai, Auckland and throughout Australia. Taine holds a Bachelor of Laws from Bond University and a Bachelor of Arts from Macquarie University.

Directorships of listed entities in the last three years:

None.

Directors' meetings

The number of directors' meetings held (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year is set out in the table opposite.

Company Secretary

Greg Pearce
B Com, CA, ACIS

Appointed August 1999

Greg joined Servcorp in 1996 as Financial Controller and was appointed to his current role of Company Secretary during the Company's IPO in 1999. Prior to joining Servcorp Greg spent ten years working in the information technology business and the 11 years prior to that working in audit and business services.

Greg is a Chartered Accountant and is an Associate of Chartered Secretaries Australia.

Directors' attendances at meetings

Director	Board meetings	Audit & Risk committee	Remuneration committee
Number of meetings held:	9	3	2
Number of meetings attended:			
B Corlett	9	3	2
R Holliday-Smith	8	3	
J King	9	3	2
A G Moufarrige	9		
T Moufarrige	8		2

The details of the function and membership of the committees are presented in the corporate governance statement on page 16.

Principal activities

The principal activities of the Consolidated Entity during the course of the financial year were the provision of executive serviced and virtual offices and IT, communications and secretarial services.

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

Consolidated results

Net profit after tax for the financial year was $25.38 million (2005: $17.19 million). Operating revenue was $141.20 million (2005: $120.68 million). Basic and diluted earnings per share was 31.6 cents (2005: 21.4 cents).

The net profit after tax included a non-recurring provision write-back of $1.30 million related to the reversal of a floor closure provision for Brussels. The net profit after tax for 2005 included significant expenses totalling $1.60 million directly related to the closure and relocation of floors.

Dividends

Dividends totalling $8.44 million have been paid or declared by the Company in relation to the financial year ended 30 June 2006 (2005: $6.23 million).

The following table includes information relating to dividends in respect of the prior and current financial year, including dividends paid or declared by the Company since the end of the previous year.

Dividends paid and declared

Type	Cents per share	Total amount $'000	Date of payment	Franked %	Tax rate for franking credit
In respect of the previous financial year:					
2005					
Interim - ordinary shares	3.75	3,015	1 April 2005	100%	30%
Final - ordinary shares	4.00	3,216	4 October 2005	100%	30%
In respect of the current financial year:					
2006					
Interim - ordinary shares	4.50	3,618	4 April 2006	100%	30%
Final - ordinary shares	6.00	4,826	4 October 2006	100%	30%

Review of operations

At the end of the financial year, Servcorp operated 57 floors, in 43 locations, spanning 18 cities in 11 countries. The Consolidated Entity operates in Australia, New Zealand, Japan, South-East Asia, Greater China, France, United Arab Emirates and Belgium.

During the year 4 new locations (5 floors) have been established and 2 floors closed, giving rise to a net increase of 7% in capacity.

The number of office suites operated by the Consolidated Entity increased to 2,348 with an average mature floor occupancy of 85%.

Expansion plans underway at present include new locations in Sydney, Paris, Singapore, Beijing and Tokyo. Further opportunities are being evaluated in Tokyo, Bahrain, Osaka and Nagoya.

Currently the Consolidated Entity has cash and cash equivalent assets in excess of $58 million and is well placed to take advantage of expansion opportunities when the timing is considered favourable.

Australia & New Zealand

Australia and New Zealand performed strongly during the year. Revenue from ordinary activities increased by 8% to $39.39 million. Net profit before tax increased by 20% to $8.51 million. During the year a new floor opened in Brisbane, and a floor was closed in Melbourne with clients relocated to a new floor. A business was also purchased from a competitor in Perth during July 2006.

Japan & Asia

Japan and Asia continued to perform strongly, recording an increase in revenue of 22% to $86.82 million. Net profit before tax increased by 47% to $20.51 million. Japan continued to grow with one new floor opening during the year.

Asia also continued to grow strongly. Servcorp purchased a floor from a competitor in Hong Kong in July 2005. In Shanghai one floor closed with clients relocated to a new location.

Europe & Middle East

The performance of the Europe and Middle East segment has improved significantly. Revenue increased by 22% to $17.71 million. A decision was made not to close the Brussels operation, which resulted in a write-back of a closure provision of $1.30 million during the year. Excluding the provision write-back, the segment recorded a net profit before tax of $4.19 million compared to $1.10 million for the year ended 30 June 2005.

