

**IS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or independent adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to FSMA. This document has been prepared on the assumption that the Scheme has become effective in accordance with its current terms.**

The Directors, whose names appear on page 7, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Applications have been made to the UK Listing Authority for the New Shares to be admitted to the Official List and to the London Stock Exchange for the New Shares to be admitted to trading on the London Stock Exchange's market for listed securities. If the Scheme proceeds as currently envisaged, it is expected that Admission will become effective, and that unconditional dealings will commence, on 17 November, 2003.

A copy of this document, comprising listing particulars relating to Regus Group, prepared in accordance with the Listing Rules made under Section 74 of FSMA, has been delivered to the Registrar of Companies for registration in accordance with Section 83 of FSMA.

No New Shares have been marketed to, nor are available for purchase by, the public in the United Kingdom or elsewhere in connection with the introduction of the New Shares to the Official List or to trading on the London Stock Exchange's market for listed securities. This document does not constitute an offer or invitation for any person to subscribe for or purchase any securities in Regus Group.

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# Regus Group plc

(incorporated and registered in England and Wales under the Companies Act with  
registered number 04868977)

## **Listing Particulars relating to the introduction to the Official List and trading on the London Stock Exchange of up to 700,691,630 New Shares of 5 pence each**

**Sponsored by N M Rothschild & Sons Limited**

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This document has been prepared in connection with a scheme of arrangement pursuant to section 425 of the Companies Act to introduce a new holding company, Regus Group, to the Group and in connection with a plan of reorganisation pursuant to the US Bankruptcy Code which, if approved, will result in Regus, B.V. and RBCC emerging from Chapter 11. A summary of the Scheme and the Plan is set out in Part 1 of this document.

N M Rothschild & Sons Limited is acting for Regus Group and Regus and no-one else in connection with Regus Group's application for listing and the proposals described in this document and will not be responsible to anyone other than Regus Group and Regus for providing the protections afforded to its clients or for providing advice in relation to the listing or the contents of this document.

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to sell or issue, or the solicitation of any offer to buy or subscribe for shares in any jurisdiction in which such offer or solicitation is unlawful.

The New Shares will not be registered under the Securities Act, in the case of New Shares issued under the Scheme, in reliance on the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) thereof, and in the case of New Shares issued under the Plan, in reliance on the exemption from the registration requirements of the Securities Act provided by Section 1145 thereof. Such securities have not been approved or disapproved by the SEC or any US state securities commission, nor has the SEC or any state securities commission passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the US. For certain US securities law considerations applicable to overseas shareholders see paragraph 9 of Part 1 of this document.

### **Cautionary statement regarding forward looking statements**

These listing particulars contain forward-looking statements. These forward-looking statements are not historical facts, but rather are based on the Group's current expectations, estimates and projections about the industry, beliefs and assumptions. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, (some of which are beyond the Group's control), are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. These risks and uncertainties are described in "Risk Factors" and elsewhere in these listing particulars. Subject to any continuing obligations under the Listing Rules, the Group disclaims any obligation of undertaking after Admission to disseminate any updates or revisions to any forward-looking statements contained herein, to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Forward-looking statements made in these listing particulars relate only to events as of the date on which statements are made.

### **Financial information and currency translations**

The consolidated financial information of the Group has been prepared in accordance with UK GAAP. UK GAAP differs in certain significant respects from US GAAP as described in note 28 to Part 4, Financial Information.

### **Audit opinion for the year ended 31 December, 2002**

The audit opinion of KPMG (issued in May, 2003) in respect of Regus for the year ended 31 December, 2002 included the following statement:

"In forming our opinion, we have considered the adequacy of the disclosure in the Accounting Policies Note concerning the uncertainties over the future funding of the group which is dependent upon:

- a plan of reorganisation acceptable to Regus being approved by US creditors and the US courts. A plan of reorganisation acceptable to Regus is one which will enable Regus to achieve net cash generation within a reasonably short timeframe and will result in a payment profile of claims which can be met out of future cashflows of the group;
- Regus' German business also being successfully restructured so as to achieve cash break-even within a reasonably short timeframe;
- Regus receiving all or substantially all of the first tranche of the deferred consideration receivable from Alchemy Partners in respect of the sale of a majority stake in the UK business on a timely basis; and
- there being no significant deterioration in current trading.

In view of the significance of these uncertainties, we consider that the basis of preparation note within the Accounting Policies Note (which is set out on page 62 of these listing particulars) should be brought to your attention but our opinion is not qualified in this respect.”

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**EXPECTED TIMETABLE OF EVENTS**

*All times are UK times unless otherwise stated.*

2003

UK - Latest time for receipt of BLUE Form of Proxy for the Court Meeting <sup>1</sup>	11.00 a.m. on 25 October
UK - Latest time for receipt of GREEN Form of Proxy for the EGM <sup>1</sup>	11.15 a.m. on 25 October
UK - Voting Record Time for the Court Meeting <sup>2</sup>	6.00 p.m. on 25 October
UK - Voting Record Time for the EGM <sup>2</sup>	6.00 p.m. on 25 October
UK - Court Meeting	11.00 a.m. on 27 October
UK - EGM <sup>3</sup>	11.15 a.m. on 27 October
US - Bankruptcy Court hearing to approve/confirm the Plan of Reorganisation	12 November
UK - Court Hearing of the petition to sanction the Scheme <sup>4</sup>	14 November
UK - Last day of dealing in, and for registration of transfers of, Shares <sup>5</sup>	14 November
UK - Scheme Record Time <sup>5</sup>	6.00 p.m. on 14 November
<b>UK - Effective Date of the Scheme<sup>5</sup></b>	<b>7.00 a.m. on 17 November</b>
UK - Delisting of Shares, New Shares admitted to the Official List, crediting of New Shares to CREST accounts and dealings in New Shares commence on the London Stock Exchange <sup>5</sup>	8.00 a.m. on 17 November
US - Last day to appeal the Bankruptcy Court's order approving/confirming the Plan of Reorganisation <sup>6</sup>	22 November
UK - Despatch of share certificates for New Shares <sup>5</sup>	by 7 December
<b>US - Effective Date of the Plan of Reorganisation<sup>7</sup></b>	<b>12 December</b>

- <sup>1</sup> If the BLUE Form of Proxy for the Court Meeting is not returned by this time, it may be handed to the Registrars at the Court Meeting before the start of the meeting and will still be valid. However, in the case of the GREEN Form of Proxy for the EGM, it will be invalid unless it is lodged with the Registrars so as to be received by no later than 11.15 a.m. on 25 October, 2003.
- <sup>2</sup> If either the Court Meeting or the EGM is adjourned, the Voting Record Time for the adjourned meeting will be 48 hours before the time stated for the start of the adjourned meeting.
- <sup>3</sup> To commence at the time stated, or, if later, immediately after the conclusion or adjournment of the Court Meeting.
- <sup>4</sup> This date is indicative only and depends on, amongst other things, the date upon which the Bankruptcy Court hears the application to approve/confirm the Plan of Reorganisation.
- <sup>5</sup> These dates are indicative only and will depend on, amongst other things, the date upon which the Court sanctions the Scheme.
- <sup>6</sup> This date is indicative only and depends on, amongst other things, the date upon which the Bankruptcy Court hearing to approve/confirm the Plan of Reorganisation takes place.
- <sup>7</sup> This date is indicative only. The effective date of the Plan of Reorganisation will occur on the first Business Day following the satisfaction or waiver of the conditions set out in detail in paragraph 2 of Part 1 ("Timing of Implementation of the Plan") provided that such Business Day does not occur later than 30 days following the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket of the Bankruptcy Court.

**DIRECTORS, SECRETARY, REGISTERED OFFICE AND ADVISERS****Directors**

John Waylett Matthews (Chairman)  
Mark Leslie James Dixon (Chief Executive)  
Rudolf John Gabriel Lobo (Executive Director)  
Roger Gerard Orf (Senior Independent Non-executive Director)  
Anthony Martin Robinson (Independent Non-executive Director)

The business address of each of the Directors is:  
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Chertsey  
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**Company secretary**

Timothy Sean James Regan

**Registered and Head office**

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Surrey KT16 0RS

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The Registry  
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[www.regus.com](http://www.regus.com)



## RISK FACTORS

### RISK FACTORS

*You should carefully consider the risks described below as well as the other information contained in this document in evaluating the Group and its business. If any of the following risks actually occurs, the Group's business, financial condition or results of future operations could be significantly harmed. In that case, the trading price of the New Shares could decline and you may lose all or part of your investment. This document contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Group described below and elsewhere in this document. You should also refer to the other information in this document including the Group's consolidated financial statements and the related notes which are set out in Part 4 of this document.*

#### **Risks associated with the Chapter 11 process**

The filing for bankruptcy protection by Regus is a risk factor with respect to the continued operation of the Group's business and the value of the Group's equity. These uncertainties raise substantial doubt about the Group's ability to continue as a going concern in its present form. While the goal of the Chapter 11 process is the confirmation of the Plan of Reorganisation with respect to the Debtors that enables each Debtor to emerge as a going concern, there is no guarantee that such reorganisation efforts will be successful or that the Debtors will be able to confirm the Plan of Reorganisation. If confirmed, the Plan of Reorganisation will involve a substantial dilution (up to a maximum of approximately 12 per cent. of the interests of Regus Shareholders). If the Plan of Reorganisation is not confirmed it is possible that the Debtors may have to seek bankruptcy protection and pursue reorganisation or liquidation in their respective home jurisdictions. In this event Regus Group Shareholders would be very unlikely to receive any recovery on their investment following the bankruptcy.

#### **Risks associated with the serviced office market**

***The Group faces competition, and if the Group is unable to compete effectively, it may be unable to maintain or expand its network of centres in the future and it may lose customers***

Barriers to entry into the serviced office market at the local level are low. Although barriers to establishing a national or international network are higher, Regus Group cannot assure you that these barriers will remain or will deter new entrants or existing competitors. In addition, there is the potential for local operators to overcome these barriers to establishing wider networks by forming alliances. There is also the potential for property companies, hotel operators or other companies to enter the market, either alone or in collaboration with service providers such as the Group. If the Group is unable to respond adequately to the competitive challenges it faces or establish a sustainable competitive advantage, it may be unable to maintain its network of centres and it may lose market share. In addition, in more competitive markets there is pressure on the Group's prices, causing an adverse impact on its revenue and profitability.

***The concept of serviced offices may not be widely accepted in all markets***

The acceptance of the concept of serviced offices is at varying stages of development across the different geographical regions in which the Group operates. Whilst the majority (by revenue) of Regus' customer base is in more mature markets (e.g. the US and Western Europe) the development of the serviced office business in less mature markets may become increasingly important for the Group. Even in the more developed markets, the serviced office market represents only a small percentage of the entire office market and in those less developed countries, where serviced offices are a relatively new concept, replacing the traditional office market may still be difficult. Regus Group cannot assure you that the concept will become increasingly accepted around the world. If the concept is not more widely accepted in areas in which the Group operates its centres, the Group's revenue and profitability could be adversely affected.

***Current drivers of the growth of the serviced office market may not develop as expected and could hinder market demand for serviced offices***

There can be no assurance that the factors that Regus Group expects to drive the long-term growth of the serviced office market in the future will in fact do so. For example, the trends towards globalisation of trade and increased outsourcing of office and related services may not develop as expected.

***Changes in the structure of the property industry could reduce demand for serviced offices***

In some markets, the attraction of the Group's products derives in part from the long length of leases for traditional office space. A shortening of normal lease terms or other changes in the property market could make serviced offices less attractive to customers.

***Changes in work practices and certain technological advances could be detrimental to the business of the Group***

Changes in work practices could occur which would be detrimental to the business of the Group, such as a move to working at home where office infrastructure is not necessary. In addition, technological advances could occur that facilitate this shift to working at home. For example, improvements in the connectivity of homes around the world could allow current employees of the potential customers of the Group to participate in video conferences at home or participate in virtual meetings from home using broadband Internet or other technologies.

***Technological advances could require the Group to make substantial investments to maintain its competitive position***

The Group provides its customers with access to information technology and telecommunications equipment and infrastructure for use in their businesses. Regus Group cannot assure you that there will not be significant developments in the technology which businesses use that would require the Group to make a further substantial investment in new technology to maintain its competitive position or which would adversely affect the attraction of the products of the Group.

## **Risks associated with the Group**

### ***Continuation of the Group's operations is dependent upon confirmation of the Plan of Reorganisation in the Chapter 11 Cases***

Regus (and each of the other Debtors) may not be in a position to confirm the Plan of Reorganisation in its Chapter 11 Case and so the Chapter 11 Case of Regus (and each of the other Debtors) may be converted to a case under Chapter 7 of the Bankruptcy Code which would mean that a trustee would be appointed to liquidate Regus' (and each of the other Debtors') assets and distribute the proceeds of the sale of those assets to creditors in accordance with the provisions of the Bankruptcy Code. Additionally, Regus (and each of the other Debtors) may be required to seek protection and reorganisation or liquidation under UK insolvency laws.

### ***Currently the Group has no committed bank or other facilities which are not cash collateralised***

The Group does not currently have any committed bank or other facilities. Notwithstanding the existing Chapter 11 process, if revenues were to deteriorate such that funding shortfalls were projected to arise, the Group would need to seek external funding to address this or sell further assets. No assurance can be given as to whether or on what terms external sources of funding would be available. As of 30 June, 2003, the Group had cash in hand or in the bank of £49.5 million including £27.9 million of restricted cash.

If the business of the Group was not able to meet such funding shortfalls, the Group may be forced to seek protection under UK insolvency laws.

### ***The Group's UK operation may decide to operate a different strategy to the rest of the Group***

On 30 December, 2002, Regus sold 58 per cent. of its UK operations to Rex 2002, a company established by Alchemy Partners, a private venture capital group. While Regus Group expects that the UK and the Group's businesses in the rest of the world will continue to work together as before, there can be no guarantee of this. In this event, cross-border sales may suffer, as well as an inability to utilise previously achieved economies of scale.

### ***The Group's UK operation will no longer provide the same cash inflows for the benefit of the rest of the Group***

Regus' UK business has historically been a major contributor to the performance of the Group. However, as a result of the sale of 58 per cent. of Regus' UK business, the Group will no longer receive cash inflows from that business to the extent that it did prior to 30 December, 2002. As such, the Group's non-UK businesses, particularly in the US, Germany, France and the Netherlands, will become more significant contributors to the results of the Group. If positive results are not forthcoming, the Group may be forced to seek protection for Regus under UK insolvency laws.

***As demand for the business of the Group's services falls, the profitability of the Group will be disproportionately affected due to the long-term nature of the Group's lease commitments***

The Group leases substantially all of its properties. The length of the leases or the period after which the Group can exercise any break option in the leases is nearly always longer, and usually significantly longer, than the duration of the Group's contracts with customers, the majority of which are for the short term leasing of serviced office space between 3 and 18 months. As demand has fallen, the Group has been unable to build or maintain either occupancy, rates or prices. For example, to combat the economic downturn, the Group has entered into longer term contracts with businesses at reduced average prices, which limits the Group's ability to increase prices as conditions improve. When revenues decline, the Group is not immediately able to reduce its lease cost base and is also constrained in doing so over the long term. Some of the Group's leases contain restrictions that prevent the Group from transferring the lease or assigning the premises. Additionally, significant costs could be incurred if the Group disposes of unprofitable centres. These events may lead to a funding shortfall which Regus currently has no committed bank or other facilities to meet.

***Working capital cycle exacerbates cash position***

The terms upon which the Group earns revenues from customers and pays suppliers (principally landlords) have generally been matched to reduce working capital needs. However, the nature of the Group's business is such that a reduction in revenues, with no immediate decline in cost base, may lead to significant funding shortfalls in the business. With no committed bank or other facilities in place, the Group would need to seek external funding or sell further assets. Currently, the Group has no committed bank or other facilities that are not cash collateralised.

***Traditional office space may become a greater competitive threat in difficult economic conditions***

In these difficult economic conditions, landlords are more willing to offer incentives such as rent free periods or shorter leases. This is particularly the case in markets which have substantial excess capacity, for example, the West Coast of the US. In addition, many companies are seeking to reduce their costs by subletting, in many cases at below market rents.

***The Group is dependent on its Chief Executive***

The Group believes that the future success of the Group depends on the continued service of Mark Dixon, the Chief Executive and the founder of the Group's business. While the Group has an employment agreement with him, this agreement does not prevent him from terminating his employment at any time on 12 months' notice. If the Group loses Mark Dixon without suitable replacement, the business and future operations of the Group may be adversely affected.

***The Group's leases contain upward only rent reviews that could adversely impact the Group's cost base***

The Group is exposed to movements in property markets. All of the Group's UK leases (substantially all of which are guaranteed by Regus), together with a small number of other leases, contain provisions for upward only rent reviews linked to open market rents that could

adversely impact the Group's cost base. These rent reviews have potential increased cost implications in periods of relatively high rents. If open market rents were to decrease, the rent payable by the Group under these leases would stay the same as that for the prior period and would not decrease in line with open market rents. Regus Group cannot assure you that the Group will be able to maintain its margins in these circumstances. Likewise, in the event of a reduction in the prices that the Group charges its customers, whether as a result of a reduction in demand for serviced offices or otherwise, the Group would not be entitled to reduce the rent payable by the Group, even following rent reviews. In addition, the majority of the Group's other leases contain upward only rent reviews which are fixed or are linked to the consumer price index or other inflation-related indices.

***The Group is exposed to foreign exchange, interest rate, economic and, in some instances, political risks as well as other geographical risks related to the 50 countries in which the Group operates, which could cause an adverse impact on the business of the Group***

The Group operates business centres in 50 countries around the world and its overall success as a global business depends, in part, upon its ability to succeed in differing economic, social and political conditions. The Group is confronted with different legal and regulatory requirements in many jurisdictions. These include, but are not limited to, different tax regimes, laws relating to health and safety and laws relating to the repatriation of funds or nationalisation of assets. The Group's international operations also expose the Group to different local business risks and challenges, such as exchange rate risks in translating non-sterling profits, management and control of an international organisation and other political risks.

***Foreign Currency Exchange Rate Risk***

As the Group conducted business in 50 countries as at 31 December, 2002, a substantial portion of its revenue and costs is derived from countries outside the UK and therefore in currencies other than pounds sterling. In 2002, approximately 39 per cent. of the Group's revenue was denominated in pounds sterling. Since the Group's reporting currency is pounds sterling, movements in currency exchange rates can have an impact on the Group's revenue and operating loss. For example, a one per cent. adverse movement in exchange rates would increase the charge by approximately £0.1 million.

***Interest Rate Risk***

The current policy of the Group is normally to borrow or invest surplus funds on a floating rate basis. Movements in interest rates can have a significant impact on the Group's revenue and operating loss. For example, a one per cent. increase in interest rates would increase the interest charge by approximately £0.1 million.

***The Group may incur significant costs related to the refurbishment of its centres or the reinstatement of the properties it rents***

The Group has not undertaken a major refurbishment exercise to date since the majority of its centres have been opened in the last few years. The Group anticipates that it will be required to refurbish those of its business centres that are more than seven, and up to nine, years old, but Regus Group cannot assure you that the costs, timing or disruption of refurbishment will not impact the business of the Group to an extent greater than anticipated.

In addition, the terms of most building leases require the Group to ensure that a property is kept in repair throughout the lease term and that alterations carried out to the premises are reinstated at the end of the lease term. Regus Group cannot assure you that reinstatement costs and, if the Group has failed to comply with its repairing obligations during the lease term, full repairing costs, will not be incurred on termination of such leases, causing an adverse impact on its results of operations and financial condition.

***Holders of New Shares may have difficulty assessing the business of the Group because the serviced office market is a developing and rapidly evolving sector and there are very few other public companies in this sector***

Holders of New Shares may have difficulty assessing the business of the Group because the serviced office market is a developing and rapidly evolving sector and there are very few other public companies in this sector. In addition, Regus Group believes that none of these other public companies is comparable to the Group for reasons related to their geographical focus and corporate structure. Performance and trends are therefore more difficult to assess than in many other more established sectors.

***There is a systemic risk to the Group from guarantees given by Regus and Regus Business Centre B.V.***

Regus and Regus Business Centre B.V. have given 122 and 107 corporate guarantees respectively in relation to the lease commitments of the Group. The total unmitigated and contingent liability for these guarantees is in excess of many hundreds of millions of pounds. Demands pursuant to only a few of these guarantees would be sufficient to force Regus Group and/or Regus and/or Regus Business Centre B.V. to seek bankruptcy protection or liquidation.

Insofar as the UK operations of the Group are concerned, Regus' corporate guarantee remains in place in relation to all of the lease commitments of the Group in the UK, despite the fact that Regus now holds a 42 per cent. interest in the UK operations following the sale of 58 per cent. of the UK business to Alchemy Partners in 2002 (further details of which are set out in paragraph 17 of Part 6).

#### **Risks associated with the New Shares**

***Regus has voluntarily delisted from Nasdaq and although Regus continues to publish annual and semi-annual financial statements, only the annual financial statements contain certain financial information reconciled to US GAAP***

In view of the relatively small number of ADSs outstanding at the time, and the low levels of trading volumes on the Nasdaq National Market in the United States, Regus decided to delist voluntarily its ADSs from Nasdaq as of 7 November, 2002.

As Regus' shareholding base has migrated away from the United States and to the United Kingdom since the initial public offering in October 2000, Regus decided, in an effort to save costs, to terminate the ADS programme in the United States administered by JPMorgan Chase Bank, as depository. Regus gave notice of termination of the ADS programme on 3 September, 2003, and it is expected that the ADS programme will be terminated on 3 November, 2003. Upon termination of the ADS programme, each holder of an ADS will receive 5 Shares in respect of each ADS held. The termination of the ADS programme will result in a greater

number of Regus Shareholders but no dilution in respect of the interests of existing Regus Shareholders. The termination of the ADS programme could have an effect on the liquidity of New Shares.

In November 2002, Regus announced its decision to revert to a semi-annual reporting format and to discontinue its past practice of publishing quarterly financial statements. In a further effort to save costs, Regus also announced in August 2002 its decision to prepare and release certain financial information reconciled to US GAAP only in its annual report on Form 20-F in the United States. Both changes in reporting format are in accordance with all applicable UK and US securities laws and the requirements of the London Stock Exchange. Nonetheless, these changes reduce the frequency of updated financial information available to investors in the Group's securities.

***The Group is subject to the control of Mark Dixon***

The Chief Executive, Mark Dixon, through Maxon Investments, will own beneficially 62.5 per cent. of the New Shares immediately upon the Scheme becoming effective (but before the Plan of Reorganisation is implemented). As the majority shareholder of Regus Group, he will be able to exercise control over the Group's operations, including the election of the Board, the declaration of some dividends, the approval or disapproval of major corporate transactions and the determination of other matters to be decided by the holders of New Shares. The Group's business goals and those of Mr. Dixon may not always remain aligned. As a result, the market price of New Shares could be adversely affected. However, Mr Dixon, in his capacity as a Director, is under a fiduciary duty at law to act in the best interests of Regus Group.

***Substantial sales of New Shares could cause the price of our shares to decline***

There can be no assurance that the Directors and executive officers of Regus Group, Maxon Investments or other Regus Group Shareholders will not elect to sell their New Shares (though Maxon Investments has agreed to enter into a lock-up arrangement in respect of the New Shares it will receive upon the Scheme becoming effective (further details of which are set out in paragraph 2 of Part 1) and holders of New Shares issued under the Plan will also be subject to restrictions on sale which will be applied through the Regus Group Stock Custodial Account (further details of which are also set out in paragraph 2 of Part 1). The market price of New Shares could decline as a result of any sales of such shares by the Directors, executive officers of Regus Group or Regus Group Shareholders or the perception that these sales could occur. If these, or any other, sales were to occur, Regus Group may have difficulty in offering or selling securities in the future at a time or at a price it deems appropriate.

## **PART 1 - PLAN OF REORGANISATION AND THE SCHEME**

### **1. Introduction**

On 29 August, 2003 Regus announced that:

- (a) following the successful restructuring of its US operations, Regus has developed the Plan of Reorganisation in the United States which, subject to obtaining the necessary approvals of the Bankruptcy Court, the Creditors and the Regus Shareholders, will result in Regus and each of the other Debtors exiting Chapter 11 in the United States;
- (b) the Plan of Reorganisation has been recommended by the Creditors' Committee and Regus has initiated the process that is intended to lead to the Bankruptcy Court approving the Plan of Reorganisation. It is currently expected that confirmation/approval of the Plan of Reorganisation will be given by the Bankruptcy Court on or around 12 November, 2003;
- (c) under the Plan of Reorganisation (if approved/confirmed), Creditors in respect of the bulk of claims made against Regus and the other Debtors under Chapter 11 will have the option of exchanging their claims for either (i) New Shares (further details of which are set out in paragraph 2 of this Part 1 "Option 1: Electing New Shares"), (ii) CULS (the main features of which are set out in paragraph 2 of this Part 1 "Option 2: Electing CULS") or (iii) a combination of New Shares and CULS (see paragraph 2 of this Part 1 "Option 3: Electing a combination of New Shares and CULS"); and
- (d) alongside the emergence of Regus and the other Debtors from Chapter 11 in the United States, Regus intends to implement a change to its corporate structure by putting in place a new holding company of the Group, Regus Group. The introduction of Regus Group as the new holding company of the Group is proposed to be effected by way of a Court-sanctioned scheme of arrangement under section 425 of the Companies Act.

### **2. The Plan of Reorganisation**

*Background: the Chapter 11 process and the current state of affairs*

On 14 January, 2003 each of RBCC (principally as a debtor tenant) and Regus and B.V. (principally as guarantors in respect of leases entered into by RBCC in the United States) filed voluntary petitions for bankruptcy relief under Chapter 11 in the Bankruptcy Court under the Chapter 11 Cases.

The Debtors filed for bankruptcy because the Chapter 11 process offered the best available means to facilitate the implementation of necessary changes to the Debtors' businesses to bring costs and operations in line with the current business environment. In addition, the protections available under the Chapter 11 process offered the Debtors access to capital through debtor-in-possession financing (see below) that otherwise would not have been available.



The Debtors are currently operating their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure in the US and applicable court orders. In general, as debtors-in-possession, the Debtors are authorised under Chapter 11 to continue to operate as ongoing businesses, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. On 10 June, 2003 the Bankruptcy Court signed an order approving a debtor-in-possession loan facility pursuant to which Regus Management Limited, a subsidiary of Regus that is not a party to the Chapter 11 Cases, may loan up to US\$18,000,000 to the Debtors during the course of the bankruptcy proceedings. In return for making a loan to the Debtors, Regus Management Limited was granted a first-priority security interest in certain collateral and was also granted a priority administrative claim for any amounts loaned to the Debtors.

In order to exit Chapter 11 successfully, the Debtors need to obtain approval/confirmation by the Bankruptcy Court of the Plan of Reorganisation. Approval/confirmation of the Plan by the Bankruptcy Court is dependent upon a number of factors and cannot be given until Regus has posted court-approved solicitation materials and has provided certain Creditors and Regus Shareholders the right to vote to accept or reject the proposed Plan. Regus has started this process by seeking the Bankruptcy Court’s approval of the Disclosure Statement that will provide the Creditors and the Regus Shareholders with material information relating to the proposed Plan of Reorganisation. If approved, the Plan of Reorganisation will:

- resolve, amongst other things, each of the Debtors’ obligations that are the subject of the Plan and that arose prior to the filing of the Chapter 11 Cases;
- set out the revised capital structure of any newly reorganised entity; and
- provide for its corporate governance subsequent to exit from Chapter 11.

Under section 362 of the Bankruptcy Code, the filing of the voluntary petitions for relief under Chapter 11 by the Debtors on 14 January, 2003 had the effect of automatically staying most actions against the Debtors, including most actions to collect pre-petition indebtedness or to exercise control over the property of the Debtors’ estates. In the absence of an order of the Bankruptcy Court, substantially all pre-petition liabilities of the Debtors are subject to settlement under the Plan of Reorganisation.

Under section 365 of the Bankruptcy Code, the Debtors may assume, assume and assign, or reject certain executory contracts and unexpired leases, including leases of real property and leases of equipment, subject to the approval of the Bankruptcy Court and certain other conditions. In general, rejection of unexpired leases or executory contracts will be treated as a pre-petition breach of the relevant leases or contracts in question. Subject to certain exceptions, any such rejection will relieve the Debtors of performing their future obligations under those leases or contracts but will entitle the lessor or contract counterparties to a pre-petition general unsecured claim for damages caused by any such deemed breach. Generally, the assumption of executory contracts or unexpired leases will require the Debtors to cure most existing defaults under such executory contracts or unexpired leases. In the case of a lease of non-residential real property, the Debtors generally have an obligation to remain current with respect to rent

and other charges due under the leases unless and until such leases are rejected. The Bankruptcy Code further provides a limitation on certain of the damages relating to any such rejection of a lease for non-residential real property and upon certain damages relating to any rejected guarantee of such lease by another debtor (in general terms, damages are limited to the rent reserved by the lease, without acceleration, for the greater of one year or 15 per cent., not to exceed three years, of the remaining term of the lease).

In connection with the conduct of their businesses, the Debtors are lessees or sub-lessees under approximately 85 unexpired non-residential property leases of office space (the "Property Leases"). The premises that are the subject matter of nearly all of the Property Leases consist of office space that is utilised by the Debtors in providing executive suite business offices to their customers. Given the nature of the Debtors' businesses, unexpired leases of non-residential real property constitute the largest operating expense of the Debtors on an ongoing basis. On 20 February, 2003, the Bankruptcy Court permitted the Debtors to enter into a lease renegotiation programme pursuant to which the Debtors were given the flexibility to either reject the Property Leases or to negotiate significant reductions of the ongoing rent, the amount of space leased, and other obligations under the Property Leases without further court approval. The essential purpose of this programme was to reach a settlement with as many landlords as possible in an expeditious manner regarding the amount of space leased, the applicable rental rate and certain other of the landlords' claims against the Debtors' estates, including claims arising under the Bankruptcy Code. The claims of the various lessors will, subject to the necessary approvals being obtained, be settled under the Plan of Reorganisation.

Among the several leases that have been rejected during the course of the Chapter 11 Cases, four landlords have filed claims against RBCC and the respective guarantor under those leases (either Regus or B.V.) that are regarded by the Debtors as being in excess of the limitations prescribed by the Bankruptcy Code (as described above). Regus, B.V. and RBCC intend to object to these claims on the basis that the claims exceed the limitations on damages prescribed under the Bankruptcy Code. If successful, by limiting the excessive claims to the levels prescribed by the Bankruptcy Code, the Debtors will prevent the four landlords in question from having too many votes under the Plan of Reorganisation and from recovering more from the Debtors than they should be entitled to recover under the Bankruptcy Code.

*The Debtors' emergence from Chapter 11: the Plan of Reorganisation and the Disclosure Statement*

On 28 August, 2003, Regus filed its Disclosure Statement relating to its Plan of Reorganisation with the Bankruptcy Court. The Bankruptcy Court held a hearing on 25 September, 2003 to consider approving the form of the proposed Disclosure Statement. The Bankruptcy Court determined that the proposed Disclosure Statement contains adequate information relating to the proposed Plan, and accordingly the Bankruptcy Court has permitted Regus to solicit the votes of its Creditors and the Regus Shareholders and interest holders in the other Debtors, on the proposed Plan of Reorganisation.

The Creditors' Committee in the Chapter 11 Cases is recommending that Creditors vote to accept the Plan, but that is no guarantee that the Creditors will actually vote to accept the proposed Plan. Regus cannot provide assurance that if the Creditors were to vote to accept the proposed Plan, that the Bankruptcy Court would necessarily approve the proposed Plan. Furthermore, if the Creditors were to vote to reject the proposed Plan, although it would still be possible for the Bankruptcy Court to approve/confirm the proposed Plan notwithstanding such vote by the Creditors, there is no guarantee that the Bankruptcy Court would do so.

If the Plan of Reorganisation is not approved/confirmed by the Bankruptcy Court, the Chapter 11 Case of RBCC (which is a subsidiary of Regus) may be converted into a Chapter 7 bankruptcy in which a trustee is appointed to investigate and liquidate RBCC's assets for distribution to Creditors in accordance with the priorities established by the Bankruptcy Code. Further, in this event, the Chapter 11 Cases of Regus and B.V. (which is also a subsidiary of Regus) may also be converted into Chapter 7 cases and liquidated by a trustee in the US with distributions made to Creditors in the order of priority established under the Bankruptcy Code. It is also possible that Regus and B.V. may have to seek bankruptcy protection and pursue reorganisation or liquidation in their respective home jurisdictions (U.K. and the Netherlands respectively). In this event, Regus Group Shareholders would be very unlikely to receive any recovery on their investment following the bankruptcy.

A copy of the Plan of Reorganisation together with a copy of the Disclosure Statement with respect to the Plan is being posted to all Creditors and Regus Shareholders (as at 6.00 p.m. on 3 October, 2003) together with a copy of this document and the Scheme Circular.

Full details of the Plan of Reorganisation and the exit of Regus from Chapter 11 in the United States (including details of the consideration that Creditors will or may elect to receive in respect of their claims) are set out in the Plan of Reorganisation and the Disclosure Statement.

#### *Settlement of Creditors' claims under the Plan*

For certain preferred Creditors of RBCC, Regus and B.V. (as determined by and in accordance with the Bankruptcy Code), the terms of the Plan include the payment of approximately US\$6 million immediately in cash and the payment of approximately US\$1.2 million over a period of six years.

In respect of the bulk of the Chapter 11 allowed claims against the Debtors which are predominantly made up of general unsecured claims and which amount to approximately US\$47.5 million (made up of approximately US\$21.5 million in respect of Regus, US\$17 million in respect of RBCC, and US\$9 million in respect of B.V.), Creditors will have the option of exchanging their claims for:

- New Shares (details of which are set out below);
- CULS (the main terms of which are set out below); or
- a combination of New Shares and CULS.

These Creditors (holding the bulk of the claims against the Debtors) shall not be entitled to receive any fractions of New Shares either upon implementation of the Plan or upon conversion of the CULS (if they elect to receive CULS upon Implementation of the Plan). All fractional entitlements will be rounded down to the nearest whole number of New Shares.

In addition, Regus has restructured the leases of its joint venture in the US with Equity Office Properties. Under the terms of this agreement, Regus will issue US\$12.8 million of 7 per cent. unsecured loan stock to Equity Office Properties, with repayment to be made over the next five years. The terms applicable to this loan stock are broadly similar to the terms which apply to the CULS (see below), save that the loan stock to be issued to Equity Office Properties is not convertible into New Shares and the interest rate that applies in respect of the loan stock is different (7 per cent. in the case of the unsecured loan stock to be issued to Equity Office Properties as opposed to 7.5 per cent. or 5 per cent. (depending on the circumstances) in the case of the CULS (see "Option 2: Electing CULS" below)).

Any reference in this document relating to the terms and conditions of the Plan of Reorganisation are merely summary descriptions. For a complete understanding of the Plan of Reorganisation, readers must look to the Plan of Reorganisation and Disclosure Statement.

*Option 1: Electing New Shares*

As referred to above, Creditors in respect of the bulk of claims under Chapter 11 against the Debtors have the option of exchanging their claims for:

- in the case of Creditors of Regus and B.V., the number of New Shares calculated by dividing (i) 125 per cent. of the sum of their allowed claims plus interest at 5 per cent. per annum in respect of their allowed claims from 14 January, 2003 (being the date on which the Debtors filed voluntary petitions for bankruptcy relief under Chapter 11) and the effective date of the Plan, by (ii) 35 pence; and
- in the case of Creditors of RBCC, the number of New Shares calculated by dividing (i) 20 per cent. of their allowed claims by (ii) 35 pence.

All New Shares issued to Creditors upon implementation of the Plan will be issued at a premium of 30 pence per share to par. No expenses will be charged to Creditors who elect to receive New Shares upon implementation of the Plan.

For Creditors electing this option, the New Shares that they receive upon implementation of the Plan will be subject to certain selling restrictions. All such New Shares will be placed in the Regus Group Stock Custodial Account.

The Regus Group Stock Custodial Account will be a custodial account at a banking or other similar institution in the U.S. that will provide a mechanism for restricting the sale by the holders of New Shares issued under the Plan on the London Stock Exchange.

Through the Regus Group Stock Custodial Account, holders of New Shares will be permitted each week to sell up to the higher of (i) two million New Shares and (ii) 20 per cent. of the weekly volume of the shares of Regus Group traded on the London Stock Exchange on a rolling four week basis, though with the written consent of Regus Group, additional shares may be sold out of the Regus Group Stock Custodial Account. New Shares may be sold from the Regus Group Stock Custodial Account (but subject to these restrictions) immediately from the date upon which the Plan becomes effective.

The costs of administering the Regus Group Stock Custodial Account will be borne by RBCC (these costs will be pre-paid by RBCC). The costs and commission relating to the actual sale of the New Shares on behalf of a particular creditor shall also be chargeable to RBCC.

The Regus Group Stock Custodial Account will be terminated or dissolved on the earlier of (i) the date on which all New Shares that were placed in the Regus Group Stock Custodial Account have been sold, or (ii) the date falling 12 months following the date on which the Plan is approved/confirmed by the Bankruptcy Court, provided however, that where the reason for such termination or dissolution is because of the expiration of the 12 month period, the custodian of the Regus Group Stock Custodial Account, with the consent of Regus Group and Mark Dixon and/or Maxon Investments may determine to extend such time period of the Regus Group Stock Custodial Account for an additional six months. Upon the termination or dissolution of the Regus Group Stock Custodial Account, any shares remaining in the Regus Group Stock Custodial Account will be returned to the owners of those shares provided that in the event that the 12 month period is extended, the custodian of the Regus Group Stock Custodial Account may, at its discretion, determine to return the New Shares to the owners of those shares on a pro rata basis over the additional six month period.

Upon the sale of New Shares out of the Regus Group Stock Custodial Account or the return from the Regus Group Stock Custodial Account of New Shares to the owners of those shares pursuant to the Plan, no further restrictions will apply on the sale or other transfer of New Shares issued under the Plan.

Until the termination or dissolution of the Regus Group Stock Custodial Account, Maxon Investments (the company through which Mark Dixon currently beneficially holds approximately 62.5 per cent. of the issued share capital of Regus), has agreed:

- to sell no more than 15 million New Shares in aggregate;
- to sell no more New Shares, from time to time, than the maximum number of New Shares sold out of the Regus Group Stock Custodial Account up to that point; and
- to sell no more than 400,000 New Shares in any single consecutive seven day period.

The restrictions on sale which apply to the New Shares held in the Regus Group Stock Custodial Account and the New Shares held by Maxon Investments will not apply in certain circumstances (including, without limitation, where a public offer is made for all New Shares, or where a scheme of arrangement is proposed under section 425 of the Companies Act which will result in the acquisition of the entire issued Share capital of

Regus Group, or where a scheme is proposed under section 110 of the Insolvency Act in relation to Regus Group).

*Option 2: Electing CULS*

The principal features of the CULS, which the Creditors entitled to receive New Shares under the Plan of Reorganisation may elect to receive instead of New Shares, are set out below:

- the CULS will be issued by each of the three Debtors (each Debtor an “Issuer”) under separate deeds which will be regulated under English law, and governed by an indenture of trust which will be regulated by US law;
- the amount of CULS that each Creditor will be entitled to receive will be equal to:
  - (a) in the case of Creditors of Regus and B.V., 100 per cent. of that Creditor’s allowed claim plus interest at 5 per cent. from 14 January, 2003 (the date on which the Debtors filed for bankruptcy relief) and the date upon which the Plan becomes effective; and
  - (b) in the case of Creditors of RBCC, 20 per cent. of that Creditor’s allowed claim.
- interest will accrue at a rate of 7.5 per cent. per annum for the first year after the CULS are issued (unless the Issuer elects to begin making payments of interest before 1 January, 2006 or all of the CULS are redeemed or purchased or converted during that first year (in which case interest will accrue at a rate of 5 per cent. per annum)), and at a rate of 5 per cent. per annum thereafter. Interest payments will commence (unless the Issuer elects to begin making interest payments beforehand) on 1 January, 2006. After 1 January, 2006, interest will be payable quarterly in arrears on 1 January, 1 April, 1 July and 1 October of each year (unless any such interest payment date falls on any day other than a Business Day, in which event the relevant interest payment date will fall on the next Business Day);
- holders of CULS will have the right to convert their CULS into New Shares at a price of 41 pence per share (representing a premium of 36 pence per share to par) at any time after the date falling 9 months after the issue date of the CULS, provided however, that should the Regus Group Stock Custodial Account (details of which are set out above) terminate or otherwise be dissolved earlier than that date, holders of CULS may convert their CULS into New Shares at that time (but not before the date falling 6 months after the issue date of the CULS). No expenses will be charged to Creditors upon conversion of their CULS;
- the Issuer will have the right to convert some or all of the outstanding CULS at a price of 41 pence per share into New Shares if the closing share price for New Shares on the London Stock Exchange in each of the preceding 90 days has exceeded 46 pence. Any such conversion shall be made pro rata with respect to the CULS then outstanding issued by each of the Issuers;

- holders of CULS will have the right to convert all of the outstanding CULS into New Shares (regardless of the price of New Shares and the time of conversion) if Regus Group makes an offer to holders of New Shares for the purchase by Regus Group of New Shares;
- in the event that an offer is made at any time to all holders of New Shares to acquire the whole or any part of the New Shares not already owned or controlled by the offeror or persons acting in concert with it, then the Issuer will use all reasonable endeavors to procure that a full and adequate opportunity is given to holders of CULS to exercise their conversion rights so that they may participate in relation to any such offer;
- any amounts of CULS converted or redeemed other than on the fixed redemption dates referred to below (on the dates falling 36, 48, 60 and 72 months, respectively, following the date of issue of the CULS) shall be deemed to be applied first against required 36 month redemption amounts, then 48 month redemption amounts, then 60 month redemption amounts, and lastly 72 month redemption amounts;
- to the extent not previously converted, the CULS must be redeemed for cash as to 20 per cent., 20 per cent., 30 per cent. and 30 per cent. of the outstanding amount after 36, 48, 60 and 72 months, respectively, following the date of issue of the CULS; provided, however, that if after 24 months from the date of issue of the CULS the cash flow for the Group exceeds the projections contained in the Disclosure Statement with respect to the Plan, then 50 per cent. of the excess cash flow must be used to redeem up to 20 per cent. of the outstanding amount of the CULS at that time, and any such redemption shall be deducted pro rata from each remaining mandatory redemption;
- the Issuer may redeem some or all of the CULS for cash at par plus any accrued interest at any time on 30 days' notice. Mandatory redemptions must be made pro rata to outstanding amounts of all CULS;
- New Shares issued as a result of the conversion of CULS will be admitted to the Official List and to trading on the main markets for listed securities of the London Stock Exchange and rank pari passu in all respects with the other New Shares in issue at the time;
- for as long as US\$10 million or more in nominal amount of the CULS remains outstanding, Regus Group will covenant that any new indebtedness incurred by Regus Group or any other holding company in the Group, in excess of US\$7 million, except for indebtedness relating to new equipment lease obligations in respect of new properties, will be subordinated to the CULS. For these purposes, "subordination" means that such debt will be junior in priority (in the event of a liquidation, bankruptcy or other similar proceeding) and subject to covenants consistent therewith and, in the event of (i) a liquidation, bankruptcy or other similar proceeding, or (ii) the occurrence and continuation of an event of default pursuant to the terms of the CULS, will not receive any principal payments until such time as the CULS have been paid in full or all CULS have been redeemed or such events of default have been cured;

- if Regus Group and any other holding company in the Group incurs new subordinated indebtedness (excluding indebtedness relating to new equipment lease obligations in respect of new properties) greater than US\$10 million in the aggregate, then the Issuer shall redeem (pro rata to outstanding amounts of all CULS) an amount equal to 50 per cent. of the amount of any such indebtedness in excess of US\$10 million;
- if Regus Group incurs new unsubordinated indebtedness (excluding indebtedness relating to new equipment lease obligations in respect of new properties), not otherwise subordinated to the CULS in excess of US\$10 million in the aggregate, the Issuer shall redeem (pro rata to outstanding amounts of all CULS) an amount equal to the amount of any such indebtedness in excess of US\$10 million;
- the CULS are redeemable by the Issuer in full in the event of a change of control resulting from Mark Dixon and Maxon Investments together holding, directly or indirectly, less than 292 million New Shares (as adjusted to take account of any consolidation, subdivision or other restructuring of the share capital of Regus Group);
- in the event of a sale or transfer of an asset or group of assets during any single calendar year by Regus Group or a subsidiary under the control of Regus Group for more than US\$7 million of net cash proceeds, then 50 per cent. of any such net cash proceeds is required to be used for repayment of the CULS then outstanding on a pro rata basis;
- for so long as any CULS remain outstanding, Regus Group is required to procure that no company in the Group will agree to any covenant, other than in the ordinary course of business, that would preclude that company from making transfers of money to the Issuer that would reasonably be expected to be necessary for the Issuer to make scheduled payments (including redemptions) under the CULS;
- Regus Group will guarantee all obligations of the Issuer under the CULS;
- in the event of (amongst others) (i) the Issuer or Regus Group (as guarantor) failing to make payments of principal or interest under the CULS within one month (in the case of the Issuer) or 7 days (in the case of Regus Group) of due date; or (ii) the Issuer committing any material breach under the instrument constituting the CULS; or (iii) any insolvency event occurring in relation to Regus Group or the Issuer; or any event of default occurring under the instruments constituting the CULS issued by any other Issuer, then the holders of CULS may call for acceleration of the total amount outstanding under the CULS at that time to be repaid;
- in accordance with US legal requirements, an indenture trustee will be appointed to manage the CULS. Subject to consultation with, and the consent of, the Creditors' Committee, RBCC will indemnify and retain the indenture trustee and RBCC will pay the costs related to the indenture trustee.

*Option 3: Electing a combination of New Shares and CULS*



Where Creditors entitled to receive New Shares or CULS under the Plan elect to receive a combination of New Shares and CULS:

- the number of New Shares and the amount of CULS which Creditors receive will depend on whether they are Creditors of Regus, B.V., or RBCC (see “Option 1: Electing New Shares” and “Option 2: Electing CULS” for a description of Creditors’ entitlements);
- any New Shares which they receive upon implementation of the Plan will be placed in the Regus Group Stock Custodial Account and will be subject to the restrictions on sale referred to under Option 1 above; and
- the balance of the relevant Creditor's claim will be settled by the issue, to that Creditor, of CULS which will be subject to the terms and conditions referred to under Option 2 above.

*Effect of the Plan of Reorganisation*

If the Plan is approved/confirmed by the Bankruptcy Court, on the assumption that all Creditors who are entitled to receive New Shares under the Plan of Reorganisation in consideration of their claims against the Debtors, elect to do so:

- the maximum number of New Shares to be allotted and issued by Regus Group to Creditors on implementation of the Plan will be approximately 77,000,000 (but in the event of a currency fluctuation of 15 per cent. in the assumed US\$/GBP exchange rate as at the date of implementation of the Plan (see paragraph 25 of Part 6), this number could be up to 88,550,000);
- on implementation of the Plan, the interests of Regus Group Shareholders immediately after the Scheme has become effective will be diluted by approximately 12 per cent.;
- on implementation of the Plan, Mark Dixon through Maxon Investments will own, directly or indirectly, approximately 56 per cent. of Regus Group (currently Maxon Investments beneficially owns approximately 62.5 per cent. of the issued Share capital of Regus).

If the Plan is approved/confirmed by the Bankruptcy Court, on the assumption that all Creditors entitled to receive New Shares under the Plan of Reorganisation elect to receive CULS instead of New Shares (which they are entitled to do under the Plan):

- no New Shares will be allotted and issued by Regus Group to Creditors on implementation of the Plan;
- the interests of Regus Group Shareholders immediately after the Scheme has become effective will not be diluted upon implementation of the Plan; and
- on implementation of the Plan, Mark Dixon and Maxon Investments will continue to own, directly or indirectly, approximately 62.5 per cent. of Regus Group.

Creditors who elect to receive CULS under the Plan in settlement of their claims against the Debtors will have the right, amongst other things, to convert their CULS into New Shares (see the detailed description of the terms and conditions of the CULS below). If the Plan is approved/confirmed by the Bankruptcy Court, on the assumption that (i) all Creditors elect to receive CULS (instead of New Shares) under the Plan, (ii) all such Creditors exercise their rights of conversion, (iii) no redemption, repurchase or conversion of CULS has taken place prior to the Creditors electing such rights of conversion and (iv) there is no fluctuation in the assumed US\$/GBP assumed exchange rate as at the date of implementation of the Plan:

- the maximum number of New Shares that will be allotted and issued by Regus Group upon conversion of all of the CULS would be approximately 53 million (though once again this number could vary depending on the presiding US\$/GBP exchange rate at the time);
- upon conversion of all of the CULS, the interests of Regus Group Shareholders immediately after the Scheme has become effective will be diluted by approximately 9 per cent.; and
- upon conversion of all of the CULS, Mark Dixon and Maxon Investments will own, directly or indirectly, approximately 57 per cent. of Regus Group.

*Timing of implementation of the Plan*

It is currently expected that the Plan of Reorganisation will be approved/confirmed by the Bankruptcy Court on or around 12 November, 2003 (though this date is indicative only and may in fact be later). Under US law, the last day to appeal the confirmation order of the Bankruptcy Court before it becomes a final order is expected to be 22 November 2003 (this date, too, is indicative only). Under the Plan of Reorganisation, the Plan will be implemented (subject to certain conditions being met) on the first Business Day following the satisfaction or waiver of the following conditions:

- the Confirmation Order has been entered, not reversed, stayed, modified or amended and has become a final order;
- the documents, actions and agreements necessary in order to implement the Plan of Reorganisation have been effected or executed;
- the Debtors and Regus Group have received all authorisations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents necessary in the determination of the Debtors and of Regus Group, to implement the Plan of Reorganisation subject to the reasonable satisfaction of the Creditor's Committee;
- each of the Debtors have obtained the financing for the reorganisation of the Debtors in an amount up to (i) \$18 million (net of associated fees and expenses) with respect to RBCC, including amounts provided to RBCC through the debtor-in-possession financing (the "RML DIP Loan") provided by Regus Management Limited to the Debtors pursuant to the final order of the Bankruptcy Court dated 10 June, 2003 approving the RML DIP Loan in an

aggregate amount of not more than \$18 million, (ii) up to \$1 million (net of associated fees and expenses) with respect to Regus, and (iii) up to \$1 million (net of associated fees and expenses) with respect to B.V.;

- subject to the reasonable satisfaction of the Creditors' Committee, Regus has entered into employment arrangements, or will assume existing employment arrangements with Mark Dixon and, as reasonably identified by Regus and the Creditors' Committee, certain other members of senior management;
- Maxon Investments and Mark Dixon have executed the agreement necessary to be bound by the restrictions on the sales of New Shares or Shares, as applicable, as described above in Part 1; and
- to the extent that the Scheme of Arrangement has been approved (i) Regus Group has been created and has signed an undertaking providing that Regus Group is bound by the terms of the Plan of Reorganisation, (ii) the New Shares and the CULS have been issued and (iii) Regus Group has executed the documents necessary pursuant to the guarantee of the obligations under the CULS; or, to the extent that the Scheme of Arrangement has not been approved, Shares have been distributed in lieu of the New Shares

provided further, that such Business Day does not occur later than 30 days (or such later date as the Creditors' Committee may agree) following the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket of the Bankruptcy Court.

#### *Plan Conditions*

The Plan requires the approval of Creditors and Regus Shareholders and the approval of the Bankruptcy Court. However, even if the Creditors and Regus Shareholders approve the Plan there is no guarantee that the Bankruptcy Court will approve the Plan. Furthermore, even if the Creditors do not approve the Plan it would still be possible for the Bankruptcy Court to approve/confirm the proposed Plan, though there is no guarantee that this would be the case.

The implementation of the Plan is not conditional on the Scheme going ahead. If the Scheme does not go ahead but the Plan is implemented then newly issued Shares will be issued to those Creditors that would have been entitled to receive New Shares under the Plan if the Scheme had gone ahead, and CULS will be convertible into newly issued Shares rather than New Shares. In the event of the Plan being implemented but the Scheme not going ahead, new listing particulars in respect of all such newly issued Shares will be made available to Regus Shareholders and Creditors.

### **3. The Scheme**

#### *Reasons for the Scheme*

Alongside the proposed exit of Regus and the other Debtors from Chapter 11, it is proposed that Regus Group will be introduced as the new holding company of the Group by way of the Scheme. The new structure will:

- facilitate the Group in raising new, unsecured finance in the future (because Regus Group will commence trading with a cleaner balance sheet than that of Regus);
- provide the Group with flexibility to effect mergers and acquisitions in the future if it believes them to be in the interests of Regus Group Shareholders (through the use of New Shares as acquisition currency);
- provide the Group with opportunities to exploit its customer base further through the introduction of new business streams underneath Regus Group; and
- establish a holding company which does not have a deficit in its accumulated profit and loss account (Regus Group will commence trading with a zero balance on its profit and loss account meaning that it may have enhanced capacity to pay dividends going forward out of future new business).

#### *Reduction of capital*

In connection with the establishment of Regus Group as the new holding company of the Group, Regus is also seeking shareholder approval for a capital reduction to create reserves which would be used to reduce the deficit in Regus' accumulated profit and loss account by approximately £309 million (leaving a reduced deficit of approximately £3 million). Reducing the deficit in this way will improve Regus' prospects of being able to pay dividends in the future to Regus Group from profits generated by Regus' business which in turn will enhance the Group's prospects of paying dividends to holders of New Shares in the future. Subsequent to the Scheme becoming effective Regus Group may take further steps to cancel or further reduce the deficit that will remain.

#### **4. Principal features of the Scheme**

##### *Structure*

Under the Scheme:

- all of the Shares will be cancelled and the share premium reflected in the consolidated balance sheet of Regus for the year ended 31 December, 2002 will be reduced by such sum as will leave the amount of £100 standing to the credit of the share premium account when the Scheme takes effect;
- Regus will apply the £100 credited to its share premium account in paying up in full, at par, 2,000 bonus ordinary shares of 5 pence each which will be allotted and issued, credited as fully paid, to Regus Group, so that Regus Group will own the entire issued share capital of Regus;
- Regus will apply the reserve arising from the cancellation of the Shares, and the remainder of the reserve arising from the reduction of Regus' share premium account in reducing the deficit in Regus' accumulated profit and loss account by approximately £309 million; and

- Regus Shareholders who are on the register of Regus on the Scheme Record Time will receive New Shares in consideration for the cancellation of their Shares on the following basis:

**for each Share cancelled**

**one New Share**

Accordingly, on the Scheme becoming effective, Regus Group will become the holding company of the Group, Regus will become a wholly owned subsidiary of Regus Group and the entire issued share capital of Regus Group will be owned by the former Regus Shareholders who were on the register of Regus at the Scheme Record Time in the same proportions as they held Shares at the Scheme Record Time (these shareholdings could potentially be diluted upon implementation of the Plan and upon conversion of the CULS as described in more detail in paragraph 2 of this Part 1 “The Plan of Reorganisation” – “Effect of the Plan of Reorganisation”).

The New Shares will be equivalent to the Shares in all material respects, including dividend, voting and other rights. Rights attaching to the New Shares are summarised in paragraph 10 of Part 6.

*Transitional Matters*

Further Shares may be allotted and issued both before and after the Effective Date. In order to ensure that no person other than Regus Group will be left with any ordinary shares in Regus after dealings in Shares have ceased on the London Stock Exchange, it is proposed that the Regus Articles will be amended (at the EGM) in such a way so as to ensure that:

- any Shares which are issued after the Court Meeting but prior to the Scheme Record Time will be subject to the terms of the Scheme and will be bound by the Scheme accordingly; and
- any Shares which are allotted and issued to any person other than Regus Group after the time at which the Scheme becomes effective will be automatically exchanged for New Shares on the basis of one New Share for each Share held, or, following a variation in the share capital of either company or in such other circumstances as the Board considers fair and reasonable, on such adjusted terms as Regus Group may determine.

**5. Conditions to implementation of the Scheme**

The implementation of the Scheme is conditional on the following having occurred:

- (a) the approval of the Scheme by a majority in number, representing three-fourths in nominal value, of those Regus Shareholders present and voting, either in person or by proxy, at the Court Meeting;
- (b) the approval of the resolutions at the EGM in connection with the Scheme by a majority of not less than 75 per cent. of the votes cast in the case of those resolutions to be proposed as special resolutions, or 50 per cent. of the votes cast in the case of the resolution to be proposed as an ordinary resolution;

- (c) the sanction of the Scheme (with or without modification) by the Court at the Court Hearing;
- (d) the registration by the Registrar of Companies of an office copy of the Order of the Court sanctioning the Scheme under section 425 of the Companies Act and the minute confirming the reduction of capital of Regus comprised in the Scheme; and
- (e) the Admission.

The Scheme is not conditional upon the Plan of Reorganisation being approved/confirmed by the Bankruptcy Court or the Plan being implemented. If this Scheme goes ahead but the Plan is not implemented for any reason, this document will relate only to the New Shares issued under the Scheme.

## **6. The Court Meeting and the EGM**

If the Scheme has not become effective by 28 February, 2004 (or such later date as Regus and Regus Group may agree and the Court may allow), it will lapse, in which event there will not be a new holding company of Regus, the Regus Shareholders will remain shareholders of Regus, the Shares will continue to be listed on the Official List and will continue to trade on the London Stock Exchange's main market for listed securities and Creditors entitled to receive New Shares under the Plan of Reorganisation will instead receive Shares.

The Court Meeting has been convened for 11 a.m. on 27 October, 2003 pursuant to an order of the Court at which meeting, or at any adjournment thereof, Regus Shareholders will consider and, if thought fit, approve the Scheme. Regus Shareholders also have the right to attend the Court Hearing and, if lodging a response to the petition to the Court to sanction the Scheme, to appear in person or be represented by counsel to support or oppose the sanction of the Scheme.

The EGM has been convened for 11.15 a.m. on 27 October, 2003 (or, if later, immediately following the conclusion or adjournment of the Court Meeting). At the EGM or at any adjournment thereof, Regus Shareholders will consider and, if thought fit, pass, inter alia, a resolution covering various matters to facilitate the implementation of the Scheme.

## **7. Listing, delisting, dealings, share certificates and settlement**

Application has been made to the UKLA for the admission of up to 700,691,630 New Shares to the Official List, and to the London Stock Exchange for the New Shares to be admitted to trading on the London Stock Exchange's market for listed securities. If the Plan is implemented and the Scheme goes ahead, the New Shares will include (i) all New Shares that will be allotted and issued on the Effective Date pursuant to the Scheme becoming effective (including shares that could be issued under the Warrants and the Regus Group Share Plans) and (ii) the maximum New Shares to be issued to Creditors under the Plan of Reorganisation, assuming no fluctuation in the assumed US\$/GBP exchange rate as at the date of implementation of the Plan (see paragraph 25 of Part 6) (but not including the CULS or any New Shares issued upon conversion of

the CULS. To the extent that New Shares issued upon conversion of the CULS would increase the number of New Shares then in issue by 10 per cent. or more, new listing particulars in respect of those New Shares will be published at the time). If the Scheme goes ahead, but the Plan is not implemented, then the New Shares will include only the New Shares that will be allotted and issued on the Effective Date pursuant to the Scheme becoming effective (including shares that could be issued under the Warrants and the Regus Group Share Plans).

The last day of dealings in Shares is expected to be 14 November, 2003. The last time for registration of transfers of Shares is expected to be 6.00 p.m. on 14 November, 2003. It is expected that Admission will become effective and that dealings in the New Shares will commence at 8.00 a.m. on 17 November, 2003, the Effective Date. The listing of the Shares is also expected to be cancelled on that date. These dates may be deferred if it is necessary to adjourn any meetings required to approve the arrangements described in this document or if there is any delay in obtaining the Court's sanction of the Scheme or the Bankruptcy Court's approval/confirmation of the Plan. In the event of a delay, the application for the Shares to be delisted will be deferred, so that the listing will not be cancelled until immediately before the Scheme becomes effective.

With effect from and including the Effective Date, all share certificates representing the Shares will cease to be valid and binding in respect of such holdings and should be destroyed.

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Directors will apply for the New Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in New Shares following Admission may take place within the CREST system. CREST is a voluntary system and holders of New Shares who wish to receive and retain share certificates will be able to remove their New Shares from the CREST system following the Scheme becoming effective.

For Regus Shareholders who hold their Shares in a CREST account at the Scheme Record Time, New Shares are expected to be credited to the relevant CREST members' accounts on 17 November, 2003, the Effective Date. For those Regus Shareholders holding Shares in certificated form at the Scheme Record Time, definitive share certificates for the New Shares are expected to be despatched within 14 days of the Effective Date. In the case of joint holders, certificates will be despatched to the joint holder whose name appears first in the register. All certificates will be sent by pre-paid first class post at the risk of the person entitled thereto. Pending the despatch of certificates in respect of New Shares, transfers of New Shares will be certified against the register of members of Regus Group. Temporary documents of title will not be issued in respect of New Shares.

Shares held in uncertificated form will be disabled in CREST on the Effective Date. Regus Group reserves the right to issue New Shares to any or all holders of New Shares in certificated form if, for any reason, it wishes to do so.

All documents, certificates, cheques or other communications sent by or to Regus Shareholders, or as such persons shall direct, will be sent at their risk and may be sent by post.

## **8. Dividends**

All New Shares issued pursuant to the Scheme or the Plan (including upon conversion of the CULS) will rank *pari passu* for dividend purposes.