The Dubai location continued to perform above expectations. Although mindful of current political events, management continue to look for new opportunities in the region.

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

New locations

City	Location	Offices	Opened
Hong Kong	Level 39, One Exchange Square	47	July 2005
Brisbane	Level 36, Riparian Plaza	49	December 2005
Shanghai	Level 23, Citigroup Tower	65	January 2006
Tokyo	Level 9, Tokyo Big Sight	19	February 2006
Melbourne	Level 27, 101 Collins Street	65	March 2006

Events subsequent to balance date

On 15 July 2006 a company in the Consolidated Entity acquired a business in Perth. The consideration paid for the business, assets and customer licence agreements purchased was $1,365,232.

On 22 August 2006 the directors declared a fully franked final dividend of 6.00 cents per share, payable on 4 October 2006.

The financial effect of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2006.

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

Likely developments

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

Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

Shares issued on the exercise of options

Date options granted	Number of shares	Amount paid
21 May 2004	30,000	$2.00

Options

Options on issue

At the date of this report there are no unissued ordinary shares of the Company under option.

Options granted

During the year or since the end of the financial year, the Company has not granted any options over unissued ordinary shares of the Company.

Shares issued on the exercise of options

No shares were issued by the Company during the year ended 30 June 2006 as a result of the exercise of options over unissued shares.

Since the end of the financial year the Company has issued 30,000 ordinary shares as a result of the exercise of options over unissued shares, as detailed in the above table. No amounts are unpaid on any of the shares.

Directors' interests

The relevant interest of each director in the share capital of the companies within the Consolidated Entity, as notified by the directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Servcorp Limited

Director	Ordinary shares		Options over ordinary shares
	Direct	Indirect	
B Corlett	233,895	106,502	-
R Holliday-Smith	250,000	-	-
J King	72,500	15,000	-
A Moufarrige	540,890	47,681,633	-
T Moufarrige	59,992	-	-

Remuneration report

Principles used to determine the nature and amount of remuneration

The Board recognises that the Company's performance is dependent on the quality of its people. To achieve its financial and operating objectives, Servcorp must be able to attract, retain and motivate highly-skilled executives.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders.

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

- Provides competitive rewards that attract, retain and motivate executives of the highest calibre;
- Structures remuneration at a level that reflects the executives duties and accountabilities and is competitive within Australia and, for certain roles, internationally;
- Aligns executive incentive rewards with the creation of value for shareholders;
- Complies with applicable legal requirements and appropriate standards of governance.

The framework may provide a mix of fixed and variable pay, and a blend of short and long term incentives.

The methodology used to calculate performance rewards is not formally structured. The continued steady increase in the Company's earnings has resulted in reward for those executives who have been essential to achieving this success. Accordingly, bonuses paid in the financial year ended June 2006 have increased compared to prior years. Bonuses are not set as a fixed percentage of profit, but are generally an amount agreed with the Managing Director, often in consultation with the Board, and based on individual performance levels.

Remuneration report (cont)

Principles used to determine the nature and amount of remuneration (cont)

This year the Company has formally re-established the Remuneration Committee. The Committee's charter includes the formulation and more formal structuring of the Company's remuneration policy. A policy will be put in place to provide senior executives with a more structured scheme for long term and short term incentives, based on earnings, earnings growth and individual performance criteria.

The success of the Company's current executives is evident in the Company's results. In the current financial year and over the previous four financial years net profit after tax has increased from a loss of $3.41 million in 2002 to a profit of $25.38 million in 2006. Shareholder wealth has similarly increased. Dividends paid in each of those financial years have increased from 7.5 cents per share in 2002 to 7.75 cents per share in 2005 and 10.5 cents per share in this financial year. The Company's share price has steadily increased from a low of 97 cents in March 2003 to $5.69 at the date of this report.

Non-executive directors

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

Directors' fees

Non-executive directors' fees are determined within an aggregate directors' fee limit. The pool limit currently stands at $350,000 as approved at the time of Servcorp's IPO in December 1999. This is inclusive of payments for superannuation.

Non-executive directors' fees were initially set in December 1999. That level of fees did not vary until the current base remuneration was reviewed with effect from 1 January 2005. Fees for each non-executive director were increased by $10,000 per annum at that time. Additional fees are not paid for membership or chairmanship of board committees.

Retirement allowances for directors

Non-executive directors are not entitled to retirement allowances other than amounts previously contributed to complying superannuation funds.

Details of remuneration

Details of the nature and amount of each element of the remuneration of each director of Servcorp Limited for the year ended 30 June 2006 is set out in the following table.

Executive remuneration

The executive remuneration and reward framework has three components:

- Base remuneration and benefits;
- Short term performance incentives;
- Long term incentives through participation in the Servcorp Executive Share Option Scheme. Not all executives currently participate in this scheme.

The combination of these comprises the executive's total remuneration.

Base remuneration

The base component of executive remuneration comprises base salary, superannuation contribution and other components such as motor vehicles. It is determined by the scope of each executive's role, their level of knowledge, skill and experience and individual performance. It is structured as a total employment cost package.

Executives are offered a competitive base remuneration that comprises the fixed component of pay and rewards. Base remuneration is set to reflect the market for a comparable role. Base remuneration is reviewed annually to ensure the executive's remuneration is competitive with the market. Remuneration is also reviewed on promotion. There are no guaranteed base remuneration increases for any senior executives.

Directors' remuneration

Name	Short-term employee benefits			Post employment		Share based payment	Total
	Salary and fees $	Bonus $	Non-monetary $	Super $	Prescribed benefits $	Equity options $	$
A Moufarrige	202,829	200,000	120,951	36,018	-	-	559,798
T Moufarrige	183,224	90,000	7,061	27,450	-	-	307,735
B Corlett	90,000	-	-	8,100	-	-	98,100
R Holliday-Smith	55,000	-	-	4,950	-	-	59,950
J King	55,000	-	-	4,950	-	-	59,950
	586,053	290,000	128,012	81,468	-	-	1,085,533

Remuneration report (cont)

Retirement benefits

Retirement benefits for Australian executives are delivered under the Servcorp Superannuation Fund. This fund provides accumulation benefits based on contributions and fund earnings. Executives may nominate for contributions to be made to another fund of their choice.

Short-term incentives

The short-term incentive component of executive remuneration may comprise an annual cash incentive which is linked to the performance of both Servcorp and the individual executive.

Executives do not have a fixed proportion of their total remuneration that is performance related. Performance targets are agreed with executives at the start of each year to ensure they meet specific business objectives for which the individual is responsible.

Cash incentives (bonuses) are generally payable following finalisation of half-year and full-year results. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan.

For the financial year ended 30 June 2006, short term incentive plans were based on the following components:

- Where the executive had responsibility for a region or business unit, attaining performance targets for operating profit;
- Where the executive did not have direct responsibility for a business unit, meeting specific business objectives for which the executive was responsible.

The short term incentive target is reviewed annually.

Servcorp Executive Share Option Scheme

The Board may grant options to eligible executives in accordance with the Servcorp Executive Share Option Scheme to provide long term incentives.

Options do not form a fixed percentage of any executive's remuneration. No options were granted during or since the end of the 2006 financial year.

Details of remuneration

Details of the nature and amount of each element of the remuneration of each of the five named officers of the Company and the Consolidated Entity receiving the highest remuneration for the financial year ended 30 June 2006 is set out in the following table.

Executives' remuneration

Name	Short-term employee benefits			Post employment		Share based payments	Total
	Salary and fees $	Bonus $	Non-monetary $	Super $	Prescribed benefits $	Equity options $	$
M Moufarrige (i) GM Asia and CIO	183,136	85,000	20,061	23,850	-	-	312,047
O Vlietstra (i) GM Japan	163,462	93,492	12,088	-	-	-	269,042
R Baldwin (i) GM ITS	172,091	62,500	-	21,815	-	-	256,406
T Wallace (i), (ii) CFO	153,374	43,000	-	19,630	-	9,127	225,131
S Lombardo (i) Chief Tech Officer	144,142	10,000	-	13,800	-	-	167,942
	816,205	293,992	32,149	79,095	-	9,127	1,230,568

Notes:

(i) The primary bonus has been 100% paid to, or vested in, the person in the 2006 financial year. No percentage of the bonus was forfeited or will be payable in financial years after the financial year to which this report relates.

(ii) The options included in the remuneration of T Wallace were granted in May 2004. The options were valued using the Black Scholes option pricing model. These options were not considered a percentage of the value of T Wallace's remuneration for the current financial year.