All mandates relating to payments of dividends on Shares and all instructions given to Regus in relation to notices and other communications in force immediately prior to the Scheme Record Time will be, unless and until revoked or varied, deemed as from the Scheme Record Time to be valid and effective mandates or instructions to Regus Group in relation to the corresponding holdings of New Shares.

## **9. Overseas shareholders**

### *General*

The implications of the Scheme and the Plan for persons resident in, or citizens or nationals of, jurisdictions outside the United Kingdom (“overseas shareholders”) may be affected by the laws of the relevant jurisdictions. Such overseas shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection with the allotment and issue of New Shares following the Scheme becoming effective and/or the Plan being implemented, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

If, in respect of any overseas shareholders, Regus Group is advised that the allotment and issue of New Shares would or might infringe the laws of any jurisdiction outside the United Kingdom, or would or might require Regus Group to obtain any governmental or other consents or effect any registration, filing or other formality with which, in the opinion of Regus Group, it would be unable to comply or which it regards as unduly onerous, Regus Group may determine either:

- (a) that the holder’s entitlement to New Shares shall be issued to a nominee for such holder appointed by Regus Group and then sold, with the net proceeds being remitted to the holder concerned; or
- (b) that the holder’s entitlement to New Shares pursuant to the Scheme or Plan (as the case may be) shall be issued to such holder and then sold on his behalf as soon as practical at the best price which can be reasonably obtained at the time of the sale, with the net proceeds of sale being remitted to the holder. Any remittance of the new proceeds of sale referred to in this paragraph shall be at the risk of the relevant holder.



This document has been prepared for the purposes of complying with English law and the rules of the UK Listing Authority and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY, NOR SHALL THERE BE ANY SALE, ISSUANCE OR TRANSFER OF THE SECURITIES REFERRED TO IN THIS DOCUMENT IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

**Overseas shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.**

*United States: New Shares issued under the Scheme*

Any New Shares to be issued under the Scheme in the United States have not been and will not be registered under the Securities Act but will be issued in reliance on the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof. For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by section 3(a)(10) thereof, Regus will advise the Court that its sanctioning of the Scheme will be relied on by Regus Group as an approval of the Scheme following a hearing on its fairness to Regus Shareholders, at which hearing all Regus Shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such holders.

New Shares to be issued under the Scheme should not be treated as “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act and persons who receive securities in the Scheme (other than “affiliates” as described in the paragraph below) may resell them without restriction under the Securities Act.

A person who is entitled to receive New Shares under the Scheme and who is an affiliate of Regus prior to implementation of the Scheme may not resell such securities without registration under the Securities Act except pursuant to the applicable resale provisions of Rule 145(d) of the Securities Act or another applicable exemption from registration or in a transaction not subject to registration (including a transaction that satisfies the applicable requirements of Regulation S under the Securities Act). Whether a person is an affiliate of a company for the purposes of the Securities Act depends on the circumstances but affiliates can include certain officers, directors and significant shareholders. Persons who believe that they may be affiliates of Regus should consult their legal advisers prior to any sale of New Shares received under the Scheme.

Holders of Shares who are citizens or residents of the United States are advised that any New Shares issued under the Scheme have not been and will not be registered under the Exchange Act. Regus Group intends to obtain an exemption from the reporting requirements of section 12(g) of the Exchange Act pursuant to Rule 12g3-2(b) thereunder. Accordingly, if the SEC informs Regus Group that it has been added to the list of foreign private issuers that claim this exemption, Regus Group will comply with

the information supplying requirements of Rule 12g3-2(b) and, so long as it continues to rely on this exemption, will furnish to the SEC information that (i) it has made or is required to make public in the United Kingdom; (ii) it has filed or is required to file with the UK Listing Authority and which has been made public by the UK Listing Authority; or (iii) it has distributed or is required to distribute to its shareholders. Information that Regus Group furnishes to the SEC pursuant to Rule 12g3-2(b) may be obtained from the public reference facilities maintained by the SEC in Washington, DC at prescribed rates.

*United States: New Shares under the Plan or on conversion of the CULS*

In reliance upon Section 1145 of the Bankruptcy Code, the offer and issue of New Shares and the CULS under the Plan, and any subsequent conversions and re-sales, as applicable, of such securities will be exempt from the registration requirements of the Securities Act and equivalent provisions under state securities laws. Section 1145 of the Bankruptcy Code generally exempts from these registration requirements the issue of securities if the following conditions are satisfied:

- (A) the securities are issued or sold under a Chapter 11 plan by
  - (i) a debtor (such as Regus, B.V. or RBCC);
  - (ii) an affiliate of a debtor (such as Regus Group) participating in a joint plan with the debtor; or
  - (iii) a successor to a debtor under the plan; and
- (B) the securities are issued entirely in exchange for a claim against, or interest in the debtor or such affiliate, or are issued principally in such exchange and partly for cash or property.

Regus Group believes that the exchange of the claims under the circumstances described in the Plan will satisfy the requirements of Section 1145(a) of the Bankruptcy Code.

The New Shares issued under the Plan will be deemed to have been issued in a public offering under the Securities Act and, therefore, may be resold by any holder thereof without registration under the Securities Act pursuant to the exemption provided by Section 4(1) thereof, unless the holder is an “underwriter” with respect to such securities, as that term is defined in Section 1145(b)(1) of the Bankruptcy Code. In addition, the New Shares and the CULS may be resold by the holders thereof without registration under state securities or “blue sky” laws pursuant to various exemptions provided by the respective laws of the individual states.

HOWEVER, NOTHING HEREIN SHOULD BE CONSIDERED LEGAL ADVICE AS TO THE TREATMENT OF SUCH DISTRIBUTIONS AND HOLDERS OF NEW SHARES AND THE CULS ARE ADVISED TO CONSULT WITH THEIR OWN COUNSEL AS TO THE AVAILABILITY OF ANY SUCH EXEMPTION FROM REGISTRATION UNDER FEDERAL SECURITIES LAWS AND ANY RELEVANT STATE SECURITIES LAWS IN

ANY GIVEN INSTANCE AND AS TO ANY APPLICABLE REQUIREMENTS OR CONDITIONS TO THE AVAILABILITY THEREOF.

Section 1145(b) of the Bankruptcy Code defines “underwriter” for purposes of the Securities Act as one who:

- (A) purchases a claim or interest with a view to distribution of any security to be received in exchange for the claim or interest;
- (B) offers to sell securities issued under a plan for the holders of such securities;
- (C) offers to buy securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution of such securities and under an agreement made in connection with the plan; or
- (D) is an issuer of the securities within the meaning of Section 2(a)(11) of the Securities Act.

An entity is not an “underwriter” under Section 2(a)(11) of the Securities Act with respect to securities received under Section 1145(a) which are sold in “ordinary trading transactions”. What constitutes “ordinary trading transactions” within the meaning of Section 1145 of the Bankruptcy Code is the subject of interpretative letters by the staff of the SEC. Generally, ordinary trading transactions are those that do not involve (i) concerted activity by recipients of securities under a plan of reorganisation, or by distributors acting on their behalf, in connection with the sale of such securities; (ii) use of informational documents in connection with the sale other than the disclosure statement relating to the plan, any amendments thereto, and reports filed by the issuer with the SEC under the Exchange Act; or (iii) payment of special compensation to brokers or dealers in connection with the sale.

With respect to clause (D) above, an “issuer” of New Shares and CULS includes any person who, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, an issuer of New Shares and CULS. “Control” (as defined in Rule 405 under the Securities Act) means the possession, whether directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise. Accordingly, an officer, director or trustee (if applicable) of an issuer of New Shares and CULS may be deemed to be a “control” person of an issuer of New Shares and CULS particularly if the management position or directorship is coupled with ownership of a significant percentage of the voting securities of such issuer. Additionally, the legislative history of Section 1145 of the Bankruptcy Code has stated that a creditor that is distributed at least ten per cent. of the voting securities of an issuer under a plan of reorganisation will be presumed to be a statutory underwriter within the meaning of Section 1145(b)(i) of the Bankruptcy Code.

Re-sales of New Shares and CULS issued under the Plan by persons deemed to be statutory underwriters will not be exempt from the registration requirements under the Securities Act or other applicable law by virtue of Section 1145 of the Bankruptcy Code. Because the issuers of the New Shares and the CULS do not propose to register any of the New Shares or the CULS under the Securities Act, persons deemed to be statutory

underwriters must either have the New Shares or the CULS as the case may be, held by them registered for re-sale with the SEC or use an available exemption from registration.

Under certain circumstances, persons who are deemed to be statutory underwriters by virtue of being in a control relationship with the applicable issuer of the New Shares or CULS may be entitled to resell their securities pursuant to the limited safe harbour resale provisions of Rule 144 of the Securities Act, to the extent available, and in compliance with applicable state and foreign securities laws. Generally, Rule 144 under the Securities Act provides that persons who are affiliates of an issuer who resell securities will not be deemed to be underwriters if certain conditions are met. These conditions include the requirement that current public information with respect to the issuer be available, a limitation as to the amount of securities that may be sold in any three month period, the requirement that the securities be sold in a "brokerage transaction" or in a transaction directly with a "market maker" and that notice of the resale be filed with the SEC. The Debtors cannot assure, however, that adequate current public information will exist with respect to any issuer of New Shares or CULS and, therefore, that the safe harbour provisions of Rule 144 under the Securities Act will be available.

IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION WHETHER A RECIPIENT OF NEW SHARES OR CULS UNDER THE PLAN MAY BE AN UNDERWRITER OR AN AFFILIATE OF AN ISSUER, THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN SECURITIES TO BE DISTRIBUTED PURSUANT TO THE PLAN. ACCORDINGLY, THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF NEW SHARES OR CULS CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH NEW SHARES OR CULS.

#### *The Netherlands*

The CULS are not and will not be issued other than to persons who are established, domiciled or have their residence ("are resident") outside the Netherlands. The issue of the CULS under the Plan, each announcement thereof and any documents relating thereto comply with the laws and regulations of any State where persons to whom the CULS are issued are resident.

## PART 2 - INFORMATION ON THE GROUP

### 1. Introduction

The Group is a leading provider of high quality business services to the global economy. Its international network of adaptable business centres allows its customers to outsource, completely or in part, their workspace requirements. The Group's business centre offerings include a client driven mix of workstations, conference rooms and related support services, such as video conferencing, telecommunications, Internet connectivity, reception and secretarial services. Customers can use all or part of Regus' business centres for a duration of one hour to over ten years.

The Group's serviced business centres represent an alternative to traditional office space. Located in downtown business districts, suburban office parks and near transportation gateways, the Group can tailor its business centres to a variety of customer requirements. These business services offer advantages of convenience, flexibility and immediate availability. In addition, the Group's business services can prove cheaper than traditional office leasing, depending upon individual circumstances, such as the number of employees in the office and the term of occupancy.

As of 2 October, 2003 (being the latest practicable date prior to the publication of this document), the Group operated a network of 393 business centres in 50 countries.

The following table shows the 50 countries in which Regus branded business centres are operated by region and the number of centres in each country as of 2 October, 2003 (being the latest practicable date prior to the publication of this document).

<b>UK and Ireland</b>			<b>Rest of World</b>
	Greece (2)	Turkey (1)	
Ireland (2)	Hungary (3)	Ukraine (1)	Australia (4)
UK (91)	Italy (9)		Azerbaijan (1)
	Latvia (1)		China (5)
	Luxembourg (1)	<b>Americas</b>	Egypt (1)
<b>Rest of Europe</b>	The Netherlands (23)		Israel (2)
	Norway (4)	Argentina (1)	Japan (4)
Austria (4)	Poland (3)	Brazil (5)	Malaysia (2)
Belgium (10)	Portugal (3)	Chile (2)	Morocco (1)
Czech Republic (3)	Romania (1)	Mexico (7)	Philippines (2)
Denmark (6)	Russia (2)	Panama (1)	Saudi Arabia (1)
Finland (2)	Slovak Republic (1)	Peru (1)	Singapore (2)
France (21)	Spain (9)	US (91)	South Africa (6)
Germany (27)	Sweden (8)	Canada (5)	Thailand (1)
	Switzerland (5)		Tunisia (2)
			Vietnam (2)
			United Arab Emirates (1)

The Group's customers increasingly demand technologically sophisticated, flexible and rapidly exploited business services, such as those offered by the Group. The desire of the Group's customers to capture the benefits offered by business models based upon outsourcing office and related services, globalisation of trade, advances in technology and changes in work

practices drives this demand for the Group's business services. The Group's business services assist its customers to compete effectively in an economic climate increasingly characterised by the speed, flexibility and technology of the Internet.

## 2. History

The Group's business was founded in 1989 by Mark Dixon, the Chief Executive, shortly before the Group opened its first business centre in Brussels. The Group merged its operations with a slightly larger organisation owned by Reinhold City A.B., in 1990. In 1992 an investment vehicle owned by Mark Dixon, Maxon Investments, bought out the majority shareholder. By the end of 1992, the Group operated 11 centres in eight countries through operating companies owned by Regus Business Centre B.V.. The following table shows the expansion of the Group over recent years and contains summary financial information. You should read the whole of these listing particulars and not just rely on the summary information below.

	Year ended 31 December							6 month period ended 30 June	
	1995	1996	1997	1998	1999	2000	2001	2002 <sup>(6)</sup>	2003 <sup>(6)</sup>
Centres <sup>(1)</sup>	35	58	97	155	245	335	411 <sup>(2)</sup>	407 <sup>(3)</sup>	407
Workstations <sup>(4)</sup>	2,884	5,152	9,157	16,293	29,777	50,333	76,540	87,494	89,285
Countries	16	22	23	30	45	48	50	50	50
Employees <sup>(5)</sup>	207	316	542	923	1,492	2,101	2,656	2,286	2148
Revenues (in £ millions) <sup>(7)</sup>	19.4	32.9	58.8	111.6	200.6	421.1	512.6	435.6	162.2

(1) At period end. Includes closed centres through the periods up to closure.

(2) Includes 16 centres in joint venture.

(3) Includes 18 centres in joint venture.

(4) Represents weighted average available workstations for the period. The number of workstations is not available for 1993 and 1994 because the Group closed a number of business centres in those years and therefore it is not possible to accurately assess the impact of the closures on the number of workstations.

(5) Average total employees for the period.

(6) The numbers of Centres, Workstations, Countries and Employees in respect of the year 2002 and the 6 month period ended 30 June 2003 include all information in relation to the UK operation, notwithstanding that the Group has a 42 per cent. interest in this operation.

(7) The Revenue numbers in respect of the years 1995 to 2002 have been extracted, without material adjustment, from the annual reports of Regus in respect of those years. The Revenue number in respect of 2003 was extracted from the interim report of Regus for the 6 month period ended 30 June 2003 (by adding together the Group Turnover in respect of that 6 month period (£129,417) to Regus' 42 per cent. of turnover from the UK operations (£32,763) – see Part 5).

In July 1998, the Group reorganised its operations by inserting a UK holding company, Regus Business Centres plc, between Regus Business Centre B.V. and Maxon Investments. On 18 July, 2000, Regus Business Centres plc changed its name to "Regus plc".

Maxon Investments owned all of Regus Business Centres plc until August 1998 when a consortium comprising an affiliate of Bankers Trust, now part of Deutsche Bank, and two affiliates of Apollo, acquired 17.5 per cent. of Regus' share capital for cash consideration of US\$100 million, of which US\$83 million was paid to the Group by way of subscription for new shares and the balance of US\$17 million was paid to Maxon Investments in consideration for the sale of existing shares. In October and November 1999, a further 2.9 per cent. of Regus' issued share capital was allotted to two affiliates of Deutsche Bank and two affiliates of Apollo, for a total consideration to Regus of £20 million, as part of a wider arrangement to which Maxon Investments was a party. The wider arrangement consisted of Maxon Investments granting to those affiliates of Deutsche Bank and of Apollo, options over a further 0.8 per cent. of Regus' then issued share capital (subject to proportionate adjustment to reflect any reorganisation of Regus) for an aggregate strike price of £1 in consideration of the waiver of certain rights held by those parties.

In October 2000, Regus completed an initial public offering of 128,829,075 shares raising £250 million for Regus and £81 million for certain selling shareholders. At that time, Regus listed ordinary shares on the London Stock Exchange and ADSs on Nasdaq.

On 23 April, 2001, Regus acquired Stratis Business Centres, Inc. in the US. Under the terms of the agreement Regus paid a total purchase price of \$10 million. Of this, \$5 million was paid to the shareholders of Stratis Business Centres, Inc. in cash. The balance of the purchase price was paid in shares of Regus, some of which are restricted.

On 25 April, 2001 Regus acquired Satellite/Skyport Conference Centres, an operator of business centres in Belgium and the Netherlands, for NLG8 million (approximately £2.3 million).

On 27 December, 2001 Regus entered into a subscription agreement pursuant to which it issued £40 million of non-convertible bonds. Following a shareholder meeting held on 13 February, 2002, these were subsequently exchanged for £40 million of 5 per cent. convertible debentures and warrants to purchase 5 million ordinary shares. All of the convertible debentures have been repaid at par; warrants to purchase 2.5 million ordinary shares remain outstanding (see paragraph 11, Part 6).

On 7 November, 2002, Regus voluntarily delisted its ADSs from the Nasdaq National Market in view of the relatively small number of ADSs outstanding at the time and the low levels of trading volumes on the Nasdaq National Market.

On 20 December, 2002, Regus entered into an agreement for the sale of 58 per cent. of the UK business to Rex 2002 Limited, beneficially owned by Alchemy Partners, who subscribed £16.3 million for new shares in the UK business. At the same time Regus repaid £10.5 million loan from the UK business, leaving the Group with net cash from the transaction of £15.1 million. In addition, deferred consideration is receivable by Regus in two tranches: the first tranche of up to £10 million is dependent on the EBITDA (Earnings Before Interest, Depreciation and Amortisation) for the year ending 31 December, 2002 and net liabilities and net cash at 31 December, 2002 of the UK business meeting certain parameters; and a second tranche equivalent to 70 per cent. of the amount by which EBITDA for the year ending 31 December, 2003 exceeds £29 million. £10 million has been received in connection with the first tranche of deferred consideration.

On 7 January, 2003 Indigo Capital LLC announced that it is interested in exploring a wide range of strategic, commercial and financing alternatives with the Regus Board, one of which may include a recommended take-over. As a result of this announcement an offer period began in relation to Regus for the purposes of the City Code on Takeovers and Mergers. The offer period is still continuing in relation to Regus as at the date of this document and will continue to apply in relation to Regus Group following the Scheme becoming effective.

On 14 January, 2003, certain members of the Group (the Debtors) filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The affected companies are Regus, RBCC and B.V. Stratis Business Centres, Inc. also filed for bankruptcy relief on 14 January, 2003 but since then has withdrawn its petition.

On 28 August, 2003 Regus filed a recommended Plan of Reorganisation which, subject to obtaining the necessary approvals of the Bankruptcy Court, the Creditors and the Regus Shareholders, will result in Regus exiting Chapter 11 (see paragraphs 1 and 2 of Part 1).

On 3 September, 2003, in an effort to save costs and because Regus' shareholding base has migrated away from the United States to the United Kingdom since the initial public offering in October, 2000, Regus gave notice to terminate its ADS programme administered by JPMorgan Chase Bank, as depository, in the United States. Upon termination of that programme, each holder of an ADS will receive 5 Shares for each ADS held upon surrender to the depository of each ADS held. It is expected that the ADS programme will be terminated on 3 November, 2003.

### **3. The Regus Solution**

The Group provides high quality business services to the global economy. The Group's business centres include workstations, conference rooms and certain related support services, such as video conferencing, telecommunications, Internet connectivity, reception and secretarial services in prime locations. The Group's business centres vary in size and may occupy whole buildings, a number of floors or parts of a building.

Compared to the traditional office letting market, the Group offers its customers the following benefits.

*Flexibility:* Customers can use workstations or conference rooms in a Group business centre for any duration from one hour to a number of years. Subject to availability, customers can expand or contract workspace to suit their business needs. Space within business centres can be offered as separate offices or in various segregated open plan formats.

*Speed:* Upon signing a short and simple service agreement and paying a deposit, customers are able to move in and start working immediately. The deposit is generally equal to two months of the Group's fees. The alternative process for customers wishing to lease or purchase traditional office space typically involves searching for a suitable site, negotiating the lease, conducting due diligence, securing financing, recruiting office staff, purchasing office equipment and setting up information technology systems.

*Convenience:* The monthly price of one of the Group's workstations includes rent, property tax, heating, air conditioning, cleaning, cabling, repair and all utilities, except for telephone costs. The Group's single monthly invoice compares with the equivalent process for maintaining a



traditional office environment, which typically requires management time to identify many service providers, negotiate individual service contracts and manage usage and payment of each service provider.

*Product and service range:* The Group's products range from telephone answering and mail handling to the long term outsourcing of business services that the customer no longer wishes to manage directly. The Group can accommodate the outsourcing of workspace, office fit-out and administration, information technology infrastructure, communications facilities and support staff. In the future, the Group intend to expand this range to accommodate further elements of business infrastructure that Regus Group believes its customers wish to outsource.

*Consistent quality:* The Group's workstations are equipped to a consistently high "business class" quality in all locations throughout the world and the vast majority include individual telephone systems offering voice mail, data ports and messaging facilities.

*Prime locations:* The Group has established business centres in high quality buildings in prime locations such as city centres, business parks or near important transportation hubs. Through opening its business centres around the world, the Group has developed and refined its process for identifying desirable locations and acquiring leases on these properties on competitive commercial terms.

*Global network:* As at 2 October, 2003, the Group operated 393 business centres in 50 countries on six continents.

*Technology:* The Group provides IT infrastructure for quick and secure data storage and communication in many business centres. The Group's IT infrastructure includes CAT 5 cabling, firewall protection and air-conditioned server storage. In addition, the Group has installed RegusNet, a high speed internet connection, in many of the business centres.

*Support services:* The Group's customer service staff provide business support services, such as secretarial, photocopying and fax support. The Group's business centres also provide customers with catering, conference rooms and, in many business centres, video-conferencing facilities.

#### **4. Products and Services**

The Group's business centres are the core of its offering of high quality global business services. The Group designs its business centres around a flexible arrangement of workstations, conference rooms and reception areas. The Group staffs all of its business centres with employees trained to provide its customers with a high level of service. The Group's global network of business centres offers high standards of office design, fixtures, fittings, technology and staff. The flexibility of the Group's business centres has allowed it to develop a suite of products and services that meet the requirements of all sizes of corporate customers.

The Group markets and sells these products and services together as complete solutions and separately as components of a customer's existing office infrastructure, depending on customer requirements.

The products and services that the Group offers in its business centres include the following:

**Workstations**

The Group's principal business service, currently accounting for a substantial proportion of its revenues, involves agreeing to use one or many of its workstations. Each workstation is in a fully equipped office with telecommunications systems, data transmission services, reception areas and supported, as needed, by trained receptionists and secretaries. A customer can use a flexible number of workstations that vary in size from a private office for a single individual to a large open plan office with multiple workstations. All of the Group's workstations are furnished to uniformly high standards. Customers can use workstations for any duration from one hour to five years and beyond.

**Conference Rooms**

The Group's conference rooms vary in size from small interview rooms to large conference rooms accommodating up to 100 people. While the Group generally provides its customers with conference rooms along with workstations, conference rooms are also separately available at short notice for periods of one hour to one day or longer to its customers who do not also require workstations.

**Link**

The Group offers a professional and confidential telephone answering and mail handling service that allows small and medium sized business customers to operate a virtual office with a business address at one of the Group's business centres. The Group has invested heavily in telecommunications technologies so that its operators can answer each call with personalised greetings for each of its customers. If desired, calls can be transferred to forwarding numbers or callers can be provided with messages from customers.

**Video Conferencing**

Most of the Group's business centres maintain high quality video conferencing facilities, bookable by the hour. These facilities are available to those customers who use workstations at Regus' business centres and to those customers who only require video conference capability.

**Touchdown**

The Group offers a membership program which, upon completion of simple registration procedures, provides customers with preferential, instant, easy access to an international network of business centres. Membership allows a customer enhanced flexibility to use Regus' products and services at short notice anywhere in the Group's global network to suit customers' business needs.

**Netspace**

The Group provides Netspace to companies that want to outsource the management of their own office space. With Netspace, the Group provides all or a substantial amount of the office services and manages the office without disturbing the customer's existing office lease arrangements.

### ***Related Services***

The Group also offers, in most business centres, access to a global wide area network which provides software and data transmission services as part of the standard services available to its customers. In addition, the Group provides customers using its workstations, conference rooms, Link and video conferencing products with related services and facilities. These services, for which the Group charges separately, include telephones, fax, photocopying, secretarial services, catering, storage and parking.

### ***Franchises***

The Group launches some new business centres through franchise arrangements. The Group approves the location, design and decoration of the franchised business centre and requires all potential franchise operators to provide the Group with non-refundable deposits. The Group extends to the franchise operator the same quality control and staff training procedures set forth in the Group's operating manual that apply to all its business centres. The Group monitors all of its franchises through a variety of mechanisms, such as review of the franchises, records and unannounced site visits. If the franchise operator breaches the franchise license agreement or does not cure violations of the Group's operating manual, the franchise operator will, in general, lose the franchise, all of the franchise operator's debts to the Group will become immediately payable and the Group will have the option to assume the operation of that business centre.

## **5. Sales and Marketing**

The Group's sales and marketing strategy, which involves a constant appraisal and improvement of product mix, investment in local advertising and a continuing focus on service quality, has been crucial to developing the Group brand.

The Group markets and sells its products and services around the world. As of 30 September, 2003, the Group had approximately 225 employees engaged in sales and marketing across the globe. The Group's sales and marketing team aims to attract new customers, to develop and expand relationships with existing customers and to build a major business services brand. A team of telesales representatives and analysts supports the direct sales functions. As an indirect sales channel, the Group has established relationships with real estate brokers and other agents to refer business to it.

The Group has consistently invested in marketing activity. The Group uses a wide range of approaches, depending upon the market and specific sales objectives, in order to provide sales leads. The Group's marketing campaign includes commercial radio and television, brochures, newspaper and magazine advertising and direct marketing mailings. The Group measures the efficiency of marketing activity on a cost per enquiry and cost per sale basis.

## **6. Customers**

The Group sells its products and services to a broad base of customers in many different industries around the world.

At 30 September, 2003, the Group (including the UK) had approximately 55,000 customers occupying its workstations, spread across 50 countries. For the six month period ended 30 June, 2003 no single customer of the Group accounted for more than 2 per cent. of the total

revenue. Many of the Group's customers are drawn from a wide range of industry sectors including consulting, energy, financial services, information technology, media, pharmaceuticals and telecommunications.

## **7. Properties**

The Group considers the location of its business centres to be of paramount importance and it has generally restricted the placement of its business centres to city centres, important transportation hubs (such as major airports), and business parks. The Group actively manages its relationships with major property owners worldwide. Once the Group has decided to lease a property, its team of designers, contractors and suppliers work to build out the workstations and conference rooms to the consistently high quality expected from the Group's business centres.

## **8. Leasing**

The Group leases substantially all of its property portfolio. Across the portfolio, there are variations in lease terms and lease termination provisions, due to differences in leasing practices in the different jurisdictions of the Group's operations. Accordingly, the Group's ability to mitigate its obligations in the event of a downturn in the performance of its business centres, by terminating or renegotiating its leases, differs with the geographic variations.

Lease rental costs vary significantly by geographical region and lease type. Other lease terms, such as ability to assign or sublet leases and rent review procedures, also vary by geography.

A majority of the Group's leases are on conventional rental terms and as such provide for regular payments of agreed rent and for periodic reviews of rent levels. Rent reviews are normally on terms in accordance with local market practice. For example, UK leases commonly provide for regular upward only rent adjustment to the prevailing market rate, if higher than the agreed rent, while other jurisdictions may have regular fixed rent increases or rent increases linked to market indices. Upward only rent reviews mean that in a declining market, rents can never be lowered.

In order to mitigate its exposure on long term lease commitments as well as aligning its interests with those of the building owner, some members of the Group have entered into some profit and risk sharing lease arrangements called "turnover leases". In a typical turnover lease, rent will only be paid when and to the extent that the centre is cumulatively profitable after deducting operating costs and a management fee. To the extent that there are sufficient cumulative profits, Regus will pay the rent and also any accumulated rent unpaid since the start of the lease. Once, and if, the Group has paid all the rent due, any remaining surplus profit is paid out to Regus and the building owner annually on a pre-agreed basis, which is normally 50/50.

As a variant of this, some members of the Group have also entered into "part-turnover leases", whereby a portion of the rent which is the guaranteed rent, is paid every quarter to the landlord whether or not there is any profit. In these leases, usually a smaller element of the rent paid to the landlord is dependent upon profit than under a turnover lease.

Where members of the Group enter into formal joint ventures with property owners, the economic result in respect of each property within the arrangement is very similar to a turnover lease. The Group receives a management fee for each centre which is deducted from the customer revenue which the Group collects. The rent is paid by the joint venture vehicle to the

property owner out of the remaining funds. Finally, after all expenses, any profits in the joint venture are distributed usually on a 50/50 basis. These joint ventures help the Group to mitigate the risk it faces in leasing properties for its business centres.

The Group has undertaken renegotiations of the rental costs under its leases wherever commercially possible. This strategy has had some success, particularly in the Netherlands, Germany and parts of the Nordic region and through intensive negotiations in the Chapter 11 proceedings in the US, where total rental costs have been reduced by approximately US\$63.5 million per annum. Save as referred to in paragraph 2 of Part 1, all outstanding claims under leases in the US will form part of the Plan of Reorganisation.

## **9. Joint Ventures**

The Group has established joint ventures in order to broaden the market for its business services, to ensure a supply of appropriate properties for its business centres and to manage the risk of its operations.

Regus Business Centers Corp. and an affiliate of Equity Office Properties Trust ("EOP") in the US are parties to a joint venture arrangement created through the formation of Regus Equity Business Centers LLC, a Delaware limited liability company (the "EOP JV"), pursuant to a limited liability company agreement dated 4 May, 1999 (the "EOP Joint Venture Agreement"). EOP and the EOP JV are landlord and tenant respectively, under ten un-expired leases of non-residential real property. The Group (through EOP JV) operates business centres in EOP's buildings subject to profit sharing arrangements under which the EOP JV pays the Group a management fee and pays EOP a rental payment and the Group shares the profits of these business centres 50/50 with EOP.

## **10. UK Operations**

On 20 December, 2002, the Group entered into an agreement for the sale of 58 per cent. of its UK business to Rex 2002 Limited, a company which is beneficially owned by Alchemy Partners. The Group holds 42 per cent. and Alchemy Partners holds 58 per cent. of a new holding company under which the UK operations are conducted (Regus Holdings (UK) Limited). Further details of the arrangements with Alchemy Partners are set out in paragraph 17 of Part 6 of this document.