Indemnification and insurance of directors and officers

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

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

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

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

State of affairs

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

Directors' benefits

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

Corporate governance

A statement of the Board's governance practices is set out on pages 14 to 21 of this report.

Environmental management

The Consolidated Entity's operations are not subject to any particular and significant environmental regulations under either Commonwealth or State legislation.

Rounding off

The Company is of a 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 and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Non-audit services

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

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

- Non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *F1 Professional Independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company or jointly sharing risks and rewards.

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

Details of the amounts paid or payable to the auditor of the Company, Deloitte Touche Tohmatsu and its related practices for audit and non-audit services provided during the year are set out in note 4 to the financial statements.

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

A G Moufarrige
Managing Director

Dated at Sydney this 15th day of September 2006.

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Servcorp Limited
Level 17, BNP Paribas Centre
60 Castlereagh Street
SYDNEY NSW 2000

11 September 2006

Dear Board Members

Servcorp Limited

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

As lead audit partner for the audit of the financial statements of Servcorp Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

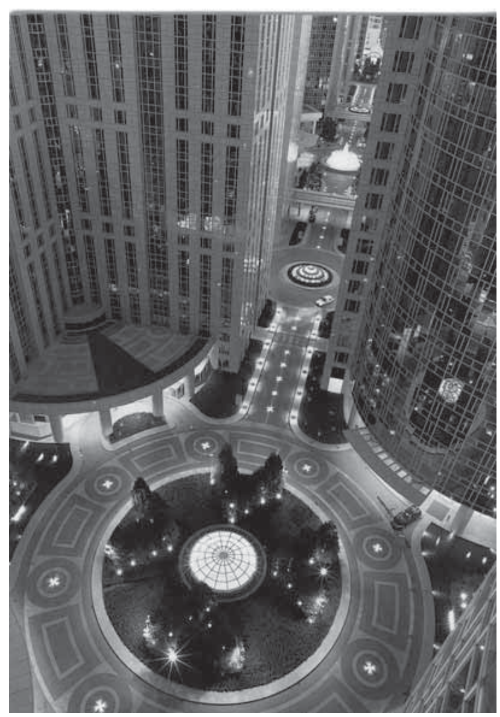
Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P G Forrester
Partner
Chartered Accountants

2006 Financial Report

CONTENTS



Income statement

Servcorp Limited and its controlled entities

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 receivable	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

Servcorp Limited and its controlled entities

as at 30 June 2006

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

Servcorp Limited and its controlled entities

for the financial year ended 30 June 2006

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

Servcorp Limited and its controlled entities

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 aquisition of business		(1,645)	-	-	-
Payments for lease deposits		(2,828)	(3,382)	-	-
Proceeds from 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/(decrease) 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.

1 Summary of accounting policies

Statement of compliance

The financial report 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 were authorised for issue by the directors on 15 September, 2006.

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.

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.

1 Summary of accounting policies (continued)

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 subsdiaries, 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.

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.

1 Summary of accounting policies (continued)

(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.

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 the 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.

1 Summary of accounting policies (continued)

(h) Taxation (continued)

Deferred tax (continued)

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the 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 the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the 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 Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the 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 ATO 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.

1 Summary of accounting policies (continued)

(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 July 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.

(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.

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 the 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, its carrying amount is the present value of those cash flows.

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.

1 Summary of accounting policies (continued)

(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.

(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.

1 Summary of accounting policies (continued)

(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.

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 arose 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 was no longer expected to occur.

1 Summary of accounting policies (continued)

(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.

- 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:				
	Revenue from the rendering of services	141,203	120,684	-	-
(b)	**Other income**				
	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	-	-
	Total other income	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:				
	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	-	-
	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

		Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
3	**Significant transactions**				
	Individually significant transactions included in profit from ordinary activities before income tax expense:				
	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 receivable	-	-	(4,746)	-

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

		Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
4	**Remuneration of auditors**				
(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 consulting	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:

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
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%).

(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	-	-
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

		Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
5	Income taxes (continued)				
(c)	Deferred tax balances				
	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
	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	-	-

		Consolidated		The Company	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
5	Income taxes (continued)				
(d)	**Unrecognised deferred tax balances**				
	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.

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)	(70)	116
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	The Company 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 payment 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	$0.316	$0.214
Diluted earnings 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%).

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
10 Trade and other receivables					
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 (i)	30	-	-	78,587	75,867
		14,551	12,538	78,695	76,945
Non-current					
At amortised cost (2005: cost)					
Other debtors		-	227	-	227

Notes:

(i) 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).

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

		Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
12	Other financial assets (continued)					
	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	-	-
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	-	-

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
13 Property, plant and equipment (continued)				
Reconciliations (continued)				
Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:				
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	-	-
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 $'000	2005 $'000	2006 $'000	2005 $'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 $'000	2005 $'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.

		Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
15	**Trade and other payables**					
	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 was 11.18% (2005: 10.90%).

		Note	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
16	**Other financial liabilities**					
	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.

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
17 Financing arrangements				
The Consolidated Entity and the Company have access to the following lines of credit:				
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 sheet 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 sheet 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	Consolidated Litigation costs $'000	Consolidated Floor closure costs $'000	Consolidated 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) The decision to close the Brussels location was reviewed and consequently the closure provision of $1,298,000 was reversed in December 2005.

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
19 Issued capital				
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 Schemes 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**					
	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.					
	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**					
	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 $'000	Fixed interest maturing in 1 year or less $'000	Fixed interest maturing in 1 to 5 years $'000	Fixed interest maturing in More than 5 years $'000	Non-interest bearing $'000	Total $'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.

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.

22 Additional financial instruments disclosures (continued)

(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	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'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)

Options granted to employees (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 Scheme 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
29 November 1999	29 November 2004	Yes	$1.50	-	-	450,000
16 December 1999	16 December 2004	Yes	$1.50	-	-	728,000
21 May 2004	21 May 2009	Yes	$2.00	30,000	30,000	30,000
				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.

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
24 Commitments for expenditure				
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.

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
Not 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):

	Consolidated 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'000
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 %	Ownership interest 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 (formerly Servcorp Optus Centre Pty Ltd)	Australia	100	100
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
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

25 Subsidiaries (continued)

Name of entity	Country of incorporation	Ownership interest 2006 %	2005 %
Controlled entities (continued)			
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 Japan Holdings KK	Japan	-	100
Servcorp Otemachi KK	Japan	-	100
Servcorp Umeda 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 notwithstanding 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		
Servcorp Market Street Pty Ltd	-	100
The entity was formed on 14 March 2006		
Office Squared Pty Ltd	-	100
The entity was formed on 4 April 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		
Disposals (i)	Country of incorporation	
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 2006 $'000	Consolidated 2005 $'000	The Company 2006 $'000	The Company 2005 $'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:				
	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**				
	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**				
	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 receivable	-	-	(4,746)	-
	Effect of tax consolidation on tax balances	-	-	(2,654)	(4,278)
	Equity-settled share based payment	9	-	9	-
	Other	(44)	-	-	-
	Change 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

(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

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.

28 Key management personnel remuneration (continued)

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

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.

	Consolidated 2006 $	Consolidated 2005 $	The Company 2006 $	The Company 2005 $
28 Key management personnel remuneration (continued)				
The aggregate compensation of the key management personnel of the Consolidated Entity and the Company, are as follows:				
Short-term employee benefits:				
Salary 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 No.	Granted No.	Exercised No.	Balance at 30/6/06 No.	Vested and exercisable No.	Net vested 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 Schemes 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 sheet 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 No.	Received on exercise of options No.	Net change No.	Balance at 30/6/06 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.

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.

30 Related party disclosures (continued)

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 Limited	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 sheet 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	-	-

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 sheet date and the significant transactions comprising the movement in the balance are:		
Current receivables		
Amounts receivable from controlled entities	78,587	75,867

Current receivables comprise of day to day funding of expenses

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

	The Company 2006 $'000	2005 $'000
30 Related party disclosures (continued)		
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

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).

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

(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 Schemes 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.

32 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (continued)

(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.

(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.

32 Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (continued)

(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.

Directors' declaration

In the opinion of the directors of Servcorp Limited:

(a) the financial statements and notes, set out on pages 32 to 82, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company and Consolidated Entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

  (ii) complying with Accounting Standards in Australia; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

A G Moufarrige
Managing Director

Dated at Sydney this 15th day of September 2006.

Deloitte.

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Independent audit report to the members of Servcorp Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Servcorp Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 32 to 83. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Deloitte.

Auditor's Independence Declaration

The independence declaration provided to the directors of Servcorp Limited on 11 September 2006 would be in the same terms if it was given to the directors on the date this audit report is made out.