## **11. Capital Expenditures**

Capital expenditures of the Group decreased to £20.3 million in 2002 from £128.5 million in 2001. Capital expenditures of the Group was £86.6 million in 2000. The earlier increases in capital expenditures were primarily due to the purchase of office furniture, fixtures and fittings and telephone and other office equipment, related to fit-outs of centres opened in each period. Capital expenditure is depreciated over periods between 2 to 10 years. The reduction in capital expenditures in 2002 was primarily due to a reduction in new centre openings, plus an increased focus on cash management.

All start-up costs and maintenance expenditure are charged to the profit and loss account as incurred. Every seven to nine years, however, a major refurbishment is expected and such expenditure would be included as capital expenditure. However, the recent opening of most

centres means that with one exception funded by the freehold owner of the entire building, no centres to date have required such a refurbishment.

The Group has suspended the new centre opening programme while it consolidates its position in difficult economic circumstances.

Full details of capital expenditures of the Group are set out in Part 4 of this document and investors should read the whole document and not just rely on this summarised information.

## **12. Competition**

The serviced office market is new and fragmented. Many participants are local entrepreneurs operating a small number of business centres. In the UK, for example, the Business Centre Association Limited comprises over 160 members who operate business centres. Some market participants, however, have emerged to compete on a broader geographic basis.

### ***Principal Competitors***

Regus Group believes that its principal competitors fall into the following categories:

#### *Traditional Office Space*

As most businesses have historically relied on the internal provision of office infrastructure, traditional office space remains the first choice for many of the Group's potential customers. Nevertheless, Regus Group believes that the benefits of serviced offices will continue to persuade potential customers to outsource their workspace requirements and rely on the Group's expertise in providing high quality business centres.

In these difficult economic circumstances, traditional office space is a major competitive threat as landlords are more willing to offer incentives to lessees such as rent free periods or shorter leases. In addition, many companies have found themselves with surplus office space which they are seeking to sublet, at rates which are often below their own rent.

#### *Serviced Office Competitors*

Two companies have established a large international presence in a single region. Servcorp operates business centres in 16 cities, principally in Australia and the rest of the Asia Pacific region. Servcorp believes it is the market leader in Australia, Japan, Singapore, Thailand, Malaysia and New Zealand. Servcorp has also recently entered into a joint marketing agreement with HQ. Ihr Buro operates business centres mainly in Europe. Both Servcorp and Ihr Buro can provide strong competition for customers in the markets in which they operate.

In addition to regional competitors, several businesses operate in the serviced office market on a national level. Significant national competitors include Marylebone Warwick Balfour, Citibase and FirstBase plc in the UK and WWBCN (Worldwide Business Centre Newark), HQ and Your Office in the US. Some of these companies do not operate national networks on the same scale as the Group and target products to different segments of the market than those targeted by the Group. However, HQ can provide strong competition for customers in the US market.

HQ filed for bankruptcy reorganisation under Chapter 11 of the Bankruptcy Code on 13 March, 2002. HQ recently filed its proposed plan of reorganisation and disclosure statement under the Bankruptcy Code in the United States.

Within many countries where the Group operates, a large number of small, entrepreneurial businesses operate serviced offices. These local businesses tend to target smaller and less established companies and typically offer business centres with less services than the Group. As a result, the Group does not generally regard these providers as a competitive threat for the near term. However, the Group anticipates that as the market consolidates or as alliances emerge in the longer term, some of these local businesses may represent more serious competition.

#### *Market Entry by Property Owners*

The Group's experience has been that property owners are attracted to the higher yields that serviced offices can provide, but recognise their lack of operational infrastructure to manage a business providing serviced offices. As a consequence, Regus Group believes that property owners will continue to enter the serviced office market through joint ventures and other partnerships but not as independent competitors. Nonetheless, the Group anticipates that in the future some property owners may enter the serviced office market on a standalone basis and could provide the Group with new competition.

### **13. Directors and Senior Management of Regus Group**

The following directors of Regus immediately prior to the Scheme becoming effective will become Directors of Regus Group:

#### ***Details of Directors***

**John Matthews**, aged 58, Chairman. He was appointed a non-executive director of Regus in 1995 and was appointed chairman of Regus on 1 July 2002. He is also the chairman of Crest Nicholson plc, a property and construction company, deputy chairman of Perry Group plc, a retail motor dealer and repair specialist, and a director of Rotork plc, which sells valve actuators, SDL plc, a software and computer services company, as well as several private companies. A chartered accountant, he has held senior positions in investment banking and in industry, having been managing director of County NatWest Ltd. and chief executive of Indosuez Capital Ltd., both of which are financial services organisations. He was also deputy chairman and deputy chief executive of Beazer plc, a company involved in aggregates and construction. He is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees of Regus Group.

**Mark Dixon**, aged 43, Chief Executive. He founded the business in 1989 and has been primarily responsible for the development of the business over the last thirteen years. He is recognised as a major contributor to the growth of the serviced office industry and as a successful entrepreneur.

**Rudolf Lobo**, aged 47, executive Director. He joined the Group eleven years ago and was previously group finance director of Regus. He is responsible for commercial operations and has responsibility for the Group's IT and e-business strategy. Previously, Mr. Lobo was the

group company secretary of Medicom International Ltd, a publisher of medical journals, and a director of several of its subsidiaries.

**Roger Orf**, aged 50, senior independent non-executive Director. He was appointed as a non-executive director of Regus in August 1998. He is Head of European Operations for Lone Star, a property investment company. Previously, Mr. Orf made investments for his own account and managed investments on behalf of Appollo Real Estate Advisors. Prior to 1995 he was in charge of Goldman Sachs' European real estate department. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees of Regus Group.

**Martin Robinson**, aged 40, Independent non-executive Director. He was appointed as a non-executive director of Regus in August 2002. He is currently the chairman of Center Parcs UK and CEO of CenterParcs Europe. Prior to joining CenterParcs in 1997, he was commercial director of S&N retail and spent four years with management consultancy firm McKinsey & Co. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees of Regus Group.

On 3 October, 2003 it was announced that Stephen Stamp, the Group Finance Director of Regus, had resigned. Rudolf Lobo has been appointed to carry out the role of Group Finance Director of Regus on an interim basis, and will continue to carry out that role (on an interim basis) in respect of Regus Group upon the Scheme becoming effective.

The following senior management of Regus immediately prior to the Scheme becoming effective will become senior managers of Regus Group:

#### ***Details of Senior Management of Regus Group***

**John Mylnski**, aged 45, Chief Operating Officer. He joined Regus in 2001 and is responsible for managing the operations of all centres world-wide. Prior to joining Regus, he was chief executive officer of tacticity.com.

**Robert Gaudreau**, aged 42, Group Sales and Marketing Director. He has more than 15 years of experience in the serviced office industry and is responsible for setting global sales strategy, managing the direct sales force and managing global marketing strategy. Prior to taking up his current role, he was responsible for the growth and development of the Group's operations in North America.

#### **14. Corporate Governance**

The Board is committed to maintaining high standards of corporate governance in line with the Combined Code and in line with the conduct of the board of Regus prior to the Scheme becoming effective.

Throughout the year ended 31 December, 2002, Regus complied with the provisions set out in the Combined Code, with the exception of provision D2 - Internal Control. Adverse trading conditions required Regus to undertake extensive cost-cutting measures and this inevitably had an impact on the integrity of the system of internal control in 2002 and the first half of 2003. From the second half of 2003 the internal audit function of the Group was redeployed on quality assurance and best practice functions in line with its remit. The Group expects now to be in full compliance with the provisions of the Combined Code going forward.



## 15. Board composition

The posts of Chairman and Chief Executive are held by different Directors and the Board is balanced by a strong independent non-executive element where three out of five members of the Board are non-executive. The majority of the non-executive Directors, who will bring independent views to bear at meetings of the Board, are independent of management and have no relationships interfering with their independent judgement. Accordingly, no individual or group of individuals dominates the Board's decision-making. In accordance with the requirements of the Combined Code, Roger Orf has been nominated as the senior non-executive Director. Each Director has received appropriate training.

The Board comprises two executive Directors and three independent non-executive Directors, including a non-executive Chairman. The Chairman of the Audit Committee, currently Roger Orf, acted as an independent Director of Regus since 1998. The Board will schedule at least 8 meetings each year, but will arrange to meet at other times, as appropriate. It has a formal schedule of matters specifically reserved for its decision and approval. The Board will be supplied with appropriate and timely information to enable it to discharge its duties and requests for additional information or variations to regular reporting as it requires. A procedure exists for Directors to seek independent professional advice at Regus Group's expense in the furtherance of their duties, if necessary. In addition, appropriate training will be made available for all new Directors to assist them in the discharge of their responsibilities. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. While all Directors are expected to bring an independent judgement to bear on strategy, performance, resources (including key appointments) and standards of conduct, the independent non-executive Directors were selected and appointed for this purpose. All Directors will submit themselves for re-election at least once every three years and Directors appointed during the period will be required to seek re-election at the next Annual General Meeting. The independent non-executive Directors understand that the Board will not automatically recommend their re-election.

## 16. Board Committees

The Board has a number of standing committees, all of which have written terms of reference setting out their authority and duties:

**Audit Committee** – the members of this committee are Roger Orf (Chairman), John Matthews and Martin Robinson (all are independent non-executive Directors). The Audit Committee will meet as required, but not less than two times a year. Its responsibilities, in addition to those referred to under paragraph 17, Internal Control (below), include a critical review of the annual and interim financial statements (including the Board's statement on internal control in the annual report) prior to their submission to the Board for approval, when a report from the committee will also be given. The committee will also review the scope and results of the external audit and its cost effectiveness and the independence and objectivity of the auditors. Although other Directors, including the Group Finance Director, will attend Audit Committee meetings, the committee may meet for private discussions with the internal and external auditors.

**Nomination Committee** – the members of this committee are John Matthews (Chairman), Roger Orf and Martin Robinson (all are independent non-executive Directors). The committee

will meet as required but not less than once a year. Its responsibilities include reviewing the Board structure, size and composition, nominating candidates to the Board to fill Board vacancies when they arise and recommending Directors who are retiring by rotation to be put forward for re-election.

**Remuneration Committee** – the members of this committee are Martin Robinson (Chairman), Roger Orf and John Matthews (all are independent non-executive Directors). Other Directors may be invited to attend some meetings of the committee in an advisory capacity as the committee considers appropriate. The committee will consider all material elements of remuneration policy, remuneration and incentives of executive Directors and senior management with reference to independent remuneration research and professional advice in accordance with the Combined Code on Corporate Governance, and will make recommendations to the Board on the framework for executive remuneration and its cost. The Board is then responsible for implementing the recommendations and agreeing the remuneration package of individual Directors. Directors are not permitted, under Regus Group's Articles of Association, to vote on their own terms and conditions of remuneration. The committee will not make recommendations on the remuneration of non-executive Directors, which is a matter solely for the full Board. The members of the Remuneration Committee will attend Regus Group's Annual General Meeting and are available to answer Regus Group Shareholders' questions about Directors' remuneration.

Remuneration policy centres on ensuring that remuneration packages are sufficiently competitive to attract, retain and motivate the right calibre of executive Directors and senior management. Incentive payments are conditional upon demanding performance criteria so as to align incentive awards paid to Directors directly with the interest of Regus Group Shareholders. The Remuneration Committee uses the services of external consultants to help it agree appropriate packages reflecting the remuneration policy.

## **17. Internal Control**

The Board acknowledges its overall responsibility for the Group's system of internal control and for reviewing its effectiveness on a timely basis. The internal control processes have been designed to identify, evaluate and manage the key risks that the Group encounters in pursuing its objectives. Internal control processes encompass all controls, including financial, operational and compliance controls and risk management. Such a system is, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and cannot provide absolute assurance against material misstatement.

The Board will conduct regular reviews of the Group's strategic direction. Country and regional strategic objectives, quarterly plans and performance targets for 2003 and beyond have been set by the executive Directors and will be regularly reviewed by the Board in the context of the Group's overall objectives.

The control framework and key procedures currently in place are:

- the executive Directors ("the Group Executive") will meet monthly together with certain other senior executives to consider the Group's financial performance, business development and management issues. Directors of key operating companies meet regularly;

- major business risks and their financial implications are appraised by the executives responsible as part of the budget process and these are endorsed by regional management. Key risks will be reported to the Board and the Audit Committee. The appropriateness of controls is considered by the executives, having regard to cost/benefit, materiality and the likelihood of risks crystallising;
- country and regional budgets, containing financial and operating targets, capital expenditure proposals and performance indicators, are reviewed by the Group Executive and must support regional business strategies;
- monthly reports on Group and regional performances are provided to the Group Executive. Quarterly summaries and forecasts will be presented to the Board and discussed at Board meetings. Performance against budgets and objectives is reviewed with regional management, as are forecasts and material sensitivities. The Board will regularly receive reports from key executives and functional heads on matters such as forecasts, business development, strategic planning, legal matters and corporate affairs;
- a policy governs appraisal and approval of investment expenditure and asset disposals. Post-investment reviews are undertaken;
- other key policies and control procedures (including finance, operations and health and safety) are available to all staff on web-based systems.

The Group's internal audit function reports to management on its world-wide operations. Its program of work and its findings, including any material control issues and resultant actions, are reviewed by the Audit Committee. However, most of the available resources within the internal audit department in the second half of the year were deployed in helping with the relocation of the UK accounting function in mid year.

To underpin the effectiveness of controls, it is Regus' policy to recruit and develop appropriately skilled management and staff of high calibre and integrity. High standards of business ethics and compliance with laws, regulations and internal policies are demanded from staff at all levels.

2003 has been a difficult year for the Group. Adverse trading conditions required the Group to undertake extensive cost cutting measures. Nevertheless, the following key mechanisms were available to the board of Regus at various times during the year in the conduct of its review of internal controls:

- an ongoing process, through board meetings, senior management meetings and divisional reviews, as well as other management meetings, for the formal identification of the Company's significant operational risks and mitigating control processes;
- a Treasury Risk Committee comprising the Group Finance Director, Company Secretary, Group Tax Manager and Group Treasurer of Regus, which meets to consider the specific risks associated with treasury transactions, including the approval of all transactions in financial derivatives;
- an embedded system of reporting the effectiveness of key financial, operational and compliance controls. This is a comprehensive self-assessment system built up from centre-

level using Regus' intranet. Results and action plans are then reviewed by senior management and summarised for the main board of Regus; and

- a multi-disciplinary Group risk forum, chaired by Rudolf Lobo of Regus, reports to the board of Regus on an annual basis. The forum's mandate is to consider all aspects of risk identification and management and its reports represented a key feature of the process by which the board of Regus assesses the overall effectiveness of Regus' system of internal control.

## **18. Communications with Shareholders**

The Group has a policy of maintaining an active dialogue with institutional shareholders through individual meetings with senior management. The Group corresponds regularly on a range of subjects with individual shareholders who have an opportunity to question the Board, as well as the chairmen of the Audit and Remuneration Committees, at the Annual General Meeting.

## **19. Principal Shareholder**

Mark Dixon, through Maxon Investments and Paramount Nominees Limited, will be entitled to control the exercise of 62.5 per cent. of the rights to vote at general meetings of Regus Group immediately upon the Scheme becoming effective (but before the Plan of Reorganisation is implemented and assuming that no Shares or New Shares are issued under the Warrants or Regus Group Share Plans).

Immediately following Admission, there will be no ongoing contractual or other arrangements between Mark Dixon and Maxon Investments and Regus Group or its management (save (i) the service agreement of Mark Dixon described under paragraph 13 of Part 6, (ii) the loan agreement pursuant to which Maxon Investments has lent Rudolf Lobo US\$500,000 at a rate of interest on the amount outstanding at the standard variable mortgage rate of the UK's Nationwide Building Society plus a margin of 0.75%, such amount being repayable on 6 April 2004, (iii) the options held by Rudolf Lobo and Robert Gaudreau over 18,140,00 Shares as described in paragraph 11 of Part 6 and (iv) the deed of undertaking through which Regus has agreed to indemnify Maxon Investments against guarantees given in relation to four leases and one financial lease).

Maxon Investments has confirmed to Regus Group in a letter of confirmation that:

- neither it nor any of its associates will act in a manner which it knows would prevent Regus Group and the Group from carrying on its business independently of Maxon Investments (and its associates); and
- transactions and relationships between Regus Group and Maxon Investments or any of its associates will be conducted at arm's length and on a normal commercial basis.

Mark Dixon, the holder of 100 per cent. of the issued share capital of Maxon, has also given a letter of confirmation to Regus Group that:

- neither he nor any of his associates nor Maxon Investments will act in a manner which he knows would prevent Regus Group and the Group from carrying on its business independently of him and Maxon Investments (and their associates); and

- transactions and relationships between Regus Group and Mark Dixon and/or any of his associates and/or Maxon Investments will be conducted at arm's length and on a normal commercial basis.

In addition, provisions of the Regus Group Articles and the relevant provisions of the Listing Rules regulate Maxon Investments and Mark Dixon's relationship with Regus Group. By virtue of these factors, the Directors believe that the Group is capable of carrying on its business independently of Maxon Investments and Mark Dixon (and their associates) and that all transactions and relationships between the Group and Maxon Investments and Mark Dixon (and their associates) are, and will be, at arm's length and on a normal commercial basis. These arrangements are the same as the arrangements that were in place to protect Regus' independence at the time of the listing of the Shares on the Official List in October 2000, save that at that time, no separate letter of confirmation was provided to Regus by Mark Dixon.

Immediately following Admission, Maxon Investments and its associates will not hold any interests outside the Group which conflict with its interests in Regus Group or the Group. This has also been confirmed in the letters of confirmation which have been provided to Regus Group by each of Maxon Investments and Mark Dixon.

**PART 3 - ACCOUNTANTS' REPORT ON REGUS GROUP**

The following is the full text of a report on Regus Group from KPMG Audit Plc, the reporting accountants, to the Directors and N M Rothschild

**KPMG Audit Plc**

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3 October, 2003

Dear Sirs

**Regus Group Plc***Basis of preparation*

The financial information set out in paragraphs 1 and 2 is based on the financial statements of Regus Group Plc ("Regus Group") for the period from incorporation to 20 September, 2003 to which no adjustments were considered necessary.

*Responsibility*

Such financial statements are the responsibility of the Directors of Regus Group.

The Directors of Regus Group are responsible for the contents of the listing particulars of Regus Group dated 3 October, 2003 ("The Listing Particulars") in which this report is included.

It is our responsibility to compile financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

*Basis of audit opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to Regus Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

*Opinion*

In our opinion the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of Regus Group as at 20 September, 2003.

**1. Balance Sheet**

	As at 20 September 2003
	£
<b>Current assets</b>	
Debtor: amount due from nominee shareholders	2
<b>Net assets</b>	<u>2</u>
<b>Capital and reserves</b>	
Called up share capital	2
<b>Equity shareholders' funds</b>	<u>2</u>

**2. Notes**

2.1 Regus Group was incorporated on 18 August, 2003. No audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation. Regus Group had not commenced business as at 20 September, 2003 and accordingly no profit and loss account is presented.

## **2.2 Basis of preparation**

The financial information has been prepared in accordance with applicable UK accounting standards using the historical cost convention. Immediately following the scheme becoming effective Regus Group will adopt the accounting policies of Regus plc.

## **2.3 Share Capital**

The authorised share capital of £40,000,000 at 20 September, 2003 comprised 800,000,000 ordinary shares of 5 pence each. Forty shares of 5 pence each were allotted for cash and were paid up.

## **2.4 Subsequent events**

Subsequent to the year end, the authorised share capital of Regus Group was increased from £40,000,000 divided into 800,000,000 ordinary shares of 5 pence each to £80,050,000 divided into 1,600,000,000 ordinary shares of 5 pence each and 50,000 redeemable preference shares of £1 each. The 50,000 redeemable preference shares of £1 each were then issued and paid up as to £12,500 by way of a section 738(2) undertaking from Maxon Investments.

Yours faithfully

KPMG Audit Plc



## PART 4 - FINANCIAL INFORMATION

The financial information set out in this Part 4 has been extracted without material adjustment from the published audited consolidated accounts of Regus for the years ended 31 December, 2000, 31 December, 2001 and 31 December 2002. These do not constitute statutory accounts within the meaning of section 241 of the Companies Act. Audited statutory accounts have been delivered to the Registrar of Companies for the years ended 31 December, 2002, 31 December, 2001 and 31 December, 2000. Unqualified audit reports under section 235 of the Companies Act, which did not contain any statement under section 237(2) or section 237(3) of the Companies Act, for the years ended 31 December, 2002, 31 December, 2001 and 31 December, 2000 have been given by KPMG Audit Plc, Chartered Accountants and Registered Auditor of 8 Salisbury Square, London EC4Y 8BB. The audit opinion for the year ended 31 December, 2002 included the following statement:

“In forming our opinion, we have considered the adequacy of the disclosure in the Accounting Policies Note concerning the uncertainties over the future funding of the group which is dependent upon:

- a plan of reorganisation acceptable to Regus being approved by US creditors and the US courts. A plan of reorganisation acceptable to Regus is one which will enable Regus to achieve net cash generation within a reasonably short timeframe and will result in a payment profile of claims which can be met out of future cashflows of the Group;
- Regus' German business also being successfully restructured so as to achieve cash break-even within a reasonably short timeframe;
- Regus receiving all or substantially all of the first tranche of the deferred consideration receivable from Alchemy in respect of the sale of a majority stake in the UK business on a timely basis; and
- There being no significant deterioration in current trading.

In view of the significance of these uncertainties, we consider that the basis of preparation note within the Accounting Policies Note on pages 62 to 68 should be brought to your attention but our opinion is not qualified in this respect.”

**Regus plc****Consolidated profit & loss account**

	Note	12 months to 31 Dec 2002 £ '000	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
Turnover (including share of joint ventures)	1	445,407	524,622	429,200
Less: share of turnover of joint ventures	1	(9,803)	(11,989)	(8,075)
<b>Group turnover</b>		<b>435,604</b>	<b>512,633</b>	421,125
Cost of sales (center costs) before exceptional items		(413,339)	(434,787)	(320,832)
Exceptional cost of sales	3	(56,972)	(37,955)	-
Cost of sales (centre costs) after exceptional items		(470,311)	(472,742)	(320,832)
<b>Gross (loss)/profit (centre contribution)</b>	1	<b>(34,707)</b>	<b>39,891</b>	100,293
Administration expenses before exceptional items		(61,076)	(91,255)	(86,859)
Exceptional administration expenses	3	(35,096)	(52,591)	(9,501)
Administration expenses after exceptional items		(96,172)	(143,846)	(96,360)
<b>Group operating (loss)/profit</b>		<b>(130,879)</b>	<b>(103,955)</b>	3,933
Share of operating loss in joint ventures	1	(5,497)	(5,572)	(1,027)
<b>Total operating (loss)/profit: Group and share of joint ventures</b>		<b>(136,376)</b>	<b>(109,527)</b>	2,906
Profit on sale of group undertakings		22,716	-	-
(Loss)/profit on ordinary activities before interest		(113,660)	(109,527)	2,906
Net interest payable and other similar charges	5	(5,404)	(554)	(6,763)
<b>Loss on ordinary activities before tax</b>	2	<b>(119,064)</b>	<b>(110,081)</b>	(3,857)
Tax on loss on ordinary activities	6	(5,480)	(10,090)	(9,926)
<b>Loss on ordinary activities after tax</b>		<b>(124,544)</b>	<b>(120,171)</b>	(13,783)
Equity minority interests		1,145	1,933	253
<b>Retained loss for the financial year</b>	18	<b>(123,399)</b>	<b>(118,238)</b>	(13,530)
<b>Loss per ordinary share:</b>	7			
Basic and diluted (p)		(21.9)	(21.0)	(2.7)

All results arose from continuing operations.

See accompanying notes to consolidated financial statements.

## Regus plc

## Consolidated balance sheets

	Note	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
<b>Fixed assets</b>				
<b>Intangible assets</b>	8	-	4,307	-
Tangible assets	9	93,772	242,299	193,453
<b>Investments</b>				
Investment in own shares	10	3,805	3,805	47,021
Investment in associates	10	12,458	-	-
Other investments	10	29	33	-
Interest in joint ventures:	10			
Share of gross assets		-	15,656	13,601
Share of gross liabilities		-	(14,562)	(9,461)
		-	1,094	4,140
Total investments		16,292	4,932	51,161
		110,064	251,538	244,614
<b>Current assets</b>				
Stocks		293	392	279
Debtors: amounts falling due within one year	11	59,025	114,288	129,677
Debtors: amounts falling due after more than one year	11	-	3,000	-
Cash at bank and in hand		58,610	117,074	169,281
		117,928	234,754	299,777
<b>Creditors: amounts falling due within one year</b>	12	(177,963)	(344,392)	(317,883)
<b>Net current liabilities</b>		(60,035)	(109,638)	(18,106)
<b>Total assets less current liabilities</b>		50,029	141,900	226,508
<b>Creditors: amounts falling due after more than one year</b>	13	(19,796)	(24,806)	(23,050)
<b>Provision for deficit on joint ventures</b>				
Share of gross assets		8,630	-	-
Share of gross liabilities		(10,253)	-	-
	10	(1,623)	-	-
<b>Provisions for liabilities and charges</b>	15	(57,242)	(28,302)	(794)
<b>Net (liabilities)/assets</b>		(28,632)	88,792	202,664
<b>Capital and reserves</b>				
Called-up share capital	16	29,110	29,106	29,034
Share premium account	17	279,765	279,765	279,858
Other reserves	18	6,508	4,056	615
Profit and loss account	18	(343,775)	(224,482)	(106,417)
<b>Equity shareholders' (deficit)/funds</b>		(28,392)	88,445	203,090
<b>Equity minority interests</b>		(240)	347	(426)
		(28,632)	88,792	202,664

See accompanying notes to consolidated financial statements

## Regus plc

## Consolidated cash flow statements

		12 months to 31 Dec 2002	12 months to 31 Dec 2001	12 months to 31 Dec 2000
	Note	£'000	£'000	£ '000
<b>Cash (outflow)/inflow from continuing operating activities</b>				
Net cash inflow before exceptional items		5,820	56,140	117,899
Outflow related to exceptional items	19(a)	(16,603)	(12,144)	-
<b>Net cash (outflow)/inflow from continuing operating activities</b>	<b>19(a)</b>	<b>(10,783)</b>	<b>43,996</b>	<b>117,899</b>
<b>Returns on investments and servicing of finance</b>				
Interest received		1,901	3,906	3,851
Interest paid		(2,051)	(252)	(7,993)
Interest paid on finance leases		(2,637)	(3,351)	(2,861)
		(2,787)	303	(7,003)
<b>Taxation</b>				
Tax paid		(4,077)	(6,275)	(2,224)
		(4,077)	(6,275)	(2,224)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(15,274)	(105,633)	(88,078)
Sale of tangible fixed assets		557	3,052	1,506
Purchase of own shares		-	-	(42,500)
Purchase of investments		-	(26)	-
		(14,717)	(102,607)	(129,072)
<b>Acquisitions and disposals</b>				
Sale/(purchase) of subsidiary undertakings		16,236	(5,712)	-
Investment in joint ventures		(743)	(5,631)	(3,789)
		15,493	(11,343)	(3,789)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(16,871)</b>	<b>(75,926)</b>	<b>(24,189)</b>
<b>Management of liquid resources</b>	<b>19(b)</b>	<b>55,426</b>	45,643	(78,712)
<b>Financing</b>	<b>19(b)</b>	<b>(32,276)</b>	22,714	118,766
<b>Increase/(decrease) in cash in the year</b>	<b>19(c)&amp; (d)</b>	<b>6,279</b>	<b>(7,569)</b>	<b>15,865</b>

See accompanying notes to consolidated financial statements

**Regus plc****Consolidated statements of total recognised gains and losses**

	<b>12 months to 31 Dec 2002 £'000</b>	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
Loss for the financial year	<b>(123,399)</b>	(118,238)	(13,530)
Exchange differences	<b>4,108</b>	197	2,675
Tax charge on exchange differences	-	-	(872)
Total recognised gains and losses for the year	<b><u>(119,291)</u></b>	<u>(118,041)</u>	<u>(11,727)</u>

**Reconciliation of movements in consolidated shareholders' (deficit)/funds**

	<b>12 months to 31 Dec 2002 £'000</b>	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
Loss for the financial year	<b>(123,399)</b>	(118,238)	(13,530)
Net proceeds of ordinary shares issued	<b>4</b>	3,396	238,548
Exchange differences	<b>4,108</b>	197	2,675
Reclassification of fair value of warrants to non distributable reserves	<b>2,450</b>	-	-
Tax charge on exchange differences	-	-	(872)
<b>Net (decrease)/increase in shareholders' funds</b>	<b><u>(116,837)</u></b>	<u>(114,645)</u>	<u>226,821</u>
Shareholders' funds/(deficit) at 1 January	<b>88,445</b>	203,090	(23,731)
<b>Shareholders' (deficit)/funds at 31 December</b>	<b><u>(28,392)</u></b>	<u>88,445</u>	<u>203,090</u>

See accompanying notes to consolidated financial statements

## **Regus plc**

### **Accounting Policies**

#### **Description of business**

Regus plc (the "Company"), formerly Regus Business Centres plc, and its consolidated subsidiaries (the "Group") are engaged in the provision of fully serviced business centres offering clients a mix of workstations, conference rooms and related support services. The Group operates an international network of business centres and is divided into four geographic regions, UK & Ireland, Rest of Europe, Americas and Rest of World. Maxon Investments B.V. ("Maxon") is the ultimate parent company and M L J Dixon, the Chief Executive of the Company, has an effective controlling interest in the equity shares of the Company via Maxon.

#### **Basis of preparation**

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United Kingdom ("UK GAAP"), under the historical cost convention. These principles differ in certain significant respects from generally accepted accounting principles in the United States ("US GAAP"). Application of US GAAP would have affected shareholders' funds and results of operations at and for the years ended 31 December 2001 and 2002, to the extent summarised in note 28.

The preparation of financial statements in conformity with UK GAAP and US GAAP requires management to make estimates and assumptions that reflect the reported amounts of assets and liabilities, plus disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses for an accounting period. Such estimates and assumptions could change in the future as more information becomes known or circumstances change, such that the Group's results may differ from the amounts reported and disclosed in the financial statements. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

#### **Going Concern**

Excluding the cash impact from the sale of the UK business, the Group recorded a cash outflow of £9.3 million. At 31 December, 2002, the Group had net current liabilities of £60.0 million and net liabilities of £28.6 million. In 2002, Regus UK was the largest cash generative business although, following the disposal of a majority interest in Regus UK in 2002, the Group no longer has access to these cash flows. The remainder of the Regus Group, comprises a mixture of cash positive and cash negative businesses, the most cash negative of which are the US and German businesses.