Audit Opinion

In our opinion, the financial report of Servcorp Limited is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

P G Forrester
Partner
Chartered Accountants
Parramatta, 15 September 2006

Shareholder information

As at 1 September 2006

The shareholder information set out below is provided in accordance with the Listing Rules and was applicable as at 1 September 2006.

On-market buy-back

There is no current on-market buy-back.

Class of shares and voting rights

Ordinary shares
There were 710 holders of the ordinary shares of the Company.

At a general meeting:

- On a show of hands, every member present has one vote;
- On a poll, every member present has one vote for each fully paid share held.

Options
There were no holders of options over unissued ordinary shares of the company.

Distribution of shareholders and optionholders

Size of holding	Ordinary shares			Options		
	Number of holders	Number of shares	% of shares	Number of holders	Number of options	% of options
1 - 1,000	172	106,866	0.13%	-	-	-
1,001 - 5,000	331	939,217	1.17%	-	-	-
5,001 - 10,000	97	768,742	0.96%	-	-	-
10,001 - 100,000	82	2,845,656	3.54%	-	-	-
100,001 and over	28	75,767,829	94.20%	-	-	-
Totals	710	80,428,310	100%	-	-	-

There were 10 holders of ordinary shares holding less than a marketable parcel, based on the closing market price at the specified date.

Substantial shareholders

The following organisations have disclosed a substantial shareholder notice to Servcorp:

Name	Number of shares	% of voting power advised
Sovori Pty Ltd	48,379,753	60.51%
Commonwealth Bank of Australia	14,701,141	18.29%
Deutsche Bank Group	6,095,488	7.58%

Shareholder information (continued)

Twenty largest shareholders

Name	Number of ordinary shares held	Percentage of capital held
Brispot Nominees Pty Ltd (House Head Nominees No 1 Account)	310,790	0.39%
Citicorp Nominees Pty Limited (CFS Developing Companies Account)	3,001,301	3.73%
Citicorp Nominees Pty Limited (CFS WSLE Imputation Fund Account)	3,951,793	4.91%
Citicorp Nominees Pty Limited (CFS Imputation Fund Account)	2,714,411	3.37%
Citicorp Nominees Pty Limited (CFSIL CFS WS Small Companies Account)	1,173,025	1.46%
Citicorp Nominees Pty Limited	373,236	0.46%
Citicorp Nominees Pty Limited (CFS WSLE Australian Share Fund Account)	1,625,644	2.02%
Citicorp Nominees Pty Limited (CFS WSLE Industrial Share Account)	1,303,905	1.62%
Cogent Nominees Pty Limited	870,307	1.08%
Cogent Nominees Pty Limited (SMP Account)	788,500	0.98%
Equity Trustees Limited (SGH Pi Smaller Co's Fund)	1,251,565	1.56%
Holliday-Smith R	250,000	0.31%
JP Morgan Nominees Australia Limited	3,962,705	4.93%
Moufarrige A G	540,890	0.68%
National Nominees Limited	1,250,497	1.55%
Sovori Pty Limited	47,681,633	59.28%
Transport Accident Commission	297,045	0.37%
UBS Wealth Management Australia Nominees Pty Limited	715,467	0.89%
Victorian Workcover Authority	519,136	0.65%
Westpac Custodian Nominees Limited	2,244,882	2.79%
Totals for Top 20	74,826,732	93.04%

Options

Category	Number on issue	Number of holders
Executive and employee	-	-

Corporate information

Directors

Alf Moufarrige
Bruce Corlett
Rick Holliday-Smith
Julia King
Taine Moufarrige

Company Secretary

Greg Pearce

Registered office and principal office

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Sydney NSW 2000

Telephone: (02) 9231 7500
Facsimile: (02) 9231 7665

Share registry

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28 Margaret Street
Sydney NSW 2000

PO Box R67
Royal Exchange
Sydney NSW 1223

Telephone: (02) 9290 9600
Facsimile: (02) 9279 0664

Auditors

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

Stock exchange

Servcorp Limited shares are quoted on the Australian Stock Exchange under the code SRV. The Home Exchange is Sydney.

Annual general meeting

The annual general meeting of Servcorp Limited will be held at Level 29, The Chifley Tower, 2 Chifley Square, Sydney at 5pm on Thursday 9 November 2006.

PRODUCTIONS

Acknowledgements:
Illustrations by
Steve Panozzo,
Noz Productions,
http://www.noz.com.au

Fook Luk Sau