#### **a) United States of America**

In the year ended 31 December, 2002, Regus' US business recorded an operating loss before exceptional items of £35.5 million. Regus had invested significantly in new centres on the West Coast of the US in response to demand from technology companies in particular. As the general economic downturn took effect, which was felt most acutely in the technology sector, losses in Regus' US business widened as demand for serviced offices fell. Throughout most of 2002, Regus sought to restructure the terms of its leases and related guarantees through bilateral negotiation with US landlords with the objective of bringing Regus US to cash break-even or better.

Despite substantial progress towards a negotiated settlement, Regus was unable to reach a satisfactory settlement with US landlords within the necessary timeframe and therefore on 14 January 2003 Regus' US subsidiaries, Regus Business Centres Corp. ("Regus US") and Stratis Business Centres Inc. ("Stratis") each filed a voluntary petition for relief under Chapter 11 of the US Bankruptcy Code in the Court of the Southern District of New York. The bankruptcy case in respect of Stratis, at the request of the Debtors, was recently dismissed by the Bankruptcy Court. Regus plc and Regus Business Centre B.V., which are holding companies for the Regus Group and have given guarantees in relation to certain leasehold liabilities of the US business, also filed for relief under Chapter 11. Regus plc and Regus Business Centres B.V. are not engaged in any form of administrative proceedings or other arrangement with creditors outside of the US.

Chapter 11 gives each Regus company which has filed for Chapter 11 legal protection from its US creditors by immediately freezing all pre-existing financial claims of those creditors both in US and non-US courts. Thus, although US landlords may have claims pursuant to guarantees given by either Regus plc or Regus Business Centres B.V., notwithstanding that neither Regus entity is US domiciled, any such claims against those entities fall within the jurisdiction of the US Courts and benefit from the protections afforded by Chapter 11.

Under Chapter 11, Regus US is able to elect whether it wishes to affirm or reject leases on a case-by-case basis. To the extent that a lease is rejected, the statutory maximum claim, in respect of future rent that the landlord would have against each of the relevant lessee companies and the relevant guarantor will be limited to the higher of (i) one years rent or (ii) 15% of the remaining lease term, not to exceed three years, in each case under the relevant. In the absence of chapter 11, the termination of a lease would require the lessee (or the guarantor) to pay all the rent due on the balance of the lease, subject to any mitigation by the landlord.

Regus US is party to 74 real property leases and a further 8 equipment leases in the US and, through a joint venture company, is party to a further 12 real property leases. Most real property leases have 8-10 years unexpired term. Regus US expects to use the provisions of Chapter 11 to reject some property leases. In respect of the remaining US property leases, including leases held by joint venture companies, negotiations with US landlords are at an advanced stage. These negotiations anticipate modifications to existing leases including reductions in space and/or rent in return for a compensation payment by Regus.

On 28 August, 2003, Regus filed its Disclosure Statement relating to its Plan of Reorganisation with the Bankruptcy Court. On 25 September, 2003 the Bankruptcy Court held a hearing to consider the approval of the form of the proposed Disclosure Statement. The Bankruptcy Court has determined that the proposed Disclosure Statement contains adequate information relating to the proposed Plan and accordingly the Bankruptcy Court has permitted Regus to solicit the votes of its Creditors and the Regus Shareholders and interest holders in the other Debtors on the proposed Plan of Reorganisation.

The Group is conducting its Chapter 11 proceedings in the belief that they will be concluded successfully, that the group will achieve its projected cash flows and thereby be able to meet the court-approved Plan of Re-organisation.

## **b) Germany**

In the year ended 31 December, 2002, Regus' German businesses recorded an operating loss before exceptional items of £3.0 million. The German business has also been re-organised with a view to

bringing the German business to cash break-even or better on a run rate basis. This re-organisation has involved re-negotiation of certain leases and may result in the closure of one cash negative German subsidiary.

**c) Other factors**

On 30 December, 2002, Regus sold a 58% interest in its UK business to Alchemy Partners ("Alchemy"). Alchemy subscribed £16.3 million for new shares and paid Regus £25.6 million for existing shares in the UK business. At the same time, Regus repaid a £10.5 million loan from the UK business, leaving the Regus Group with net cash from the transaction of £15.1 million. In addition, deferred consideration is receivable by Regus in two tranches: the first tranche of up to £10 million is dependant upon the EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) for the year ended 31 December, 2002 and net current liabilities and net cash at 31 December, 2002 of the UK business meeting certain parameters; and a second tranche equivalent to 70% of the amount by which EBITDA for the year ended 31 December, 2003 exceeds £29 million. Regus is also entitled to receive 42% of any dividends declared by the UK business.

In July 2003, £10 million (unaudited) was received in connection with the first tranche of deferred consideration as set out above.

At 31 December, 2002, the Group had available free cash balances of £29.9 million, but no other undrawn bank facilities. Accordingly the Group is reliant upon existing cash resources and operating cash flows to fund ongoing activities.

The financial statements have been prepared on the going concern basis, which assumes that:

- A Plan of Reorganisation, acceptable to Regus, will be approved by the US creditors and the US courts. A Plan of Re-organisation acceptable to Regus is one which will enable Regus US to achieve cash break-even within a reasonably short timeframe and will result in a payment profile of claims which can be met out of the future cash flows of the Group;
- Regus' German business will also be successfully restructured so as to achieve cash break-even within a reasonably short time frame;
- Regus receives all or substantially all of the first tranche of the deferred Consideration receivable from Alchemy in respect of the payment made in relation to paragraph (c) above; and
- No significant deterioration in current trading.

Nevertheless, the outcome of the Chapter 11 proceedings is unpredictable and so there is substantial doubt over the Groups ability to continue as a going concern in its present form. The Directors recognise that there is a risk that continuation as a going concern will not be possible. If the going concern basis were to be an inappropriate basis of preparation, it would be necessary for the expenses of realising the group assets, reducing their values to realisable amounts in these circumstances and provide for unsettled claims to the extent that these are not covered by existing provisions for asset impairments and onerous lease obligations.



## **Basis of consolidation**

The Group accounts include the accounts of the company and its subsidiary undertakings made up to 31 December, 2002. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the Group has a long-term interest, usually from 20 per cent. to 50 per cent. of the equity voting rights, and over which it exercises significant influence. The Group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets, other than goodwill, is included in investments in the consolidated balance sheet.

## **Transactions in foreign currencies**

Assets and liabilities of foreign subsidiaries and related hedging instruments are translated into sterling at the closing exchange rate prevailing at the balance sheet date. Results of overseas undertakings are translated into sterling at the average rates of exchange for the relevant period. Differences arising from the re-translation of the results of overseas undertakings are dealt with through reserves.

Transactions in foreign currency are recorded using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange prevailing at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

## **Goodwill**

Purchased Goodwill, (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation is capitalised as an intangible fixed asset and amortised to nil by equal annual instalments over its estimated useful life, normally 20 years.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill (negative goodwill).

## **Tangible fixed assets and depreciation**

Depreciation is provided on a straight line basis at rates calculated to write off the cost of fixed assets to their estimated residual value over their estimated useful lives at the following rates:

Furniture	- 5 years
Fixtures and fittings	- shorter of the lease term, the first break point of the lease or 10 years
Telephones and office equipment	- 5 years

Computer hardware	- 3 years
Computer software	- 2 years
Cars	- 4 years

### **Fixed asset investments**

Fixed asset investments are generally accounted for at cost less provision for impairment.

### **Sale of group undertakings**

Consideration for the sale of Group subsidiaries is not recognised until the exact amount has been agreed.

### **Stock**

Stock is stated at the lower of cost and net realisable value. Stock relates to items purchased for resale to customers and to items intended for distribution within the business such as office supplies and marketing materials.

### **Taxation**

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

### **Refurbishment**

The terms of most building leases require Regus to make good dilapidation or other damage occurring during the rental period. Accruals for dilapidations are only made when it is known that a dilapidation has occurred.

### **Turnover**

Turnover represents the value of services provided to third parties in the year and is exclusive of VAT and similar taxes.

### **Cost of sales**

Cost of sales consists of costs from the individual business centres, including property lease costs, employee costs and start-up costs.

### **Pensions**

The Group operates defined contribution schemes. Contributions are charged to the profit and loss account on an accruals basis.

## **Leases**

### **a) Finance leases**

Where the Group enters into a lease for furniture, fittings, equipment or cars which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. This also includes occasions where the Group takes interest bearing extended credit from suppliers and certain loans from landlords.

Under all such lease arrangements the asset is recorded in the balance sheet as a tangible asset and is depreciated over its estimated useful life in accordance with the policy described above. Future instalments under such leases, net of finance charges, are included in creditors.

Lease payments are apportioned between the finance element, which is charged to the profit and loss account on a sum of the digits basis or a post-tax actuarial basis, and the capital element, which reduces the outstanding obligation for future instalments.

### **b) Building leases**

Building leases are all accounted for as operating leases because substantially all the risks and rewards of ownership remain with the lessor.

The rental on certain leases is wholly or partly conditional on the profitability of the centre and therefore the risk to the business, in terms of rent, is reduced. Once all outstanding rent has been paid, landlords receive a share of the profits of the centre.

For leases which are wholly or partly conditional on the profitability of the centre, an estimate is made of the likely rent payable based on profitability in respect of the period up to the date of the first market rent review or first break point in the lease, whichever is sooner, and this is spread on a straight line basis over that period. Any subsequent changes in estimates are spread over the remaining period to the date of the first market rent review or first break point in the lease, whichever is sooner. Amounts payable in respect of profit shares are accrued once a sufficient net surplus has been made which would result in a profit share being paid.

Any incentives or rent free periods on conventional leases and the conventional element of leases, which are partly conventional and partly conditional on profitability are spread on a straight line basis over the period to the date of the first market rent review or first break point in the lease, whichever is sooner, so that the amounts charged to the profit and loss account are the same each year over that period.

## **Financial instruments**

The Group uses various derivative financial instruments to hedge its exposures to fluctuations in foreign exchange risks. These include forward currency contracts and currency options.

The accounting method used for derivative financial instruments is determined by whether or not the instrument is designated as a hedge of an existing exposure and, if so by the accounting method used for the item being hedged.

The Group considers its derivative financial instruments to be hedges when certain criteria are met.

### **Forward currency contracts**

The Group's criteria to qualify for hedge accounting are:

- The instrument must be related to a foreign currency asset or liability;
- It must involve the same currency as the hedged item;
- It must reduce the risk of foreign currency exchange movements on the Group's operations.

The group has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instruments. The group does not enter into financial instruments for trading or speculative purposes.

Forward currency contracts are marked to market at the period end, with the resulting exchange gains or losses taken to administration expenses in the profit and loss account, except where the hedged item's exchange difference is reflected in reserves (such as quasi equity loans). In this situation the gain or loss is taken to reserves. The gains or losses on the forward contracts are recognised when the gains or losses on the underlying hedged transactions are recognised. The net resulting unrealised asset or liability is reflected in debtors or creditors as appropriate.

Premiums or discounts on derivative financial instruments that hedge an existing exposure are charged or credited to interest income or cost over the life of the instrument. The related asset or liability is classified as an accrual or prepayment.

Derivative financial instruments that are not designated as hedges are marked to market using period end market rates and gains or losses are taken to the profit and loss account.

Gains or losses arising on hedging instruments which are cancelled due to the termination of the underlying exposure are taken to administration expenses immediately.

### **Currency options**

Under hedge accounting for currency options, the Group defers the instruments impact on profit until it fully recognises the underlying hedged item in the profit and loss account.

Option costs are charged to the interest cost over the life of the option contract. The related asset is classified as prepayments.

At maturity, any realised gain on the option is recognised in the profit and loss account in administration expenses.

### **Cash and liquid resources**

Cash for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

## Notes to the financial statements

### 1 Segmental reporting

The following tables set out the Group's segmental analysis by geographic region and by established and new centres. Established centres are those that have been open for a period of at least 18 months as at the end of the relevant period and new centres are those that have been open for less than 18 months as at the end of the relevant period. The numbers reported include exceptional costs.

	Turnover			Gross profit/(loss) (center contribution)		
	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Geographical analysis</b>						
United Kingdom & Ireland	176,680	215,188	188,862	31,370	56,916	59,619
Rest of Europe	140,116	151,879	118,933	(20,633)	9,132	29,214
Americas	98,109	124,096	94,296	(45,490)	(28,752)	13,850
Rest of World	30,502	33,459	27,109	46	2,595	(2,390)
	<b>445,407</b>	<b>524,622</b>	<b>429,200</b>	<b>(34,707)</b>	<b>39,891</b>	<b>100,293</b>
<b>Total Group</b>	<b>435,604</b>	<b>512,633</b>	<b>421,125</b>			
<b>Total joint ventures</b>	<b>9,803</b>	<b>11,989</b>	<b>8,075</b>			
Established centers	408,121	410,829	293,555	(27,077)	90,859	92,329
New centers	27,483	101,829	127,570	(7,630)	(50,968)	7,964
<b>Total</b>	<b>435,604</b>	<b>512,633</b>	<b>421,125</b>	<b>(34,707)</b>	<b>39,891</b>	<b>100,293</b>

	Operating profit/(loss)			Net liabilities/assets		
	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
<b>Geographical analysis</b>						
United Kingdom & Ireland	18,031	44,267	39,193	6,227	46,932	20,852
Rest of Europe	(39,514)	(8,341)	6,723	(76,478)	(39,183)	(31,622)
Americas	(86,179)	(67,937)	(12,389)	(137,421)	(65,110)	(1,924)
Rest of World	(3,274)	(2,729)	(10,523)	(31,716)	(29,596)	(29,474)
Other*	(25,440)	(74,787)	(20,098)	210,756	175,749	244,832
	<b>(136,376)</b>	<b>(109,527)</b>	<b>2,906</b>	<b>(28,632)</b>	<b>88,792</b>	<b>202,664</b>
<b>Total Group</b>	<b>(130,879)</b>	<b>(103,955)</b>	<b>3,933</b>	<b>(27,009)</b>	<b>87,698</b>	<b>198,524</b>
<b>Total joint ventures</b>	<b>(5,497)</b>	<b>(5,572)</b>	<b>(1,027)</b>	<b>(1,623)</b>	<b>1,094</b>	<b>4,140</b>

Prior year figures have been re-presented to exclude internal management fees.

\* includes non-regional exceptional costs.

Exceptional charges to the profit and loss account for 2002 by region were: United Kingdom and Ireland credit £0.8 million (2001: £1.1 million); Rest of Europe £31.8 million (2001: £13.7 million); Americas £47.9 million (2001: £28.0 million); Rest of World £2.5 million (2000: £0.9 million); and, Other £10.7 million (2001: £46.8 million).

There is no difference between segmental information on an origin basis and on a destination basis.

The directors are of the opinion that the whole of the turnover is derived from the same class of business.

## 2 Loss on ordinary activities before tax

	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Loss before tax is stated after charging:</b>			
Depreciation of tangible fixed assets:			
- owned assets	40,283	47,827	27,671
- assets under finance leases	16,113	16,060	12,875
Loss/(profit) on sale of fixed assets	894	(32)	1,520
Provision for impairment of fixed assets (note 3)	-	12,166	-
Goodwill amortization	238	196	-
Operating leases:			
- property	137,990	191,842	136,969
- equipment	7,198	9,426	6,033
Audit fees:			
- company	4	5	5
- group	611	782	546
Non audit fees paid to KPMG:			
- UK companies	-	153	204
- group	250	1,497	496
- Business disposal reporting	130	-	-
Exceptional items (note 3(a))	92,068	90,546	9,501

Non-exceptional non audit fees are primarily in respect of tax compliance services. In 2000, in addition to the fees above, audit fees of £240,000 and non audit fees of £786,000 paid to KPMG were offset against the share premium account.

## 3(a) Exceptional items

Included in the results for the year to 31 December, 2002 were pre-tax exceptional charges as follows:

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
<b>Cost of sales:</b>			
Onerous leases, related closure and restructuring costs	20,130	37,955	-
Write-down of tangible assets	36,842	-	-
<b>Administration expenses:</b>			
Onerous leases, related closure and restructuring costs	34,145	4,955	-
Write-down of software assets	-	4,566	-
Impairment of acquisition goodwill	4,002	4,916	-
Impairment of investment in own shares	-	32,621	-
Aborted business sales and mergers	722	3,283	-
Non-recoverable Ryder Cup expenditure	-	2,250	-
Business interruption insurance receipt	(3,773)	-	-
Reduction in exercise price on options	-	-	9,501
	<u>92,068</u>	<u>90,546</u>	<u>9,501</u>

The impact of exceptional items on tax charge is given in note 6.

## 3(b) Profit on the sale of group undertakings

In the year two group undertakings were sold which generated a £22.7 million profit. The most significant transaction was the sale of a 58% interest in the UK business to Alchemy Partners, which contributed £23.0 million. In addition the Romanian business was sold to a franchisee at a small loss of £0.3 million.

#### 4 Employees and directors

	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
<b>Staff costs for the Group during the year</b>			
Wages and salaries	58,318	71,672	61,648
Social security costs	7,958	11,127	7,851
Pension costs	504	360	260
	<u>66,780</u>	<u>83,159</u>	<u>69,759</u>

The Group contributes to the personal pension schemes of a small number of employees. The amount which is included within creditors is £16,300 (2001: £18,000, 2000: £44,000).

	12 months to 31 Dec 2002 Number	12 months to 31 Dec 2001 Number	12 months to 31 Dec 2000 Number
<b>Average number of people (including executive directors) employed</b>			
Centre staff	1,742	1,923	1,525
Sales staff	269	363	284
Finance staff	151	170	135
Other staff	124	200	157
	<u>2,286</u>	<u>2,656</u>	<u>2,101</u>
	12 months to 31 Dec 2002 £ '000	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
<b>Directors</b>			
Aggregate emoluments	<u>514</u>	<u>562</u>	<u>988</u>
Company pension payments to money purchase scheme	<u>48</u>	<u>47</u>	<u>48</u>
<b>Highest paid director</b>			
Aggregate emoluments	<u>160</u>	<u>229</u>	<u>448</u>
Company pension payments to money purchase scheme	<u>13</u>	<u>23</u>	<u>28</u>

Retirement benefits are accruing to three directors under a money purchase scheme. In 2000, two directors received share options under the long term incentive scheme.

More detailed information on directors emoluments is provided in the report of the Remuneration Committee.

## 5 Net interest payable and other similar charges

	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
Interest payable on overdrafts and loans	4,482	842	7,749
Interest payable on finance leases	2,700	3,339	2,867
	<u>7,182</u>	<u>4,181</u>	<u>10,616</u>
Interest income	(1,917)	(3,877)	(3,863)
Share of joint venture net interest payable	139	250	10
<b>Net interest payable and other similar charges</b>	<u>5,404</u>	<u>554</u>	<u>6,763</u>

## 6. Taxation

	12 months to 31 December, 2002 £'000	12 months to 31 December 2001 £ '000	12 months to 31 December 2000 £ '000
<b>Current tax</b>			
United Kingdom			
Corporation tax at 30% (2001 & 2000: 30%)	5,776	5,588	4,402
Under provision in respect of prior periods	212	-	-
Foreign tax			
Corporation taxes	852	4,440	4,752
(Over) / under provision in respect of prior periods	188	-	(22)
<b>Total current tax</b>	<u>7,028</u>	<u>10,028</u>	<u>9,132</u>
<b>Deferred tax</b>			
Origination and reversal of timing differences			
United Kingdom	(555)	62	794
Foreign	(993)	-	-
<b>Total deferred tax</b>	<u>(1,548)</u>	<u>62</u>	<u>794</u>
<b>Total tax on loss on ordinary activities</b>	<u>5,480</u>	<u>10,090</u>	<u>9,926</u>
Approximate gross tax losses to carry forward against certain future overseas corporation tax liabilities	<u>199,536</u>	<u>126,561</u>	<u>76,910</u>

No deferred tax has been provided on the unremitted accumulated reserves of the subsidiary undertakings as accumulated reserves of subsidiary undertakings are retained to finance their business.

At 31 December, 2002, the total unremitted accumulated reserves of the subsidiary undertakings were £15,525,000 (2001: £6,168,000, 2000: £2,047,000)

The tax losses above have the following expiration dates:

	As at £'000	As at 31 Dec 2001 £ '000	As at 31 Dec 2000 £ '000
2001	-	-	196
2002	-	727	757
2003	1,850	1,682	2,592
2004	11,504	12,395	15,885
2005	8,536	8,712	7,574
2006	6,487	7,848	397
2007	9,321	3,479	482
2008	<u>120,251</u>	<u>66,248</u>	<u>27,165</u>
	<u>157,949</u>	<u>101,091</u>	<u>55,048</u>
Available indefinitely	<u>41,587</u>	<u>25,470</u>	<u>21,862</u>
	<u>199,536</u>	<u>126,561</u>	<u>76,910</u>



A reconciliation of the actual tax charge resulting from applying the UK statutory rate to the loss before tax is as follows.

	<b>12 months to 31 December 2002 £'000</b>	12 months to 31 December 2001 £'000	12 months to 31 December 2000 £'000
Loss on ordinary activities before tax	<b>(119,064)</b>	(110,081)	(3,857)
Tax on loss on ordinary activities at 30% (2001: 30%, 2000: 30%)	<b>(35,719)</b>	(33,024)	(1,157)
Effects of:			
Expenses not deductible for tax purposes	<b>17,987</b>	26,128	2,668
Profit on disposal of interests in group companies	<b>(6,086)</b>	-	-
Depreciation in excess of capital allowances	<b>10,771</b>	6,541	3,706
Utilisation of tax losses	<b>(1,084)</b>	(953)	(1,133)
Losses carried forward to future periods	<b>20,684</b>	17,938	6,907
Difference in tax rates on overseas earnings	<b>75</b>	(6,602)	(1,837)
Adjustment to tax charge in respect of prior periods	<b>400</b>	-	(22)
<b>Total current tax</b>	<b><u>7,028</u></b>	<b><u>10,028</u></b>	<b><u>9,132</u></b>

There was no tax charge arising from joint venture operations.

## 7 Loss per share

Loss per share has been calculated by dividing the retained loss for the financial year by the weighted average number of ordinary shares in issue excluding those held under the employee share trust.

There were no adjustments to the retained loss for the year for the diluted earnings per share computations.

The 2002, 2001 and 2000 diluted shares were not included in the computation of diluted earnings per share due to losses in those years, resulting in options being antidilutive.

The following summarizes the calculation of loss per share for the years ended 31 December 2000, 2001 and 2002:

		<b>31 Dec 2002</b>	31 Dec 2001	31 Dec 2000
Loss for the year	(£'000)	<b>(123,399)</b>	(118,238)	(13,530)
Weighted average ordinary shares in Issue - basic and diluted	('000's)	<b>564,052</b>	563,528	497,889
Loss per ordinary share - basic and diluted	(p)	<b><u>(21.9)</u></b>	<b><u>(21.0)</u></b>	<b><u>(2.7)</u></b>

## 8 Goodwill

	£ '000
<b>Cost</b>	
At 1 January 2002	9,419
Additions	12
Exchange differences	(84)
<b>At 31 December 2002</b>	<b><u>9,347</u></b>
<b>Amortisation</b>	
At 1 January 2002	5,112
Charge for the period	238
Impairment	4,002
Exchange differences	(5)
<b>At 31 December 2002</b>	<b><u>9,347</u></b>
<b>Net book value at 31 December 2002</b>	<b><u>-</u></b>
<b>Cost</b>	
At 1 January 2001	-
Additions	9,496
Exchange differences	(77)
<b>At 31 December 2001</b>	<b><u>9,419</u></b>
<b>Amortisation</b>	
At 1 January 2001	-
Charge for the period	196
Impairment	4,916
Exchange differences	5,112
<b>At 31 December 2002</b>	<b><u>5,112</u></b>
<b>Net book value at 31 December 2001</b>	<b><u>4,307</u></b>

In April 2001 the Group acquired three subsidiaries for a total consideration of £9.1 million: Stratis Business Centres Inc in the US and Satellite and Skyport Business Centres in the Netherlands, consisting of £5.7 million cash and shares of £3.4 million. The net liabilities of the companies at the date of acquisition were £0.3 million resulting in goodwill on acquisition of £9.4 million. There were no material fair value adjustments. Subsequently the directors have determined that there has been an total impairment in the value of goodwill arising from acquisitions and, accordingly, it is prudent that the goodwill be written down.

## 9 Tangible fixed assets

	Furniture & fittings	Computers	Motor vehicles	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2000	150,667	10,593	578	161,838
Exchange differences	96	187	2	285
Additions	99,549	12,002	101	111,652
Disposals	(5,619)	(1,285)	(259)	(7,163)
<b>At 31 December 2000</b>	<b>244,693</b>	<b>21,497</b>	<b>422</b>	<b>266,612</b>
<b>Aggregate depreciation</b>				
At 1 January 2000	32,921	3,093	253	36,267
Exchange differences	280	70	(2)	348
Charge for the period	34,759	5,664	123	40,546
Disposals	(2,688)	(1,137)	(177)	(4,002)
<b>At 31 December 2000</b>	<b>65,272</b>	<b>7,690</b>	<b>197</b>	<b>73,159</b>
<b>Net book value at 31 December 2000</b>	<b>179,421</b>	<b>13,807</b>	<b>225</b>	<b>193,453</b>
Net book value at 31 December 1999	117,746	7,500	325	125,571
<b>Cost</b>				
At 1 January 2001	244,693	21,497	422	266,612
Exchange differences	(2,328)	(183)	(2)	(2,513)
Additions	115,230	13,248	55	128,533
Acquisitions	676	136	-	812
Disposals	(3,844)	(2,272)	(187)	(6,303)
<b>At 31 December 2001</b>	<b>354,427</b>	<b>32,426</b>	<b>288</b>	<b>387,141</b>
<b>Aggregate depreciation</b>				
At 1 January 2001	65,272	7,690	197	73,159
Exchange differences	(997)	(89)	-	(1,086)
Charge for the period	53,091	10,698	98	63,887
Provision for impairment	7,600	4,566	-	12,166
Disposals	(980)	(2,188)	(116)	(3,284)
<b>At 31 December 2001</b>	<b>123,986</b>	<b>20,677</b>	<b>179</b>	<b>144,842</b>
<b>Net book value at 31 December 2001</b>	<b>230,441</b>	<b>11,749</b>	<b>109</b>	<b>242,299</b>
<b>Cost</b>				
At 1 January 2002	354,427	32,426	268	387,141
Exchange differences	(10,221)	(686)	-	(10,907)
Additions	18,202	2,063	-	20,265
Business disposals	(136,873)	(6,963)	-	(143,836)
Other disposals	(3,680)	(4,881)	(160)	(8,721)
<b>At 31 December 2002</b>	<b>221,855</b>	<b>21,959</b>	<b>128</b>	<b>243,942</b>
<b>Aggregate depreciation</b>				
At 1 January 2002	123,986	20,677	179	144,842
Exchange differences	(3,294)	(448)	1	(3,741)
Charge for the period	49,069	7,290	37	56,396
Business disposals	(70,840)	(6,066)	-	(76,906)
Provision for impairment	36,842	-	-	36,842
Disposals	(2,275)	(4,862)	(126)	(7,263)
<b>At 31 December 2002</b>	<b>133,488</b>	<b>16,591</b>	<b>91</b>	<b>150,170</b>
<b>Net book value at 31 December 2002</b>	<b>88,367</b>	<b>5,368</b>	<b>37</b>	<b>93,772</b>

The impairment provision has been calculated as follows:

- where a centre has been identified for closure or partial closure the fixed assets concerned have been fully written down.
- For others with a negative EBITDA in 2002 and an anticipated negative EBITDA for 2003 the total fixed assets have been written down to the expected cash flows for the five year period 2003 to 2007, discounted at a rate of 7%

The net book value of tangible fixed assets includes an amounts in respect of fixed assets held under finance leases as follows:

	<b>Group 31 Dec 2002 £'000</b>	Group 31 Dec 2001 £'000	Group 31 Dec 2000 £'000
Cost	<b>58,217</b>	96,282	74,570
Depreciation	<b>(28,114)</b>	(43,169)	(28,078)
<b>Net book value</b>	<b>30,103</b>	53,113	46,492

## 10 Investments

	Investment in own shares £'000	Group interest in associates £'000	Group interest in joint ventures £'000	Group other investments £'000	<b>Group Total £'000</b>
At 1 January 2000	-	-	1,206	-	<b>1,206</b>
Exchange differences	-	-	170	-	<b>170</b>
Additions	45,200	-	3,785	6	<b>48,991</b>
Revaluation	1,821	-	-	-	<b>1,821</b>
Share of loss retained	-	-	(1,027)	-	<b>(1,027)</b>
<b>At 31 December 2000</b>	<b>47,021</b>	-	<b>4,134</b>	<b>6</b>	<b>51,161</b>
Exchange differences	-	-	154	-	<b>154</b>
Additions	-	-	2,631	27	<b>2,658</b>
Revaluation	(1,821)	-	-	-	<b>(1,821)</b>
Provision for impairment	(41,395)	-	-	-	<b>(41,395)</b>
Share of loss retained	-	-	(5,825)	-	<b>(5,825)</b>
<b>At 31 December, 2001</b>	<b>3,805</b>	-	<b>1,094</b>	<b>33</b>	<b>4,932</b>
Exchange Differences	-	-	(6)	(4)	<b>(10)</b>
Additions	-	12,458	746	-	<b>13,204</b>
Disposals	-	-	2,181	-	<b>2,181</b>
Provision for impairment	-	-	-	-	-
Share of loss retained	-	-	(5,638)	-	<b>(5,638)</b>
<b>At 31 December 2002</b>	<b>3,805</b>	<b>12,458</b>	<b>(1,623)</b>	<b>29</b>	<b>14,669</b>

\*The nominal value of the Group's investment in own shares is £0.9 million. Note 22 provides details of investments in own shares.

Details of investments in subsidiary companies are given in section 31.

<b>Results of Regus UK</b>	<b>Group 31 Dec 2002 £'000</b>	Group 31 Dec 2001 £'000
<b>Turnover</b>	-	-
Profit before tax	-	-
Taxation	-	-
<b>Profit after tax</b>	-	-
Fixed assets	<b>27,090</b>	-
Current Assets	<b>24,296</b>	-
Liabilities due within one year	<b>(38,520)</b>	-
Liabilities due after one year	<b>(408)</b>	-
<b>Net Assets</b>	<b>12,458</b>	-

Regus UK became an associate on 31 December, 2002 and hence, there are no material profit and loss items.

## 11 Debtors

### Amounts falling due within one year

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
Trade debtors	21,622	45,103	60,990
Amounts owed by participating interest	1,966	4,136	1,862
Other debtors	20,449	30,144	29,940
Prepayments and accrued income	10,331	23,804	26,364
VAT recoverable	4,657	11,101	10,521
	<u>59,025</u>	<u>114,288</u>	<u>129,677</u>

### Amounts falling due after one year

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
Amounts owed by participating interest	-	3,000	-
	<u>-</u>	<u>3,000</u>	<u>-</u>
<b>Total debtors</b>	<b>59,025</b>	<b>117,288</b>	<b>129,677</b>

An allowance for bad and doubtful debts is recorded at the end of each year based upon the expected collectability of all trade receivables. An analysis of the bad and doubtful debt provision is as follows:

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
Opening balance	2,858	1,701	1,047
Additional charges to profit and loss account	3,243	1,916	842
Provision utilisation	(107)	(724)	(190)
Provision released on the sale of business	(3,576)	-	-
Exchange difference	24	(35)	2
Closing balance	<u>2,442</u>	<u>2,858</u>	<u>1,701</u>

## 12 Creditors - amounts falling due within one year

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
Bank loans and overdrafts	4,079	6,018	5,750
Non-convertible bond	-	40,000	807
Other loans	699	724	10,614
Obligations under finance leases	11,788	14,909	31,207
Trade creditors	29,188	44,452	80,024
Customer deposits	36,430	72,584	16,128
Other tax and social security	4,439	12,364	9,849
Corporation tax	10,529	13,396	43,541
Deferred income	20,351	31,847	3,173
Deferred landlord contributions	1,241	7,195	56,307
Rent accruals	37,424	65,715	58,392
Other accruals	18,150	31,818	2,091
Other creditors	3,645	3,370	-
	<u>177,963</u>	<u>344,392</u>	<u>317,883</u>

Certain bank loans are secured on the assets of the applicable subsidiaries and bear interest at commercial rates. All other creditors are unsecured and non-interest bearing.

### 13 Creditors - amounts falling due after more than one year

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
Bank loans	5	8	12
Loan from associate	5,000	-	-
Other loans	1,262	1,322	1,475
Obligations under finance leases	13,393	23,064	21,150
Accruals and deferred income	98	365	361
Other creditors	38	47	52
	<u>19,796</u>	<u>24,806</u>	<u>23,050</u>

Certain bank loans are secured on the assets of the applicable subsidiaries and bear interest at local commercial rates.

All other creditors are unsecured and non-interest bearing.

As at 31 December, 2002 the Group had no other available credit facilities (December 2001: nil, December 2000: £13,748,000).

### 14 Maturity of debt

The maturity profile of the carrying amount of the Group's financial liabilities as at 31 December was as follows:

	Non-convertible bond 31 Dec 2002 £'000	Bank loans & overdrafts 31 Dec 2002 £'000	Other Loans 31 Dec 2002 £ '000	Finance leases 31 Dec 2002 £'000	Total 31 Dec 2002 £'000
Within 1 year	-	4,079	699	11,788	16,566
Between 1 and 2 years	-	4	225	7,654	7,883
Between 2 and 5 years	-	1	658	5,375	6,034
In 5 years or more	-	-	5,379	364	5,743
	<u>-</u>	<u>4,084</u>	<u>6,961</u>	<u>25,181</u>	<u>36,226</u>
	Non-convertible bond 31 Dec 2001 £'000	Bank loans & overdrafts 31 Dec 2001 £'000	Other Loans 31 Dec 2001 £'000	Finance leases 31 Dec 2001 £'000	Total 31 Dec 2001 £'000
Within 1 year	40,000	6,018	724	14,909	61,651
Between 1 and 2 years	-	4	260	11,231	11,495
Between 2 and 5 years	-	4	716	11,196	11,916
In 5 years or more	-	-	346	637	983
	<u>40,000</u>	<u>6,026</u>	<u>2,046</u>	<u>37,973</u>	<u>86,045</u>
	Non-convertible bond 31 Dec 2000 £'000	Bank loans & overdrafts 31 Dec 2000 £'000	Other Loans 31 Dec 2000 £'000	Finance leases 31 Dec 2000 £'000	Total 31 Dec 2000 £'000
Within 1 year	-	5,750	807	10,614	17,171
Between 1 and 2 years	-	4	285	10,224	10,513
Between 2 and 5 years	-	8	678	10,685	11,371
In 5 years or more	-	-	512	241	753
	<u>-</u>	<u>5,762</u>	<u>2,282</u>	<u>31,764</u>	<u>39,808</u>

The following provides additional disclosure for bank loans and overdrafts and other loans:

	31 Dec 2002	31 Dec 2001	31 Dec 2000
	£'000	£'000	£'000
Within 1 year	4,778	46,742	6,557
Between 1 and 2 years	229	264	289
Between 2 and 3 years	203	221	249
Between 3 and 4 years	146	383	238
Between 4 and 5 years	310	116	199
After 5 years	5,379	346	512
	<u>11,045</u>	<u>48,072</u>	<u>8,044</u>

## 15 Provisions for liabilities and charges

	Deferred tax	Onerous lease obligations	Group
	£ '000	£ '000	£ '000
At 1 January 2002	856	27,446	28,302
Provided in year	-	50,785	50,785
Utilised in year	(1,506)	(19,250)	(20,756)
Provisions released on the sale of business	-	(563)	(563)
Exchange differences	1	(527)	(526)
<b>At 31 December, 2002</b>	<u>(649)</u>	<u>57,891</u>	<u>57,242</u>
Amounts falling due within one year	-	17,214	17,214
Amounts falling due after one year	(649)	40,677	40,028
At 1 January 2001	794	-	794
Provided in year	62	28,165	28,227
Exchange differences	-	(719)	(719)
<b>At 31 December 2001</b>	<u>856</u>	<u>27,446</u>	<u>28,302</u>
Amounts falling due within one year	-	19,953	19,953
Amounts falling due after one year	856	7,493	8,349
<b>At 1 January 2000</b>	-	-	-
Provided in year	794	-	794
<b>At 31 December 2000</b>	<u>794</u>	<u>-</u>	<u>794</u>
Amounts falling due within one year	-	-	-
Amounts falling due after one year	794	-	794

## 16 Called up share capital

	31 Dec 2002	31 Dec 2001	31 Dec 2000
	£'000	£'000	£'000
<b>Authorised</b>			
800,000,000 (2001: 800,000,000) ordinary shares of 5p each	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>
<b>Allotted and fully paid</b>			
582,193,517 (2001: 582,112,320) ordinary shares of 5p each	<u>29,110</u>	<u>29,106</u>	<u>29,034</u>

During 2002, 81,197 new ordinary shares of 5 pence each were issued in respect of exercised share options, see note 21.

As at 31 December 2002 warrants for 5,000,000 shares with an exercise price of 5 pence per share were held by the convertible debenture holders. These were granted in January 2002 to those who took up the company's £40 million convertible bond offer in December 2001. These are exercisable at any time between 14 February 2003 and 14 February 2005. Warrants for 2,500,000 shares have been exercised so far in 2003.

In April 2001, 1,388,895 new ordinary shares of 5 pence each were issued for a total consideration of £3,486,750 in respect of the acquisition of Stratis Business Centres Inc.

In March 2000 1,855,670 new A ordinary shares of 5 pence each were allotted for a total consideration of £2,700,000.

In October 2000, 97,598,307 ordinary shares of 5 pence each were issued in an Initial Public Offering for a total consideration of £253,756,000. At the same time, the new A & B ordinary shares of 5 pence each were re-classified as ordinary shares of 5 pence each.

## 17 Share premium account (non distributable)

	31 Dec 2002 £'000	31 Dec 2001 £ '000	31 Dec 2000 £ '000
At 1 January	279,765	279,858	46,283
Premium on issue of shares during period	-	-	251,483
Issue costs*	-	(93)	(17,908)
<b>At 31 December</b>	<b>279,765</b>	<b>279,765</b>	<b>279,858</b>

\* Issue costs for 2001 relate to additional costs associated with the Initial Public Offering in 2000.

## 18 Reserves

	Profit and loss £'000	Other (non distributable) £'000
At 1 January 2000	(94,681)	606
Retained loss for the year	(13,530)	-
Transfer to/from capital reserve	(9)	9
Exchange differences	2,675	-
Tax on exchange difference	(872)	-
At 1 January 2001	(106,417)	615
Retained loss for the year	(118,238)	-
Premium on shares issued for acquisitions	-	3,417
Transfer to/from capital reserve	(34)	34
Exchange differences	207	(10)
<b>At 1 January 2002</b>	<b>(224,482)</b>	<b>4,056</b>
Loss for the year	(123,399)	-
Reclassify fair value of warrant interest to non-distributable reserves	-	2,450
Transfer to/from capital reserve	19	(19)
Exchange differences	4,087	21
<b>At 31 December 2002</b>	<b>(343,775)</b>	<b>6,508</b>



## 19 Cash flow statement

### (a) Reconciliation of operating profit to net cash inflow from operating activities

	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Continuing operating activities</b>			
Operating (loss)/profit	(130,879)	(103,955)	3,933
Depreciation charge	56,074	63,887	40,546
Goodwill amortisation	238	196	-
Loss/(profit) on disposal of fixed assets	894	(32)	1,520
Impairment of goodwill	4,002	4,916	-
Impairment of fixed assets	36,842	12,166	-
Impairment of investment in own shares	-	41,395	-
Increase in provisions	31,548	28,165	-
Decrease/(increase) in stocks	104	(109)	(33)
Decrease/(increase) in debtors	25,114	17,208	(58,228)
(Decrease)/increase in creditors	(34,720)	(19,841)	130,161
<b>Net cash (outflow)/inflow from continuing operating activities</b>	<b>(10,783)</b>	<b>43,996</b>	<b>117,899</b>

The cash outflow includes a £16,603,000 outflow (2001: outflow £12,144,000) relating to the exceptional item charged during the year (see note 3).

### (b) Financing and management of liquid resources

	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Management of liquid resources</b>			
New cash deposits	(18,603)	(50,981)	(95,897)
Repayment of cash deposits	74,029	96,624	17,185
	<b>55,426</b>	<b>45,643</b>	<b>(78,712)</b>
<b>Financing</b>			
New loans	5,850	42,180	13,945
Repayment of loans	(41,063)	(4,566)	(116,325)
Payment of principal under finance leases	(13,979)	(16,793)	(14,702)
Issue of equity shares	16,916	1,985	253,756
Issue costs	-	(92)	(17,908)
	<b>(32,276)</b>	<b>22,714</b>	<b>118,766</b>

### (c) Reconciliation of net cash flow to movement in net funds/(borrowings)

	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Increase/(decrease) in cash in the period</b>	<b>6,279</b>	<b>(7,569)</b>	<b>15,865</b>
Cash outflow/(inflow) from change in borrowings and finance leases	49,192	(20,821)	117,082
Cash (inflow)/outflow from change in liquid resources	(55,426)	(45,643)	78,712
Change in net funds/(borrowings) resulting from cash flows	45	(74,033)	211,659
Acquisitions	(6,651)	(783)	-
Other non-cash items:			
New finance leases	(4,446)	(22,901)	(23,574)
Translation difference	2,407	(1,267)	1,830
Movement in net funds/borrowings in the period	(8,645)	(98,984)	189,915
Net funds/(borrowings)/funds at 1 January	31,029	130,013	(59,902)
<b>Net funds/(borrowings) at 31 December</b>	<b>22,384</b>	<b>31,029</b>	<b>130,013</b>

**(d) Analysis of changes in net funds/(borrowings) in the period**

	At 1 Jan 2002 £ '000	Cashflow £ '000	Acquisitions and disposals £'000	Other non- cash changes £ '000	Exchange movements £ '000	At 31 Dec 2002 £ '000
Cash at bank and in hand	24,247	4,833	-	(2)	(13)	29,065
Overdrafts	(2,781)	1,446	-	-	82	(1,253)
	21,466	6,279	-	(2)	69	27,812
Debt due after 1 year	(1,330)	(5,671)	-	744	(9)	(6,266)
Debt due within 1 year	(43,961)	40,883	-	(745)	297	(3,526)
Finance leases due after 1 year	(23,064)	11,103	408	(2,898)	1,058	(13,393)
Finance leases due within 1 year	(14,909)	2,877	941	(1,547)	850	(11,788)
	(83,264)	49,192	1,349	(4,446)	2,196	(34,973)
Liquid resources	92,827	(55,426)	(8,000)	2	142	29,545
	31,029	45	(6,651)	(4,446)	2,407	22,384

	At 1 Jan 2001 £ '000	Cashflow £ '000	Acquisitions £ '000	Other non- cash changes £'000	Exchange movements £ '000	At 31 Dec 2001 £ '000
Cash at bank and in hand	31,432	(5,983)	-	-	(1,202)	24,247
Overdrafts	(1,203)	(1,586)	-	-	8	(2,781)
	30,229	(7,569)	-	-	(1,194)	21,466
Debt due after 1 year	(1,487)	91	-	36	30	(1,330)
Debt due within 1 year	(5,354)	(37,705)	(783)	(83)	(36)	(43,961)
Finance leases due after 1 year	(21,150)	11,430	-	(13,235)	(109)	(23,064)
Finance leases due within 1 year	(10,614)	5,363	-	(9,619)	(39)	(14,909)
	(38,605)	(20,821)	(783)	(22,901)	(154)	(83,264)
Liquid resources	138,389	(45,643)	-	-	81	92,827
	130,013	(74,033)	(783)	(22,901)	(1,267)	31,029

	At 1 Jan 2000 £ '000	Cashflow £ '000	Other non- cash changes £ '000	Exchange movements £ '000	At 31 Dec 2000 £ '000
Cash at bank and in hand	16,426	8,030	6,583	393	31,432
Overdrafts	(1,923)	7,835	(7,229)	114	(1,203)
	14,503	15,865	(646)	507	30,229
Debt due after 1 year	(82,738)	(10,076)	91,387	(60)	(1,487)
Debt due within 1 year	(24,353)	112,456	(93,852)	395	(5,354)
Finance leases due after 1 year	(13,674)	6,534	(14,000)	(10)	(21,150)
Finance leases due within 1 year	(9,314)	8,168	(9,377)	(91)	(10,614)
	(130,079)	117,082	(25,842)	234	(38,605)
Liquid resources	55,674	78,712	2,914	1,089	138,389
	(59,902)	211,659	(23,574)	1,830	130,013

Liquid resources at 31 December, 2002 include cash held on deposit of which £2.6 million (December 2001: £3.2 million, December 2000: £40.9 million) relates to collateral against bank loans and £26.1 million (December 2001: £28.4 million, December 2000: £35.4 million) relates to deposits which are held by banks as security for the issuance of bank guarantees to support lease commitments by Regus operating companies. These amounts are blocked and are not available for use by the business.

There are arrangements in place where cash balances and deposits with banks in the UK and Netherlands can be offset against overdrawn accounts in the same bank.

Non-cash changes comprise new finance leases and reclassifications between categories.

**20 Financial instruments****Short term debtors and creditors and intercompany balances**

Short term debtors and creditors and intercompany balances have been excluded from all the following disclosures other than the currency risk disclosure.

**Interest rate risk and currency profile of financial liabilities and assets**

The following table analyses the currency and interest rate composition of the Group's financial liabilities and assets, comprising gross borrowings, and deposits where applicable.

**31 December 2002**

	At floating rates £'000	At fixed rates £'000	Non-interest bearing £'000	Total £'000	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
<b>Financial liabilities</b>						
Euro	(1,533)	(5,036)	-	(6,569)	7.7	1.9
Japanese Yen	-	(547)	-	(547)	6.6	0.6
Sterling	(5,000)	-	-	(5,000)	-	-
US Dollar	(745)	(18,645)	-	(19,390)	8.8	1.2
Others	(3,767)	(953)	-	(4,720)	11.0	2.3
	<u>(11,045)</u>	<u>(25,181)</u>	<u>-</u>	<u>(36,226)</u>		
<b>Financial assets</b>						
Chinese Rmb	731	-	-	731	-	-
Euro	15,978	-	-	15,978	-	-
Japanese Yen	372	-	-	372	-	-
Sterling	30,046	-	-	30,046	-	-
US Dollar	5,578	-	-	5,578	-	-
Others	5,905	-	-	5,905	-	-
	<u>58,610</u>	<u>-</u>	<u>-</u>	<u>58,610</u>		
	<u>47,565</u>	<u>(25,181)</u>	<u>-</u>	<u>22,384</u>		
Of which:						
Liquid resources	29,545	-	-	29,545		
Gross borrowings	(11,045)	(25,181)	-	(36,226)		
Cash	29,065	-	-	29,065		
	<u>47,565</u>	<u>(25,181)</u>	<u>-</u>	<u>22,384</u>		

**31 December 2001**

	At floating rates £'000	At fixed rates £'000	Non-interest bearing £'000	Total £'000	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
<b>Financial liabilities</b>						
Euro	(3,380)	(5,552)	-	(8,932)	7.7	2.3
Japanese Yen	-	(1,067)	-	(1,067)	6.6	1.3
Sterling	-	(42,926)	-	(42,926)	5.5	1.0
US Dollar	-	(28,428)	-	(28,428)	8.8	2.0
Others	(4,692)	-	-	(4,692)	11.0	2.4
	<u>(8,072)</u>	<u>(77,973)</u>	<u>-</u>	<u>(86,045)</u>		
<b>Financial assets</b>						
Australian Dollars	812	-	-	812	-	-
Euro	21,518	-	-	21,518	-	-
Japanese Yen	511	-	-	511	-	-
Sterling	80,904	-	-	80,904	-	-
US Dollar	8,511	-	-	8,511	-	-
Others	4,818	-	-	4,818	-	-
	<u>117,074</u>	<u>-</u>	<u>-</u>	<u>117,074</u>		
	<u>109,002</u>	<u>(77,973)</u>	<u>-</u>	<u>31,029</u>		
of which:						
liquid resources	92,827	-	-	92,827		
gross borrowings	(8,072)	(77,973)	-	(86,045)		
cash	24,247	-	-	24,247		
	<u>109,002</u>	<u>(77,973)</u>	<u>-</u>	<u>31,029</u>		

The sterling fixed rate liabilities include £40 million five per cent. non-convertible bonds. Once fair value of the warrants issued in February 2002 is considered in accordance with FRS4, the effective annual finance charge is 17 per cent.

31 December 2000

	At floating rates £'000	At fixed rates £'000	Non-interest bearing £'000	Total £'000	Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
<b>Financial liabilities</b>						
Euro	(1,491)	(3,037)	-	(4,528)	8.0	4.3
Japanese Yen	-	(895)	-	(895)	6.8	3.3
Sterling	(500)	(6,078)	-	(6,578)	9.8	3.8
US Dollar	-	(20,996)	-	(20,996)	8.9	4.7
Others	(6,053)	(758)	-	(6,811)	11.3	2.4
	<u>(8,044)</u>	<u>(31,764)</u>	<u>-</u>	<u>(39,808)</u>		
<b>Financial assets</b>						
Australian Dollar	1,961	-	-	1,961	-	-
Euro	32,571	-	39	32,610	-	-
Japanese Yen	2,393	-	2	2,395	-	-
Sterling	102,433	-	95	102,528	-	-
US Dollar	18,407	-	94	18,501	-	-
Others	11,784	-	42	11,826	-	-
	<u>169,549</u>	<u>-</u>	<u>272</u>	<u>169,821</u>		
	<u>161,505</u>	<u>(31,764)</u>	<u>272</u>	<u>130,013</u>		
of which:						
Current asset investments	138,389	-	-	138,389		
Gross borrowings	(8,044)	(31,764)	-	(39,808)		
Cash	<u>31,160</u>	<u>-</u>	<u>272</u>	<u>31,432</u>		
	<u>161,505</u>	<u>(31,764)</u>	<u>272</u>	<u>130,013</u>		

## Maturity analysis of undrawn committed borrowing facilities

The Group had no undrawn committed borrowing facilities available at the 31 December 2002, 2001 or 2000.

## Currency exposures

As explained in the Financial Review, to mitigate the effect of the currency exposures arising from its net investments overseas the Group borrows, where appropriate, in the local currencies arising from its net investments. Gains and losses arising on net investments overseas are recognised in the statement of total recognised gains and losses.

The tables below show the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account of the Group companies and the Group.

### 31 December 2002

	Net foreign currency monetary assets/(liabilities)					Total £'000
	Euro	Japanese Yen	Sterling	US Dollar	Others	
	£'000	£'000	£'000	£'000	£'000	
<b>Functional currency of Group operation</b>						
Euro	-	-	(82)	135	(176)	(123)
Sterling	(8,742)	-	-	(1,586)	2,225	(8,103)
US Dollar	(3)	-	-	-	242	239
Others	(4,538)	-	1	(3,217)	(692)	8,446
	<u>(13,283)</u>	<u>-</u>	<u>(81)</u>	<u>(4,668)</u>	<u>1,599</u>	<u>(16,433)</u>

### 31 December 2001

	Net foreign currency monetary assets/(liabilities)					Total £'000
	Euro	Japanese Yen	Sterling	US Dollar	Others	
	£'000	£'000	£'000	£'000	£'000	
<b>Functional currency of Group operation</b>						
Euro	-	10,976	(56)	66,572	2,053	79,545
Sterling	817	-	-	(3,349)	6,458	3,926
US Dollar	(43)	-	-	-	1,196	1,153
Others	(4,123)	-	(137)	(7,712)	(1,245)	(13,217)
	<u>(3,349)</u>	<u>10,976</u>	<u>(193)</u>	<u>55,511</u>	<u>8,462</u>	<u>71,407</u>

### 31 December 2000

	Net foreign currency monetary assets/(liabilities)					Total £'000
	Euro	Japanese Yen	Sterling	US Dollar	Others	
	£'000	£'000	£'000	£'000	£'000	
<b>Functional currency of Group operation</b>						
Euro	-	-	27,390	6,268	144	33,802
Sterling	2,550	104	-	6,607	9,031	18,292
US Dollar	12	--	899	-	(110)	801
Others	27	5	54	2,023	(2,450)	4,559
	<u>2,589</u>	<u>109</u>	<u>28,343</u>	<u>14,898</u>	<u>11,515</u>	<u>57,454</u>

## Fair value disclosures

The following table provides a comparison by category of the carrying amounts and the fair value of the Group's financial assets and liabilities at 31 December.

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes acquired interest.

Set out below the table is a summary of the methods and assumptions used for each category of financial instrument.

	<b>Book value</b> <b>31 Dec 2002</b> <b>£'000</b>	<b>Fair value</b> <b>31 Dec 2002</b> <b>£'000</b>	Book value 31 Dec 2001 £'000	Fair value 31 Dec 2001 £'000
<b>Primary financial instruments held or issued to finance the Group's operations</b>				
Short-term borrowings	(16,567)	(15,504)	(61,651)	(60,499)
Long-term borrowings	(19,659)	(15,899)	(24,394)	(17,712)
Short-term deposits	29,545	29,545	92,827	92,827
Cash at bank and in hand	29,065	29,065	24,247	24,247

#### **Summary of methods and assumptions**

##### *Forward foreign currency contracts and currency options*

Fair value is based on market price of comparable instruments at the balance sheet date.

##### *Short-term deposits and borrowings*

The fair value of short-term deposits, loans and overdrafts approximates to the carrying value because of the short maturity of these instruments. The fair value of finance leases has been calculated by discounting future cash flows at the Group's weighted average cost of capital.

##### *Long-term borrowings*

The fair value of bank loans and other loans approximates to the carrying value because the majority are floating rate where payments are reset to market rates at intervals of less than one year. The fair value of finance leases has been calculated by discounting future cash flows at the Group's weighted average cost of capital.

#### **Hedges**

There were no off-balance sheet (unrecognized) or on-balance sheet (deferred) gains or losses in respect of financial instruments used as hedges at the end of the year.

## 21 Employee share ownership plan ("ESOP")

During 1999 the Group established the Regus Employee Trust. The Trustee is Maurant & Co Trustees Limited which is an independent professional trust company residing in Jersey. The trust is a discretionary trust for the benefit of employees (including directors). The ESOP provides for the issue of options and the payment of bonuses to the Group's employees (including directors) at the discretion of the Company. Regus is not deemed to be the sponsor of the ESOP for the purposes of UITF17. The Trustee is not entitled to receive dividends.

At 31 December, 2002, the trust held 18,120,670 shares in Regus plc (note 10). The market value at 31 December, 2002 was £1.9 million. Costs incurred by the trust are expensed in the profit and loss account. The trust has subsequently sold 12 million shares.

At 31 December, 2002, awards over a total of 23,809,949 (December 2001: 25,317,932) shares, net of lapses, had been granted to employees. The awards have been issued in 14 tranches and some of the awards had been granted subject to the performance of the Group (performance awards).

Details of the awards are provided below:

Award Type	Date exercisable	Exercise price (£)	31 Dec 2001 Number of awards	New Awards	Lapses	Exercise awards	31 Dec 2002 Number of awards
Performance awards	1 Jan 03 to 1 Jan 07	1.455	8,312,868	-	(325,430)	-	<b>7,987,438</b>
	1 Jan 04 to 1 Jan 08	2.600	971,034	-	(12,506)	-	<b>958,528</b>
	26 Mar 04 to 26 Mar 06	2.560	1,391,537	-	(470,418)	-	<b>921,119</b>
	8 Jun 04 to 26 Mar 06	2.560	301,491	-	(42,967)	-	<b>258,524</b>
	8 Jun 04 to 26 Mar 06	2.275	84,876	-	-	-	<b>84,876</b>
	29 Aug 04	0.475	50,000	-	-	-	<b>50,000</b>
	12 Nov 04	0.335	195,000	-	-	-	<b>195,000</b>
Non-performance awards	31 Dec 05 to 28 Aug 12	0.068	-	500,000	-	-	<b>500,000</b>
	1 Jan 03 to 1 Jan 07	1.455	5,916,803	-	(700,689)	-	<b>5,216,114</b>
	1 Jan 03 to 1 Jan 06	0.050	3,160,555	-	(245,812)	(81,197)	<b>2,833,546</b>
	1 Jan 04 to 1 Jan 08	2.600	1,728,768	-	(290,562)	-	<b>1,438,206</b>
	29 Aug 04	0.475	50,000	-	-	-	<b>50,000</b>
	12 Nov 04	0.335	3,155,000	-	(130,000)	-	<b>3,025,000</b>
	28 Feb 05 to 27 Feb 12	0.248	-	155,000	-	-	<b>155,000</b>
	28 Mar 05 to 27 Mar 12	0.440	-	55,512	-	-	<b>55,512</b>
	30 May 05 to 29 May 12	0.385	-	81,086	-	-	<b>81,086</b>
				<b>25,317,932</b>	<b>791,598</b>	<b>(2,218,384)</b>	<b>(81,197)</b>

In addition at 31 December, 2002, awards over 623,215 American Depository Shares (December 2001: 547,369), net of lapses, had been granted to employees. The awards have been issued in six tranches and some of the awards had been granted subject to the performance of the Group (performance awards). Details of the awards are provided below:

Award Type	Date exercisable	Exercise price (\$)	31 Dec 2001 Number of awards	New Awards	Lapses	Exercise awards	31 Dec 2002 Number of awards
Performance awards	26 March 04 to 26 March 06	18.188	134,741	-	(63,096)	-	<b>71,645</b>
	8 June 04 to 26 March 06	18.188	99,679	-	(42,058)	-	<b>57,621</b>
	8 June 04 to 26 March 06	16.200	83,949	-	-	-	<b>83,949</b>
	29 Aug 04	3.290	73,000	-	-	-	<b>73,000</b>
	31 Dec 05 to 29 May 09	2.810	-	200,000	-	-	<b>200,000</b>
Non-performance awards	29 Aug 04	3.290	20,000	-	(10,000)	-	<b>10,000</b>
	12 Nov 04	2.300	136,000	-	(10,000)	-	<b>126,000</b>
	29 Feb 05 to 27 Feb 12	2.000	-	1,000	-	-	<b>1,000</b>
			<b>547,369</b>	<b>201,000</b>	<b>(125,154)</b>	-	<b>623,215</b>

The Group also operates a SAYE share ownership plan however the number of shares involved is immaterial.

## 22 Capital commitments

	31 Dec 2002 £'000	31 Dec 2001 £'000	31 Dec 2000 £'000
Contracts placed for future capital expenditure not provided in the financial statements	925	5,246	17,432

## 23 Operating lease commitments

At 31 December the Group has lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years.

	Property 31 Dec 2002 £ '000	Vehicles, plant and equipment 31 Dec 2002 £ '000	Total 31 Dec 2002 £ '000	Property 31 Dec 2001 £ '000	Vehicles, plant and equipment 31 Dec 2001 £ '000	Total 31 Dec 2001 £ '000
<b>Annual commitments under non-cancellable operating leases expiring:</b>						
Within one year	2,282	946	3,228	4,285	1,311	5,596
Between one and five years	64,970	4,525	69,495	54,452	4,012	58,464
After five years	79,777	205	79,982	157,112	182	157,294
	<u>147,029</u>	<u>5,676</u>	<u>152,705</u>	<u>215,849</u>	<u>5,505</u>	<u>221,354</u>

	31 Dec 2002 Total £ '000	31 Dec 2001 Total £ '000	31 Dec 2000 Total £ '000
<b>Minimum future lease payments under non-cancellable operating leases:</b>			
Amounts due within one year	152,705	221,354	150,721
Amounts due between one and two years	146,038	217,154	149,732
Amounts due between two and three years	138,232	202,742	143,571
Amounts due between three and four years	117,317	189,295	114,692
Amounts due between four and five years	98,014	171,033	88,320
Amounts due after five years	243,823	748,401	245,420
	<u>896,129</u>	<u>1,749,979</u>	<u>892,456</u>

## 24 Contingent liabilities

The Group has bank guarantees and letters of credit held with certain banks totaling £26,134,000 (December 2001: £28,358,000, December 2000: £42,183,000)

The Company also acts as a guarantor for certain obligations of other subsidiary entities. At 31 December, 2002 the Group had received a number of claims principally from landlords relating to the terms of building leases. Where appropriate the directors have made provisions.

## 25 Related party transactions

During the year ended 31 December, 2002 the Group received management fees of £1.3 million (December 2001: £4.2 million, 2000: £3.0 million) from its joint venture entities as listed in note 30. At 31 December, 2002, £2.0 million (December 2001: £4.1 million, December 2000: £1.9 million) was due to the Group from the joint ventures.



## 26 Post balance sheet events

### a) Audited

On 14 January 2003 Regus' US subsidiaries, Regus Business Centre Corp ("Regus US") and Stratis Business Centres Inc ("Stratis"), each filed a voluntary petition for relief under Chapter 11 of the US Bankruptcy Code in the Court of the Southern District of New York. Regus Plc and Regus Business Centres B.V., which are holding companies for the Regus Group and have both given guarantees in relation to certain leasehold liabilities of the US business, also filed for relief under Chapter 11. Regus plc and Regus Business Centres B.V. are not engaged in any form of administration proceedings or any other arrangement outside of the US.

Similarly, on 22 April 2003, one of the Groups German subsidiaries was placed in voluntary administration, which subsequently became an involuntary liquidation.

### b) Unaudited

In July 2003 we received £10 million in connection with the first tranche of deferred consideration for the disposal of a 58% stake in the UK business.

## 27 Ultimate parent company and controlling party

Maxon Investments B.V., a company incorporated in the Netherlands is considered as the ultimate parent company. M L J Dixon is considered the ultimate controlling party by virtue of his effective controlling interest in the equity shares of the Company via Maxon Investments B.V..

## 28 Summary of differences between UK and US GAAP financial statements

The Group's consolidated financial statements are prepared in accordance with UK GAAP, which differs in certain respects from US GAAP. Differences which have a significant effect on the consolidated net loss and shareholders' funds of the Group are set out below.

	Note	12 months to 31 Dec 2002 £ '000	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
Net loss as reported in accordance with UK GAAP		<b>(123,399)</b>	(118,238)	(13,530)
US GAAP adjustments:				
Franchise revenue	(a)	<b>(204)</b>	(682)	-
Compensation expense related to options granted by shareholder	(b)	-	-	(6,836)
Compensation expense related to other variable plan options	(b)	<b>(375)</b>	(6,809)	3,997
Provision for onerous leases	(c)	<b>26,387</b>	27,446	-
Profit on sale of group undertakings	(d)	<b>(327)</b>		
Deferred taxes	(e)	<b>(7,341)</b>	5,438	(474)
Write down of employee share trust shares	(f)	-	41,395	-
Net loss in accordance with US GAAP		<b>(105,259)</b>	(51,450)	(16,843)
Weighted average shares outstanding ('000)		<b>582,172</b>	581,649	502,773
Loss per ordinary share (p)	(g)	<b>(18.1)</b>	(8.8)	(3.4)

The following is a summary of the material adjustments to shareholders' funds/ (deficit) which would have been required if US GAAP had been applied instead of UK GAAP:

	Note	31 Dec 2002 £ '000	31 Dec 2001 £ '000	31 Dec 2000 £ '000
Shareholders' funds/(deficit) as reported in accordance with UK GAAP		<b>(28,392)</b>	88,445	203,090
US GAAP adjustments:				
Franchise revenue	(a)	<b>(886)</b>	(682)	-
Compensation expense related to other variable plan options	(b)	<b>600</b>	595	10,778
Provision for onerous leases	(c)	<b>53,670</b>	27,446	-
Deferred taxes	(e)	-	7,341	1,902
Employee share trust (investment in own shares)	(f)	<b>(3,805)</b>	(3,805)	(47,021)
Investments accounted for under the equity method		<b>236</b>	-	-
Shareholders' funds/(deficit) recorded in accordance with US GAAP		<b>21,423</b>	119,340	168,749

#### (a) Franchise Revenue Recognition

UK GAAP does not require the receipt of up front franchise fees to be recognized over the life of the franchise agreement but are recorded as the revenue is received in the franchisers accounts. Under US GAAP, up front payments from franchisees are required to be recognized over the length of the agreement.

#### (b) Share option schemes

Under UK GAAP, options granted to employees by the Company to subscribe in the Company's shares where the exercise price of the option is linked to performance do not result in any compensation costs being recorded by the Company if the stated exercise price is equal to or in excess of the fair value of the underlying ordinary shares at the date of grant.

Under US GAAP, Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" compensation cost must be recognized if the option plan contains performance related criteria which results in the option plan being accounted for as a variable plan. Expense is recorded in each period to the measurement date or vesting date for increases in the fair value of the underlying ordinary shares over the stated exercise price of the share options with an offsetting credit to the share premium amount. However under UK GAAP and US GAAP any cash awards are recorded as a liability at each balance sheet date. Under UK GAAP, compensation expense is not recorded in relation to options granted to an employee by the primary shareholder of the Company.

In November 1999, Maxon granted an option in favor of affiliates of Deutsche Bank and Apollo, two significant shareholders in the Group, over 3,926,484 shares for an aggregate strike price of £1. The options were exercisable within twelve months (or such shorter period ending on the date on which an exit, being either an initial public offering or completion of the disposal of all or substantially all of the Group's shares or assets, occurs) from the earlier of the date on which the board of Directors notifies the Deutsche Bank and Apollo affiliates in writing that an exit is imminent and the date of an announcement to the public of an intention to proceed with an initial public offering. UK GAAP is not prescriptive with respect to accounting for transactions by the principal shareholder which benefit the Group. Under US GAAP, AIN-APB25. No.1, " Stock Plans Established by a Principal Stockholder" provides guidance for accounting for compensatory and non-compensatory stock plans established by a principal stockholder and, by analogy, for other transactions entered into by a principal stockholder that may benefit the company. The option agreement specified that it was for the benefit of Maxon and for the benefit of and on behalf of the Group, and was made in consideration of Deutsche Bank and Apollo waiving certain rights contained in the shareholders' agreement. As such, the effects of the option would be recorded wholly within shareholders' funds during 2000.

The compensation expense adjustment for 2002 of £0.4 million is made up as follows:

- a UK/US GAAP difference relating to Reward options of £0.5 million. The original UK GAAP charge in 2000 was the difference between the exercise price of the reward options at £0.05 and the IPO price of £2.60 multiplied by the number of Reward options issued (less lapsed Reward options). Under UK GAAP at December 31, 2000 this was taken as a one-off charge and amounted to £9.2 million. Since the market price dropped to around £0.52 at December 31, 2001 the majority of the accrual £8.7 million was reversed on a UK GAAP basis in 2001 to leave an accrual of £0.5 million which has not been adjusted in 2002 and consequently has had no impact on the profit and loss account for the year. Under US GAAP the compensation charge of £9.2 million is amortised over the vesting period. Therefore the US GAAP charge is £0.5 million for the year ended 31 December, 2002.
- a UK/US GAAP difference relating to premier options of £0.9 million. Under US GAAP the compensation charge, being the difference between the exercise price of £1.455 and the market value at the date of issue of £2.60 is amortised over the vesting period. There is no charge under UK GAAP in relation to these Premier options.
- Shareholders' funds/(deficit) was not affected by the differences between UK GAAP and US GAAP on these options as the difference resulted in recording an increase to expense and a corresponding increase to contributed capital, except for awards granted to employees where the company will pay a cash bonus for the difference between the fair value and the base price of the awards.

#### (c) Provision for onerous lease commitments

Under UK GAAP, a company is required to provide for the onerous (i.e. loss-making) element of any present leasehold

obligations.

Regus reviewed its entire property portfolio and made appropriate provision for those leases which it felt were likely to result in net operating losses for the foreseeable future. US GAAP requires no such provision.

**(d) Profit on sale of Group undertakings**

The profit on sale of a Group undertakings represents the profit on sale of the UK business of £23.0 million and a loss on the sale of Romania of £0.3 million. Under UK GAAP the profit or loss is calculated by deducting the net assets disposed of from the proceeds. Under US GAAP the net assets of the subsidiary differs from the net assets under UK GAAP and so a GAAP adjustment arises.

**(e) Deferred taxes**

After adopting FRS 19, the standards for recognising a deferred tax asset are the same for both UK GAAP and US GAAP. However, under UK GAAP, no deferred tax asset was recognised at December 31, 2001 upon the adoption of FRS 19 based on an evaluation by management during 2002 that the likelihood of realising the deferred tax asset was not more likely than not. For US GAAP purposes, based on all evidence available at December 31, 2001, a deferred tax asset was recognised; however, based on events that occurred during 2002, such deferred tax asset has been fully provided for with a valuation allowance.

**(f) Employee share trust arrangements**

An employee share trust has been established in accordance with certain employee share option schemes. Under UK GAAP, the Company's ordinary shares held by the employee share trust are included at either historical net book value or, in certain circumstances, at closing market value in fixed asset investments. As at 31 December, 2002 the employee share trust held ordinary shares with a historical net book value of £3,805,000. Under US GAAP, such shares are classified as treasury stock and presented at their historical cost as a deduction in shareholders' equity.

**(g) Earnings per share (EPS)**

Under UK GAAP, primary EPS is based on the weighted average number of ordinary shares outstanding during the period. Primary EPS is the profit/(loss) in pence attributable to each equity share, based on the profit/ (loss) for the financial period attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period. This method is used in computing basic EPS under US GAAP.

Under FRS 14 (Earnings per share), diluted EPS must be disclosed. This is based on profit/(loss) for the financial period and computed using the weighted average number of shares in issue during the period and the dilutive effect of all share options and ordinary share equivalents. This method is similar to the treasury stock method used to compute diluted EPS for US GAAP purposes. Under UK GAAP, the weighted average number of ordinary shares in issue during the period should exclude the shares held by the Group's employee share ownership plans (ESOP) in respect of which dividends have been waived. Under US GAAP, such shares are regarded as treasury stock and are therefore not included for the purpose of the EPS calculation. As of 31 December, 2002, the ESOP had acquired 18,120,670 shares.

As of 31 December, 2002, 31 December 2001 and 31 December 2000, potentially dilutive options representing 26,926,024, 28,054,777 and 24,621,498 shares, respectively, were excluded from the calculation of basic EPS, as they were deemed to be anti-dilutive.

**Classification differences between UK & US GAAP**

**(h) Cash flows**

Under UK GAAP, the Group complies with FRS 1 (revised) (Cash Flow Statements), the objective and principles of which are similar to those set out in Statement of Financial Accounting Standards No. 95 (Statement of Cash Flows) (SFAS 95). The principal difference between the two standards is in respect of classification. Under FRS 1 (revised), the Group presents its cash flow for (a) continuing operating activities; (b) returns on investment and servicing of finance; (c) taxation; (d) capital expenditures and financial investment; (e) acquisitions and disposals; (f) dividends to ordinary shareholders; (g) management of liquid resources; and (h) financing activities. SFAS 95 requires only three categories of cash flow activity, those relating to (a) operating; (b) investing; and (c) financing activities.

The cash flows within the UK headings of "Continuing operating activities", "Returns on investments and servicing of finance" and "Taxation" would all be included within the heading of "Net cash provided by operating activities" under SFAS 95. Likewise, the UK headings of "Capital expenditure and financial investment" and "Acquisitions and disposals" plus movements in restricted cash excluded from cash and cash equivalents as set out below corresponds with "Cash flows from investing activities" under SFAS 95, and "Management of liquid resources" and "Financing" under UK GAAP, subject to movements in restricted cash being classified within "Cashflows from investing activities", correspond with "Cash flows from financing activities" under US GAAP. Other non cash movements comprise new finance leases and reclassifications between categories and the amounts of these adjustments are set out in note 20(d).

In addition under FRS 1 (revised), cash represents cash at bank and in hand less bank overdrafts. Movements of liquid resources are included under a separate heading. Under US GAAP, cash and cash equivalents would include cash and short-term investments with original maturities of three months or less. It excludes restricted cash and primarily deposits held as security for lease guarantees, of £40,945,000, £31,600,000 and £28,700,000 at 31 December 2000, 2001 and 2002 respectively. Movements in restricted cash are classified within "Cashflows from investing activities".

Set out below, for illustrative purposes, are summary consolidated statements of cash flows under US GAAP:

	<b>12 months to 31 Dec 2002</b>	12 months to 31 Dec 2001	12 months to 31 Dec 2000
	£ '000	£ '000	£ '000
Net cash provided by operating activities	<b>(17,647)</b>	38,024	108,672
Net cash used in investing activities	<b>(4,324)</b>	(104,605)	(109,336)
Net cash (used in)/provided by financing activities	<b>(33,722)</b>	24,300	68,431
Effect of exchange rate changes on cash	<b>129</b>	(1,121)	1,482
	<b>(55,564)</b>	(43,402)	69,249
Net (decrease)/increase in cash and cash equivalents	<b>(55,564)</b>	(43,402)	69,249
Other non cash movement	-	-	9,497
	<b>(55,564)</b>	(43,402)	78,746
Cash and cash equivalents at the beginning of year	<b>85,475</b>	128,877	50,131
<b>Cash and cash equivalents at the end of the year</b>	<b>29,911</b>	85,475	128,877

#### (i) Foreign Currency Translation

Under UK GAAP the financial statements of the Group's foreign subsidiaries are measured using local currency (pounds sterling) as the functional currency. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Under US GAAP, the financial statements of the Group's foreign subsidiaries are measured using local currency (pounds sterling) as the functional currency. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. The resulting cumulative translation adjustments are recorded as a separate component of shareholders' funds/(deficit) as other comprehensive income. Foreign currency transaction gains and losses are included in consolidated net profit/(loss).

Under UK GAAP the cumulative foreign exchange differences as at 31 December, 2002, were £4,111,000 (2001: £3,000, 2000: £(204,000)). Under US GAAP the cumulative foreign exchange adjustments are £4,454,000 (2001: £346,000, 2000: £129,000). The difference in foreign exchange differences between UK and US GAAP relates to exchange differences on deferred tax assets held under US GAAP.

#### (j) Current assets & liabilities

Current assets under UK GAAP include debtors which fall due after more than one year and restricted cash. Under US GAAP, such assets would be reclassified as non-current assets. Restricted cash of £28,700,000 (Dec 2001: £31,600,000) would be reclassified under US GAAP from current assets to non-current assets.

#### (k) Extraordinary items

Under UK GAAP, extraordinary items are those possessing a high degree of abnormality which arose from events or transactions that fall outside the ordinary activities of the business. Extraordinary items are included in the profit and loss account after "Profit on ordinary activities after tax". It is very rare under UK GAAP for a business to account for an item as extraordinary given the narrow definition.

Under US GAAP, extraordinary items are considered both unusual in nature and infrequent in occurrence.

#### (l) SFAS 130 (Reporting Comprehensive Income)

Statement of Financial Accounting Standards No 130 (Reporting Comprehensive Income) (SFAS 130) requires that all items that are required to be recognized under accounting standards as components of comprehensive income should be reported in the financial statement that is displayed with the same prominence as other financial statements. It requires that an enterprise (i) classify items of other comprehensive income by their nature in a financial statement and (ii) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of statement of financial position. Required disclosures have been made in the Group's financial statements in the statement of recognized gains and losses.

## 29 Additional US GAAP disclosures

### (a) Income tax and deferred tax

Loss before tax under UK GAAP between UK and overseas was as follows:

	<b>12 months to 31 Dec 2002 £ '000</b>	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
UK	<b>27,866</b>	(38,402)	21,994
Overseas	<b>(146,930)</b>	(71,679)	(25,851)
	<b><u>(119,064)</u></b>	<u>(110,081)</u>	<u>(3,857)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at 31 December, 2002 and 2001 adjusted for US GAAP are presented below:

	<b>12 months to 31 Dec 2002 £ '000</b>	12 months to 31 Dec 2001 £ '000
Deferred tax assets:		
Net operating loss carry forwards	<b>75,125</b>	47,409
Start up costs and reserves	<b>33,562</b>	21,859
Other	<b>25,437</b>	10,253
Total gross deferred tax assets	<b><u>134,124</u></b>	<u>79,521</u>
Less valuation allowance	<b><u>(130,028)</u></b>	<u>(68,216)</u>
Net deferred tax assets after valuation allowance	<b><u>4,096</u></b>	<u>11,305</u>
Deferred tax liabilities:		
Accelerated capital allowances	<b>(1,086)</b>	(3,856)
Other	<b>(2,361)</b>	(964)
Total gross deferred liabilities	<b><u>(3,447)</u></b>	<u>(4,820)</u>
Net deferred tax assets	<b><u>649</u></b>	<u>6,485</u>

The valuation allowance for deferred tax assets as of 31 December, 2002 and 2001 was £127,883,000 and £68,216,000, respectively. The net change in the total valuation allowance for the years ended 31 December, 2002 and 2001 was an increase of £59,667,000 and £34,240,000 respectively. In assessing the realisability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes it is more likely than not that the Group will realize benefits of these deductible differences, net of existing valuation allowances at 31 December, 2002.

### (b) Share compensation

#### Employee Share Option Scheme

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Accounting for Stock-Based Compensation) (SFAS 123), which encouraged the use of a fair value based method of accounting for compensation expense associated with share options and similar plans. For US GAAP purposes, the Company has elected to continue to use the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25 (Accounting for Stock Issued to Employees) (APB 25), as permitted by SFAS 123. SFAS 123 requires additional disclosures, including pro-forma calculations of net earnings and earnings per share as if the fair value method of accounting prescribed by SFAS 123 had been applied in 1999, 2000 and 2001.

The Company issued share options to substantially all its employees during 1999. Further issues were made during 2000, 2001 and 2002. Employees received share options to acquire a fixed number of shares based on their salary level and position in the Company. All employees received options that are subject to a performance target (the performance options) and all employees received options designated as reward options. The exercise price for share options granted to employees is fixed at the date of the grant although the directors of the Company have the discretion to waive some or all of the exercise price of the reward options. The fair value of shares at the date of grant is equal to the exercise price.

The options vested on the later of a flotation of the Company's shares or defined periods as follows: in the case of ordinary and performance options, vesting occurs in three equal installments on 1 January of each of 2003, 2004 and 2005. In the case of reward options, vesting occurs in two equal installments on 1 January in each of 2003 and 2004. In each case, the vesting period was extended by the directors as the market capitalization of the Company on flotation exceeded £1 billion. The performance options require that the value of the Company's ordinary shares outperform the Financial Times Stock Exchange 250 Index by the following margins over the option period:

30% for options exercisable in 2003 or before;  
40% for options exercisable in 2004; or  
50% for options exercisable in 2005 or after.

If a target is not met, the performance options will only be exercisable if and when a subsequent target is met.

Certain countries in which the Company operates do not provide for the issuance and exercise of share options. In these situations, the awards granted to the employees represent rights under which the Company will pay a cash bonus to the employee for the difference between the fair value of the Company's shares on the date of exercise and a base price for the award. The base price is an amount determined by the board of directors of the Company on the date of grant, which cannot be less than the fair value of the Company's shares at that date. As of 31 December, 2002 and 2001, these awards were not a material portion of the awards granted to date.

If a participant's employment with the Group ends, his options or awards will normally lapse unless he leaves in specified circumstances such as injury, disability or redundancy. In such circumstances, his option or award may be exercised within 12 months of the later of the date on which his employment ends and the last vesting date for the option or award.

Options outstanding	31 Dec 2000	Granted	Forfeited & Exercised	31 Dec 2001	Granted	Forfeited	Exercised	31 Dec 2002
<b>Number of options (000's)</b>								
<b>UK shares</b>								
Exercise price £0.050	3,611	-	(450)	<b>3,161</b>	-	(246)	(81)	2,834
Exercise price £0.068	-	-	-	-	500	-	-	500
Exercise price £0.248	-	-	-	-	155	-	-	155
Exercise price £0.335	-	3,430	(80)	<b>3,350</b>	-	(130)	-	3,220
Exercise price £0.385	-	-	-	-	81	-	-	81
Exercise price £0.440	-	-	-	-	55	-	-	55
Exercise price £0.475	-	1,051	(951)	<b>100</b>	-	-	-	100
Exercise price £1.455	16,664	-	(2,434)	<b>14,230</b>	-	(1,026)	-	13,204
Exercise price £2.275	-	85	-	<b>85</b>	-	-	-	85
Exercise price £2.560	-	2,294	(601)	<b>1,693</b>	-	(513)	-	1,180
Exercise price £2.600	3,747	-	(1,048)	<b>2,699</b>	-	(303)	-	2,396
<b>ADR shares</b>								
Exercise price \$2.000	-	-	-	-	1	-	-	1
Exercise price \$2.300	-	141	(5)	<b>136</b>	-	(10)	-	126
Exercise price \$2.810	-	-	-	-	200	-	-	200
Exercise price \$3.290	-	143	(50)	<b>93</b>	-	(10)	-	83
Exercise price \$16.200	-	84	-	<b>84</b>	-	-	-	84
Exercise price \$18.188	-	310	(76)	<b>234</b>	-	(105)	-	129
Exercise price \$25.000	120	-	(120)	-	-	-	-	0
<b>SAYE shares</b>								
Exercise price £2.42	59	-	(8)	<b>51</b>	-	(4)	-	47
Exercise price £2.64	734	-	(271)	<b>463</b>	-	(220)	-	243
Exercise price £15.98*	24	-	(6)	<b>18</b>	-	(17)	-	1

\* over ADR shares

Options have been issued at an exercise price ranging from £0.05 to £2.600. From the date of modification to the date the award is exercised, such awards shall be accounted for as variable. Compensation expense is recorded over the vesting period.

The weighted average remaining contractual life amounts to 7.6 years (92 months) (2001: 8.5 years (103 months)). The Company granted 20,971,634 options in December 1999, 2,790,203 options in January 2000, 100,000 options in February 2000, 111,061 options in May 2000, 3,648,258 options in August 2000, 426,295 options in September 2000, 817,358 sharesave options in November 2000, 1,942,441 in March 2001, 436,264 in June 2001, 1,051,250 in August 2001, 3,430,000 in November 2001, 300,000 in February 2002, 88,052 in March 2002, 136,280 in May 2002 and 500,000 in August 2002. In addition, the company issued 120,000 options over American Depositary Receipts in December 2000, 185,636 in March 2001, 208,388 in June 2001, 143,000 in August 2001, 141,000 in November 2001, 1,000 in February 2002 and 200,000 in May 2002.

Share-based compensation represents the difference between the exercise price of share options granted in 1999, 2000, 2001 and 2002 and the fair market value of the underlying ordinary shares at each period end. The Company recorded a compensation expense under APB 25 for the years ended 31 December 2001 of £375,000 (Dec 2001: £6.8 million; December 2000: (£4.0 million)). The estimated fair value for purposes of APB 25 is based on a valuation of the Company at the time of the issuance of shares in October and November 1999. The compensation charge net of related tax effects that would have been included in the determination of net income if the fair value method had been applied to all awards would be a credit of £1.2 million (2001: £5.6 million, 2000: (£6.8 million))

If compensation expense had been determined based upon the estimated grant date fair value in accordance with SFAS 123, the Company's net loss for the year ended 31 December, 2000, 2001 and 2002 would have been as follows:

	<b>12 months to 31 Dec 2002 £ '000</b>	12 months to 31 Dec 2001 £ '000	12 months to 31 Dec 2000 £ '000
Net Loss:			
As reported	(105,259)	(51,450)	(16,843)
Proforma	(103,146)	(47,318)	(19,282)
Net loss per ordinary share (basic and diluted)	<b>p</b>	<b>p</b>	<b>p</b>
As reported	(18.1)	(8.8)	(3.4)
Proforma	(17.7)	(8.1)	(3.8)

Fair values above were determined using the Black-Scholes option-pricing model. The key assumptions used in the Black-Scholes model were as follows:

Dividend yield	0%	0%	0%
Expected volatility	39%	61%	33%
Risk free interest rate	5.2%	5.2%	5.2%
Expected life	1-10 years	2-6 years	3-6 years

The weighted average fair value of stock options granted during 2000, 2001 and 2002 is £2.59, £0.45 and £0.24 respectively and is being amortized over the vesting periods ranging for up to five years from 1<sup>st</sup> January 2003 to 1<sup>st</sup> January 2008.

#### **SAYE scheme**

The group operates several sharesave plans in various countries which allow all employees to save a regular sum over 2 to 5 years after which the accumulated fund belonging to the employee can be used to purchase shares in Regus plc at a price from £2.42 to £2.64 depending upon local country legislation, a discount of 15-20% at the date of the grant. Any options granted where the discount on the exercise price is greater than 15% are considered compensatory under US GAAP and any expense is recognized over the life of the savings contract.

#### **Executive Officer Share Option Agreements**

In November 1992 Maxon entered into option agreements with certain executive officers of the Company related to shares of the Company held by Maxon as part of the compensation for the services of these executive officers. These agreements covered 8% of the shares of the Company held by Maxon, with a stated exercise price of £0.00375 per share, both as adjusted for subsequent share splits. Until 30 June, 2000, this exercise price was subject to adjustment based on a proportional share of any future capital contributions made by Maxon to the Company. There have been no such contributions since the date of these agreements. These options vest over periods from 31 December, 2002 to 31 December, 2003. On 30 June, 2000 the agreement was amended to fix the exercise price at £0.00375 irrespective of any future capital contributions made by Maxon to the Company.

In February 1999, Maxon entered into a supplemental agreement with one of the executive officers whereby Maxon paid the executive officer US\$2 million in exchange for the forfeiture of a portion of the shares covered under the option agreements leaving a total of approximately 23,140,000 shares outstanding under the option agreements. The repurchase of the options resulted in no additional compensation expense, as the previously recorded compensation expense related to those options had already exceeded the consideration paid for the retirement of those options.

As the exercise price was subject to adjustment, these option agreements required variable plan accounting under APB 25 up to 30 June, 2000. Accordingly, the Company has recorded a compensation gain/(expense) at each period end for the increase or decrease in the value of the underlying shares. From 1 July, 2000, as the exercise price is fixed, these option agreements will require fixed plan accounting and hence no further compensation gain or expense is expected. Therefore no compensation gain/(expense) was recorded in the years ended 31 December, 2002 and 31 December 2001 (Dec 2000: (£6,836,000)) from the fluctuations in the fair value of the underlying securities.

At 31 December 1999, there were no directly comparable quoted companies against which the Company's shares can be valued. Hence the fair value of the underlying shares have been calculated by reference to the subscription prices for shares issued by the Company to independent third parties on 3 August 1998 and October/November 1999. The subscription price for the shares issued at 3 August 1998 and October/November 1999 have been used to calculate the fair value of the options as at 31 December 1999.

**(c) Stock purchase warrants and options**

The Company entered into a medium term £10 million secured loan facility with Union Bank of Switzerland (UBS) dated 12 November, 1997. The facility included a detachable stock warrant agreement of the same date among Maxon, Mark Dixon and UBS that grants options to UBS on a proportion of the shares of the Company held by Maxon. These options were exercisable upon the earliest of an initial public offering of ordinary shares of the Company's stock, a significant trade sale of the Company, or five years from the date of the warrant agreement. Under the original agreement the exercise price of the warrants was nominal and the number of shares granted via these warrants was contingent upon the timing and valuation of the Company, with a stated maximum value of £8.5 million.

On 3 August, 1998 Maxon and UBS entered into a deed of amendment to the UBS option agreement under which UBS agreed to waive its rights to receive shares of the Company at the time of an initial public offering in consideration for a payment by Maxon of £8.5 million to be paid at the time of the initial public offering.

Under UK GAAP this arrangement has no impact on the Company's financial statements as the Company is not a party to the warrant agreement. However, under US GAAP when the principal shareholder enters into transactions that directly relate to obligations of the Company these transactions should be accounted for as if the Company had entered into the transaction directly.

At the date of the loan facility and warrant agreement, the fair value of the related warrants of £2.6 million is reflected under US GAAP as a liability to the Company, due to UBS' ability to require the settlement of warrants in cash, and as a discount against proceeds. This discount has been amortized using the effective interest method over the life of the loan, with additional interest expense of £527,000 in the year ended 31 December, 1998. The loan facility was repaid in June 1999, with the unamortised portion of the discount charged to the profit and loss account at that time. The total additional interest expense in the year ended 31 December, 1999 was £2,038,000, which includes the amortization of £263,000 and the write-off of the unamortised portion of the loan discount of £1,775,000.

The warrant liability was adjusted to the fair value at each balance sheet date. The Company has recorded expenses of £1.5 million and £nil for the years ended 31 December, 1999, and 2000 related to these increases in fair value. This results in a liability of £8.5 million at 31 December 1999. On the date of the IPO the warrant agreement between UBS and Maxon was settled, and the liability was reclassified as a contribution to share capital.

**(d) Convertible Bond Issue**

The Directors felt that the business would be additionally protected by the creation of a cash reserve and raised £40m on 28 December 2001 by way of a convertible bond issue.

The option to convert the bond lies with Regus (unless the share price rises above 86.32 pence) and the Directors closely monitored the trading performance and projected cashflows in order to be able to make an early decision to convert the bond if conditions required. No such decision was made in the year ended 31 December, 2002.

**(e) Segment information****SFAS 131 (Disclosures about Segments of an Enterprise and related Information)**

Statement of Financial Accounting Standards No. 131 (Disclosure about Segments of an Enterprise and Related Information) (SFAS 131) requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers.

Pursuant to the definitions contained in SFAS 131, the Company has eight geographical reportable segments for the purposes of managing the business: UK & Ireland, Benelux, Germany, Southern Europe, Northern Europe, North America, South and Central America and Rest of the World. Each segment has separate results that are reviewed by the Group's Chief operating decision maker. Each segment provides the same products and services. The accounting policies of the segments are the same as described in the summary of significant accounting policies. Other office costs comprise head office costs net of management charges to other operating segments. Other assets comprise assets managed at a corporate level and which are not attributed to individual segments.

The Group's interest, tax expense and exceptional items are managed centrally at corporate level and are not attributed to individual segments.



	Turnover			Gross profit (centre contribution)		
	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Geographical analysis</b>						
United Kingdom & Ireland	176,680	215,188	188,862	31,370	56,916	59,619
Benelux	31,413	32,504	25,432	(63)	4,599	8,123
Germany	28,550	33,652	27,388	(15,297)	(3,520)	6,258
Northern Europe	25,298	24,754	23,847	(1,614)	(4,981)	1,345
Southern Europe	54,855	60,422	42,266	(3,659)	13,036	13,488
North America	83,509	106,579	79,230	(45,921)	(27,819)	12,407
South & Central America	14,600	17,517	15,066	431	2,595	1,443
Rest of world	30,502	34,006	27,109	46	(935)	(2,390)
	<b>445,407</b>	<b>524,622</b>	<b>429,200</b>	<b>(34,707)</b>	<b>39,891</b>	<b>100,293</b>
Total Group	<b>435,604</b>	<b>512,633</b>	<b>421,125</b>			
Total joint ventures	<b>9,803</b>	<b>11,989</b>	<b>8,075</b>			

	Operating profit/(loss)			Net assets/(liabilities)		
	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000	As at 31 Dec 2002 £'000	As at 31 Dec 2001 £'000	As at 31 Dec 2000 £'000
<b>Geographical analysis</b>						
United Kingdom & Ireland	18,031	32,416	33,720	6,227	46,932	20,852
Benelux	(4,354)	1,518	3,554	(1,124)	4,612	1,578
Germany	(26,412)	(6,273)	551	(42,857)	(13,248)	(7,331)
Northern Europe	(2,602)	(9,556)	(8,272)	(32,485)	(33,667)	(24,790)
Southern Europe	(6,416)	6,599	5,300	(12)	3,120	(1,079)
North America	(84,032)	(55,699)	(12,724)	(131,068)	(57,388)	3,351
South & Central America	(2,147)	(2,590)	(3,538)	(6,353)	(7,722)	(5,275)
Rest of world	(3,274)	(1,221)	(11,789)	(31,716)	(29,596)	(29,474)
Other office costs, (liabilities)/assets	(25,440)	(74,720)	(3,896)	210,756	175,749	244,832
	<b>(136,376)</b>	<b>(109,527)</b>	<b>2,906</b>	<b>(28,632)</b>	<b>88,792</b>	<b>202,664</b>
Total Group	<b>(130,879)</b>	<b>(103,955)</b>	<b>3,933</b>	<b>(27,009)</b>	<b>87,698</b>	<b>198,524</b>
Total joint ventures	<b>(5,497)</b>	<b>(5,572)</b>	<b>(1,027)</b>	<b>(1,623)</b>	<b>1,094</b>	<b>4,140</b>

	Total Assets		Capital Expenditure		
	As at 31 Dec 2002 £'000	As at 31 Dec 2001 £'000	12 months to 31 Dec 2002 £'000	12 months to 31 Dec 2001 £'000	12 months to 31 Dec 2000 £'000
<b>Geographical analysis</b>					
United Kingdom & Ireland	5,420	154,403	6,804	31,291	32,265
Benelux	24,884	31,954	3,061	7,496	7,963
Germany	9,868	16,827	843	4,496	3,062
Northern Europe	17,086	20,775	2,126	6,199	1,686
Southern Europe	37,459	44,523	1,603	13,447	5,992
North America	65,583	132,581	2,754	49,429	41,122
South & Central America	10,446	17,228	1,654	5,616	3,374
Rest of world	29,496	36,776	395	6,040	9,917
Other office assets, expenditure	208,504	238,332	1,025	4,519	6,271
Less inter-company set off	(180,754)	(207,107)	-	-	-
	<b>227,992</b>	<b>486,292</b>	<b>20,265</b>	<b>128,533</b>	<b>111,652</b>
Total group	<b>219,362</b>	<b>470,636</b>			
Total joint ventures	<b>8,630</b>	<b>15,656</b>			

**30 Principal group companies**

The following table shows which companies are the subsidiary undertakings of Regus as at 31 December, 2002 (note: a table describing the differences between the position as at 2 October, 2003 and the position reflected below is set out in paragraph 8 of Part 6):

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
Regus Business Centre SA	Leandro N. Alem 1050, 5 <sup>th</sup> Floor, Buenos Aires	Argentina	100
Regus Centres Pty Ltd	Level 29, 31 Market Street Sydney NSW 2000	Australia	100
Regus Asia Pacific Pty Ltd	c/o Allens Arthur Robinson The Chifley Tower 2 Chifley Tower Sydney Square Sydney NSW 2000	Australia	100
Regus Business Centre GmbH	Mariahilferstrasse 123 1060 Vienna	Austria	100
Regus Belgium NV	Louiselaan 65bus11 1050 Brussels	Belgium	100
Regus Do Brasil Ltda	Avenida das Nacoes Unidas 12551, 17th Floor Sao Paulo	Brazil	100
Regus Business Centre Ltd	Suite 4900 Commerce Court West Toronto, Ontario M5L 1J3	Canada	100
Regus Business Centre Chile Ltda	Alcantara 200 4th Floor Las Condes Santiago	Chile	100
Regus Business Service Co Ltd	Beijing Lufthansa Centre Offices C203	China	95

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
	50 Liangmaqiao Road Chaoyang District Beijing 100016		
Regus Business Services (Shanghai) Ltd	Floor 31 Jin Mao Building 88 Shi Ji Avenue Pudong New Area Shanghai	China	100
Regus Copenhagen ApS	Larsboerns- straede 3 1454 Copenhagen K	Denmark	100
Regus Business Centre (Egypt)	Arkadia Building 8th Floor Corniche El Nil PO Box 14 Sabtteyah 11624 Cairo Egypt	Egypt	100
Regus Business Centres (Holdings) Ltd	3000 Hillswood Drive Chertsey Surrey KT16 0RS	England	100
Regus Business Centre Trading Ltd +	3000 Hillswood Drive Chertsey Surrey KT16 0RS	England	100
Regus Management Limited	3000 Hillswood Drive Chertsey Surrey KT16 0RS	England	100
Regus Holdings (UK) Limited	3000 Hillswood Drive Chertsey Surrey KT16 0RS	England	42
Regus Finland Oy	World Trade Centre Aleksanterinkatu 17 00100 Helsinki	Finland	100
Regus Roissy SA	72 Rue du Faubourg Saint Honore 75008 Paris	France	100
Regus Business Centre GmbH	Prinzenpark Prinzenallee 7	Germany	100

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
	40549 Dusseldorf		
Regus GmbH & Co KG	Frankfurt am Main	Germany	100
RBC Deutschland GmbH	Prizenpark 3 OG Prizenallee 7 Dusseldorf, 40549	Germany	100
Regus Verwaltungs GmbH	Prizenpark 3 OG Prizenallee 7 Dusseldorf, 40549	Germany	100
Regus Hellas SA	90 Avenue Kifissias, 151, 25 Maroussi, Athens	Greece	100
Regus Business Centre Ltd	18 Floor, One International Finance Centre 1 Harbour View Road	Hong Kong	100
Regus Central Europe Trading and Servicing Ltd	Rakoczi ut 42 1972 Budapest	Hungary	100
Regus Kft	1072 Budapest, Rákóczi út 42	Hungary	100
Europa Business Centre Ltd	The Harcourt Centre Harcourt Street Dublin	Ireland	100
Regus Ireland Ltd	25-28 North World Quay Dublin 1	Ireland	100
Regus Finance	First Floor IFSC House International Financial Services Centre Custom House Quay Dublin 1	Ireland	100
Regus Franchise International Limited	Harcourt Centre Harcourt Road Dublin 2	Ireland	100
Regus Business Centres Ltd	Regus Business Centres Harel House 3 Abba Hillel Street Ramat Gan	Israel	100

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
	52522		
Regus Business Centre Srl	Via V Pisani 27 Milan	Italy	100
Regus Milano Centrale Business Centre Italia SpA +++	Via V Pisani 27 20124 Milano	Italy	65
Regus Japan KK	30th Floor Shinjuku Park Tower 3-7-1 Nishi- shinjuki Shinjuku-ku Tokyo	Japan	100
SIA Regus Business Centre	Kr. Valdemara Centre, 6th Floor Riga, LV1010	Latvia	100
Regus Luxembourg SA	Boulevard Royal 26 L-2449 Luxembourg	Luxembourg	100
Regus Centres Sdn Bhd	4/F Wisma Ho Wneg Kee 136-140 Jin Petaling 50000 Kuala Lumpur	Malaysia	100
Regus Business Centre SA de CV	Calle Alfonso Napoles Grande No 50, colonia Pena Blanca Santa Fe	Mexico	100
Regus Services SA de CV	Calle Alfonso Napoles Grande No 50, colonia Pena Blanca Santa Fe	Mexico	100
Regus Maroc SARL	Twin Centre Tower A Angle Boulevard Masira Al Khadra Et Zerktoni Casablanca 21000	Morocco	100
Regus Amsterdam BV	Atrium Tower 11 Strawinskylaan 3051 1077 ZX Amsterdam	Netherlands	100

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
Regus Business Centre BV	Atrium Tower 11 Strawinskylaan 3051 1077 ZX Amsterdam	Netherlands	100
Regus International Holdings BV ++	Strawinskylaan 3051 1077 ZX Amsterdam	Netherlands	60
Satellite Business Centre Schiphol BV	Postbus 75697 1118 ZS Schiphol	Netherlands	100
Skyport Business Services BV	Postbus 75705 1118 ZT luchthaven Schiphol	Netherlands	100
Regus Business Centre Oslo AS	C. J. Hambros pass 2c 0164 Oslo	Norway	100
Regus Business Centre (Panama) S.A.	Calle 53 Comma Marbella Suite 200	Panama	100
Regus Business Centre (Peru) S.A.	Edificio Real Seis 6th Floor Lima	Peru	100
Regus Centres Inc	28th Floor, Tower 2, The Enterprise Center 6766 Ayala Avenue Corner Paseo de roxas Makati City Metro Manila	Philippines	100
Regus Business Centre SP zoo	Sheraton Plaza UI Prusa 2 00-493 Warsaw	Poland	100
Regus Business Centre Lda	Avenida da Liberdade 110 1269-046 Lisboa	Portugal	100
LLC Regus Business Centres Inc	Floor 28, Tower 2 The Enterprise Centre 6766 Ayala Avenue, Corner Paseo De Roxas Makati City	Phillipines	100
Regus Centres Pte Ltd	45 Cantonment Rd, Singapore 089748	Singapore	100

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
Regus Business Services Marina Pte Ltd	45 Cantonment Rd, Singapore 089748	Singapore	100
Regus Singapore Business Centre Pte Ltd	45 Cantonment Rd, Singapore 089748	Singapore	100
Regus Business Centre Bratislava sro	Cukrova 14 813 39 Bratislava	Slovakia	100
Regus Business Centre SA	Paseo de la Castellana 93 428046 Madrid	Spain	100
Business Centre Gothenburg AB	Kanalvagen IOc 194 61 Upplands Vasby	Sweden	100
Business Centre Stockholm AB	Kanalvagen IOC 9tr 194 61 Upplands Vasby Sweden	Sweden	100
Business Centre Sweden AB	Kanalvagen IOc 194 61 Upplands Vasby	Sweden	100
Regus Business Centre (S) S.A.	14 rue du Rhone 1204 Geneva	Switzerland	100
Regus Business Centre (Tanzania) Ltd	Centre closed	Tanzania	100
Regus Centres (Thailand) Ltd	87 Thai Tower 23rd floor Wireless Road Phatumwan Bangkok 10330	Thailand	100
Regus Tunisie SARL	Les Berges du Lac Carthage Centre 2045 Tunis	Tunisia	100
Regus Is Merkezi Isletmeciligi Ltd Sirketi	Ayazaga mahallesi, Meydan sokak Beybi, Giz Plaza No 28 Maslak/Istanbul	Turkey	100
Regus Business Centres (Ukraine)	Shovkovychna Str 42-44 Kiev	Ukraine	100
Regus International Services SAFI	Juncal 1305 Montevideo	Uruguay	100

<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
Regus Business Centre Corp	The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801	USA	100
Regus Crescent Business Centres LLC +++	The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801	USA	50
Regus Equity Business Centres LLC +++	Corporation Service Company 10013 Centre Road Wilmington DE 19805	USA	50
Regus Business Centre Latin LLC	The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801	USA	100
Stratis Business Centres Inc	The Corporation Trust Company Corporation Trust Center 1209 Orange Street Wilmington Delaware 19801	USA	100
Regus Centre (Vietnam) Ltd	63 Ly Thai To Hoan Kiern District Hanoi	Vietnam	100

Investments in Group undertakings are held at cost all of which are included within the consolidated results.

Other than Regus Business Centre BV, Regus Business Centres (Holdings) Ltd, Regus Finance, Regus Investments Ltd, Regus Asia Pacific Ltd, Regus Holdings UK Ltd and Regus International Services SAFI which are investment holding companies and Regus Management Limited which is a management company employing head office staff, the principal activity of all other companies within the Group is the provision of fully serviced business centers.



<b>Name of Group entity</b>	<b>Registered Office/Address</b>	<b>Country of incorporation</b>	<b>per cent. of equity and votes held</b>
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+ Our Azerbaijan business operates as a branch of this company.

++ Our South African business operates as a branch of this company.

+++ These are joint ventures.

## PART 5 – INTERIM REPORT FOR SIX MONTHS ENDED JUNE 2003

The following is the full text of the interim results for the period ended 30 June, 2003.

### “INTERIM RESULTS TO 30 JUNE 2003

**Chertsey, UK, 29 August 2003, Regus plc, the global serviced office provider (LSE: RGU), announces its results for the six months ended 30 June 2003.**

The Regus Group continued to make steady progress during the period. In late December 2002, Regus successfully recapitalised its business through the sale of a majority interest in its UK operations. This placed Regus on a firm financial footing allowing management to focus its attention elsewhere during the first half of 2003.

In mid-January, Regus filed for Chapter 11 creditor protection under the US Bankruptcy Code in order to reorganise the Group's principal loss-making operations which were in the US. Regus was the first listed British company to take this radical step. Today, it is pleased to announce the successful completion of that reorganisation process and its planned exit from Chapter 11. During the period, Regus also reorganised some of its smaller operations elsewhere around the world.

As a result, the Regus Group as a whole has now moved to cash break-even at the operating level on a global basis.

Regus is also seeing other positive signs. Inquiry levels and the contracted forward order book remain strong and new orders for workstations in the second quarter were up 8% on the first quarter. During the half-year, major corporate outsourcing deals totalling approximately £30 million were transacted with leading companies such as IBM, Starbucks, Xerox, Kodak and Oracle. Our key indicator Revenue per Available Workstation (REVPWA) at £2,213 was up 5% on the first half of last year. However, as a result of the reorganisation in the US, overall turnover at £129 million was down slightly (4%) on the first half of 2002.

At 30 June 2003, cash at bank totalled £49.5 million of which £21.6 million was free cash. In July, we received £10 million in connection with the deferred consideration from the sale of a majority stake in Regus UK. Cash generation nevertheless remains the Board's main priority.

Regus Chairman John Matthews commented:

“We are continuing to make steady progress. With major reorganisation now behind us, Regus is well placed to benefit from any sustained upturn in its key markets around the globe”.

### REVIEW OF FIRST HALF 2003

The following table sets forth the Group's revenue, centre contribution before exceptional items and workstations (i.e. weighted average number of available workstations) by geographic region.

**(in £millions, except workstations)**

	6 MONTHS ENDED 30 JUNE 2003			6 MONTHS ENDED 30 JUNE 2002		
	Revenue	Centre Contribution	Workstations	Revenue	Centre Contribution	Workstations (re-based)*
UK*	2.0	2.0	-	85.6	15.4	22,841
Rest of						
Europe+	72.4	5.2	30,839	70.9	5.4	34,076
Americas	40.1	(10.9)	21,935	48.2	(8.4)	23,994
Rest of World	14.9	1.7	5,688	15.3	0.6	5,968
	<u>129.4</u>	<u>(2.0)</u>	<u>58,462</u>	<u>220.0</u>	<u>13.0</u>	<u>86,879</u>

\*A 58% controlling interest in Regus UK was sold on 31<sup>st</sup> December, 2002. Revenue in 2003 relates to management fees.

+Ireland, which in the first half of 2002 had revenue of £2.2 million, centre contribution of £0.8 million and 3,809 workstations, is now included in the Rest of Europe.

*Workstations*

During the 6 months to 30 June, 2003, the Group entered a period of significant reconstruction, with the main focus to reduce capacity in loss making centres. The Chapter 11 proceedings in the US have allowed us already to remove over 1,800 loss making workstations from our inventory since the turn of the year.

In Europe, we also reduced our inventory of workstations during the first half of 2003. This has resulted in a significant reduction in costs.

*Revenue*

The fall in the Group's revenue between the first half of 2002 and the first half of 2003 was £90.6 million. This was primarily due to the sale of a majority stake in the UK business in December. There was also a 17% fall in revenue in the Americas region, though when compared to the second half of 2002 the fall is just 8%, which can almost entirely be explained by an adverse currency movement against the US dollar and related currencies. This was especially noted in Brazil where GBP revenue fell by 27% between the two periods despite a 7% increase in the local currency.

Elsewhere in the Group, there was good news across most of Europe where, with the exception of Germany and Portugal, we have seen a steady increase in turnover throughout the period. Russia, in particular, has seen a 5 fold increase in turnover from £0.5 million in the first six months of 2002 to £2.7 million in the same period of 2003.

*Centre contribution*

With tough economic conditions prevailing throughout all the major economies, we continue to see pressure on our margins. Despite this, we have been able to hold margins relatively steady throughout the last 18 months. The headline fall in contribution can almost entirely be explained by the sale of the UK plus adverse currency movements.

Until the Chapter 11 process is legally completed, we continue to accrue costs at the current rates, which are cumulatively £7 million in excess of those in our Chapter 11 proposals. We therefore expect to see an improving contribution performance in the Americas region.

Our Asian and African businesses have continued to perform well doubling their contribution to 12% of turnover in the first half of 2003, an increase from less than 5% of turnover in the same period last year.

#### *Administrative expenses*

Administrative expenses decreased 40% to £18.4 million (2002: £29.4 million) due to a continued focus on cost cutting and reducing overhead. Overall, administrative expenses as a percentage of revenues increased slightly to 14.2% compared to 13.4% in the first half of 2002, before exceptional items. This was almost entirely due to the sale of a majority stake in the UK business, which has a relatively low overhead to sales ratio (2002: 7%). Sales and marketing costs decreased 41% to £9.6 million (2002: £16.4 million) and held as a percentage of revenue at 7% (2002: 7%). Regional and central overheads decreased 33% to £8.8 million (2002: £13.1 million) but increased slightly as a percentage of revenue to 7% (2002: 6%).

### **Liquidity and capital resources**

Cash at bank and in hand at 30 June 2003 was £49.5 million of which £21.6 million was free cash. Total bank indebtedness at 30 June 2003 was £12.5 million. The Group also had outstanding finance lease obligations of £20.8 million, of which £11.3 million is due within one year.

Cash outflow from operating activities in the six months ended 30 June 2003 was £13.7 million. The operating cash outflow before management of working capital was £7.9 million. The net working capital inflow in the six months was £5.8 million. Net cash outflow before management of liquid resources and financing was £7.2 million after paying tax of £0.7 million, interest (net) of £0.9 million, capital expenditure of £1.0 million and £9.1 million received for the sale of subsidiaries and investments.

On the basis that current trading conditions continue to prevail and our revenues remain at current levels, we believe we will be able to fund the ongoing business from existing cash resources and cash flows from operations.

### **Basis of preparation**

The financial information set out below does not constitute the Company's statutory accounts. The financial information for 2002 is derived from the statutory accounts for the year, which have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

Notwithstanding that the Group has recorded a net cash outflow of £7.2 million before management of liquid resources and financing for the six months ended 30 June 2003 and that the Group has net current liabilities, the financial statements have been prepared on a going concern basis. The directors have reviewed the Group's cash resources and projections in the context of the current and expected future levels of trading having regard to the planned actions

described above. They have concluded that the Group will be able to meet its financial obligations as they fall due for at least the next twelve months.

**Regus plc**  
**Consolidated profit and loss account**  
**For the 6 months ended 30 June 2003 and 30 June 2002**

	Note	6 months ended 30 June '03 (unaudited) £'000	6 months ended 30 June '02 (unaudited) £'000
Turnover (including share of joint ventures & associates)	1	165,281	224,981
Less: Share of turnover of joint ventures	1	(3,101)	(4,940)
Less: Share of turnover of associate	1	(32,763)	-
<b>Group Turnover</b>		<b>129,417</b>	<b>220,041</b>
Cost of sales (centre costs) before exceptional items		(131,370)	(206,993)
Exceptional cost of sales	2(a)	2,348	3,097
Cost of sales (centre costs) after exceptional items		(129,022)	(203,896)
<b>Gross profit (centre contribution)</b>		<b>395</b>	<b>16,145</b>
Administration expenses before exceptional items		(18,393)	(29,439)
Exceptional administration expenses	2(a)	(6,484)	(2,820)
Administration expenses		(24,877)	(32,259)
<b>Group operating loss</b>		<b>(24,482)</b>	<b>(16,114)</b>
Share of operating loss in joint ventures & associates	1	(3,475)	(2,791)
<b>Total operating loss: Group and share of joint ventures and associates</b>	1	<b>(27,957)</b>	<b>(18,905)</b>
Profit/(loss) on sale of group undertakings	2(b)	8,712	(277)
Profit of Sale of own shares		1,043	-
<b>Loss before interest and taxation</b>		<b>(18,202)</b>	<b>(19,182)</b>
<b>Net interest (payable)/receivable</b>			
- Group		(1,112)	(3,140)
- Joint ventures and associates		24	(77)
<b>Loss on ordinary activities before tax</b>		<b>(19,290)</b>	<b>(22,399)</b>
Tax on loss on ordinary activities		(1,141)	(3,913)
<b>Loss on ordinary activities after tax</b>		<b>(20,431)</b>	<b>(26,312)</b>
Minority interests (equity)		418	681
<b>Retained loss for the period</b>		<b>(20,013)</b>	<b>(25,631)</b>
<b>Loss per ordinary share:</b>	3		
Basic & diluted (p)		(3.5)	(4.5)
Basic & diluted before exceptional items (p)		(4.5)	(4.5)
All results arose from continuing operations			

**Regus plc**  
**Consolidated balance sheets**  
**As at 30 June 2003 and 31 December 2002**

	Note	As at 30 June 2003 (unaudited) £'000	As at 31 Dec 2002 (audited) £'000
<b>Fixed assets</b>			
Tangible assets		82,568	93,772
<b>Investments</b>			
Investments in own shares		1,285	3,805
Investments in associates		11,857	12,458
Other investments		29	29
Total investments	4	13,171	16,292
		<b>95,739</b>	110,064
<b>Current assets</b>			
Stock		217	293
Debtors: amounts falling due within one year		61,347	59,025
Cash at bank and in hand		49,498	58,610
		<b>111,062</b>	117,928
<b>Creditors: amounts falling due within one year</b>		<b>(170,775)</b>	(177,963)
<b>Net current liabilities</b>		<b>(59,713)</b>	(60,035)
<b>Total assets less current liabilities</b>		<b>36,026</b>	50,029
<b>Creditors: amounts falling due after more than one year</b>		<b>(18,133)</b>	(19,796)
<b>Provision for deficit on joint ventures</b>			
Share of gross assets		7,047	8,630
Share of gross liabilities		(11,407)	(10,253)
		(4,360)	(1,623)
Provisions for liabilities and charges due after more than one year	5	(61,759)	(57,242)
<b>Net liabilities</b>		<b>(48,226)</b>	(28,632)
<b>Capital and reserves</b>			
Called up share capital		29,110	29,110
Share premium account		279,765	279,765
Other reserves		6,533	6,508
Profit and loss account		(362,986)	(343,775)
<b>Equity shareholders' deficit</b>		<b>(47,578)</b>	(28,392)
<b>Equity minority interests</b>		<b>(648)</b>	(240)
		<b>(48,226)</b>	(28,632)

**Regus plc**  
**Consolidated cash flow statement**  
For the six months ended 30 June 2003 and 30 June 2002

	6 months ended 30 June 03 (unaudited) £'000	6 months ended 30 June 02 (unaudited) £'000
	Note	
<b>Cash outflow from continuing operating activities</b>		
Net cash outflow	6a <u>(13,693)</u>	<u>(15,680)</u>
<b>Returns on investments and servicing of finance</b>		
Interest received	210	1,216
Interest paid	(205)	(939)
Interest paid on finance leases	(907)	(1,405)
	<u>(902)</u>	<u>(1,128)</u>
<b>Taxation</b>		
Tax paid	(718)	(2,411)
	<u>(718)</u>	<u>(2,411)</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,058)	(8,972)
Sale of tangible fixed assets	1,044	306
Sale of own shares	3,563	-
	<u>2,549</u>	<u>(8,666)</u>
<b>Acquisitions and disposals</b>		
Cash disposed with subsidiary	(1,137)	(44)
Sale of subsidiary undertakings	6,695	-
Investments in joint ventures	-	(745)
	<u>5,558</u>	<u>(789)</u>
<b>Cash outflow before management of liquid resources and financing</b>	<u>(7,206)</u>	<u>(28,674)</u>
<b>Management of liquid resources</b>	6b (2,737)	54,674
<b>Financing</b>	6b (2,361)	(22,993)
<b>(Decrease)/increase in cash in the period</b>	6(c)(d) <u><u>(12,304)</u></u>	<u><u>3,007</u></u>



**Regus plc**  
**Statement of total recognised gains and losses**  
**For the six months ended 30 June 2003 and 30 June 2002**

	<b>6 months ended 30 June 03 (unaudited) £'000</b>	6 months ended 30 June 02 (unaudited) £'000
Retained loss for the financial period	<b>(20,013)</b>	(25,631)
Currency translation differences	<b>827</b>	8,321
Total recognised gains and losses for the period	<b><u>(19,186)</u></b>	<u>(17,310)</u>

**Reconciliation of movements in consolidated shareholders' deficit**

	<b>30 June 2003 (unaudited) £'000</b>	31 Dec 2002 (audited) £'000
Retained loss for the financial period	<b>(20,013)</b>	(123,399)
Net proceeds of ordinary shares issued	-	4
Currency translation differences	<b>827</b>	4,108
Reclassification of fair value of warrants to non-distributable reserves	-	2,450
<b>Decrease in shareholders' deficit</b>	<b><u>(19,186)</u></b>	<u>(116,837)</u>
Shareholders' deficit/funds at 1 January	<b>(28,392)</b>	88,445
<b>Shareholders' deficit at period end</b>	<b><u>(47,578)</u></b>	<u>(28,392)</u>

## Notes

### 1. Segmental reporting

#### Turnover:

	<b>6 months ended 30 June 2003 (unaudited) £'000</b>	6 months ended 30 June 2002 (unaudited) £'000
UK*	<b>34,764</b>	89,595
Rest of Europe*	<b>72,420</b>	68,698
Americas	<b>43,240</b>	51,407
Rest of World	<b>14,857</b>	15,281
	<b>165,281</b>	224,981
Total Group	<b>129,417</b>	220,041
Total joint ventures and associates	<b>35,864</b>	4,940

#### Operating loss:

	<b>6 months ended 30 June 2003 (unaudited) £'000</b>	6 months ended 30 June 2002 (unaudited) £'000
UK*	<b>(669)</b>	9,927
Rest of Europe*	<b>2,927</b>	(4,976)
Americas	<b>(26,587)</b>	(17,683)
Rest of World	<b>(92)</b>	(1,054)
Other office costs	<b>(3,536)</b>	(5,119)
	<b>(27,957)</b>	(18,905)
Total Group	<b>(24,482)</b>	(16,114)
Total joint ventures and associates	<b>(3,475)</b>	(2,791)

\*Following the sale of 58% of the UK business to Alchemy Partners, we have restated the 2002 segmental analysis by including Ireland under Rest of Europe rather than with the UK, where it was previously shown.

**2. (a) Exceptional costs/(credits)**

	<b>6 months ended 30 June</b>	
	<b>2003 (unaudited) £'000</b>	<b>2002 (unaudited) £'000</b>
<b>Cost of sales</b>		
Onerous leases, related closure & restructuring costs	1,210	(3,097)
Adjustment to tangible asset impairment provision	(3,558)	-
<b>Administration expenses</b>		
Onerous leases, related closure & restructuring costs	6,484	2,820
	<u>4,136</u>	<u>(277)</u>

**2. (b) (Profit)/loss on sale of group undertakings**

	<b>6 months ended 30 June</b>	
	<b>2003 (unaudited) £'000</b>	<b>2002 (unaudited) £'000</b>
Liquidation of German subsidiary	(2,017)	-
UK deferred consideration	(6,695)	-
Romania sold to Franchisee	-	277
	<u>(8,712)</u>	<u>277</u>

**3. Loss per share**

Loss per share after exceptional items is based on losses for the six months ended 30 June 2003 and 2002 of £(20,013,000) and £(25,631,000) respectively. Loss per share before exceptional items and profit on business disposals based on losses for the six months ended 30 June 2003 and 2002 of £(25,632,000) and £(25,631,000) respectively. Losses per share are calculated using the following weighted average numbers of shares:

	<b>6 months ended 30 June 2003 000's</b>	<b>6 months ended 30 June 2002 000's</b>
Ordinary shares – basic and diluted	564,929	564,037

#### 4. Investments

	Group Investment in own shares £'000	Group Interest in associates £'000	Group Interest in joint ventures £'000	Group Other investments £'000	Group Total £'000
At 1 January 2002	3,805	-	1,094	33	4,932
Exchange differences	-	-	(6)	(4)	(10)
Additions	-	12,458	746	-	13,204
Disposals	-	-	2,181	-	2,181
Share of retained losses	-	-	(5,638)	-	(5,638)
<b>At 31 December 2002</b>	<b>3,805</b>	<b>12,458</b>	<b>(1,623)</b>	<b>29</b>	<b>14,669</b>
Exchange differences	-	-	112	-	112
Disposals	(2,520)	-	-	-	(2,520)
Share of retained losses	-	(601)	(2,849)	-	(3,450)
At 30 June 2003	<u>1,285</u>	<u>11,857</u>	<u>(4,360)</u>	<u>29</u>	<u>8,811</u>

	6 months ended 30 June	
	2003 (unaudited) £'000	2002 (audited) £'000
<b>42% share of Regus UK</b>		
Turnover	<u>32,763</u>	-
Profit before tax	<u>(601)</u>	-
Taxation	-	-
Profit after tax	<u>(601)</u>	-
Fixed assets	<u>23,225</u>	-
Current assets	<u>32,253</u>	-
Liabilities due within one year	<u>(43,525)</u>	-
Liabilities due after one year	<u>(96)</u>	-
Net assets	<u>11,857</u>	-

## 5. Provisions

	Group Deferred tax £'000	Group Onerous lease obligations £'000	Group Total £'000
At 1 January 2002	856	27,446	28,302
Provided in year	-	50,785	50,785
Utilised in year	(1,506)	(19,250)	(20,756)
Provisions released on disposal of business	-	(563)	(563)
Exchange differences	1	(527)	(526)
<b>At 31 December 2002</b>	<b>(649)</b>	<b>57,891</b>	<b>57,242</b>
Provided in period	892	6,028	6,920
Utilised in period	-	(3,407)	(3,407)
Exchange differences	-	1,004	1,004
<b>At 30 June 2003</b>	<b>243</b>	<b>61,516</b>	<b>61,759</b>
Amounts falling due within one year	243	44,719	44,962
Amounts falling due after one year	-	16,797	16,797

## 6. (a) Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	6 months ended 30 June 03 (unaudited) £'000	6 months ended 30 June 02 (unaudited) £'000
<b>Continuing operations</b>		
Operating loss	(24,482)	(16,114)
Depreciation charge	12,320	29,190
Goodwill amortisation	-	121
Loss on disposal of fixed assets	5,180	273
Impairment of fixed assets	(3,558)	-
Decrease in provisions	2,620	(10,173)
Decrease/(increase) in stocks	71	(23)
Decrease/(increase) in debtors	(208)	(7,295)
Decrease in creditors	(5,636)	(11,659)
<b>Net cash outflow from continuing operations</b>	<b>(13,693)</b>	<b>(15,680)</b>

The cash outflow for 2003 includes £1.2 million (2002: £11.0 million) relating to the exceptional items charged during the previous year.

## 6. (b) Financing and management of liquid resources

	6 months ended 30 June 03 (unaudited) £'000	6 months ended 30 June 02 (unaudited) £'000
<b>Management of liquid resources</b>		
New cash deposits	(13,011)	(12,349)
Repayment of cash deposits	10,274	67,023
	<u>(2,737)</u>	<u>54,674</u>
<b>Financing</b>		
New loans	2,420	875
Repayment of loans	(944)	(16,625)
Payment of principal under finance leases	(3,837)	(7,855)
Issue of equity shares	-	612
	<u>(2,361)</u>	<u>(22,993)</u>

## 6. (c) Reconciliation of net cash flow to movement in net funds

	6 months ended 30 June 03 (unaudited) £'000	6 months ended 30 June 02 (unaudited) £'000
<b>(Decrease)/(increase in cash in the period</b>	<b>(12,304)</b>	<b>3,007</b>
Cash outflow from change in borrowings and finance leases	2,361	23,605
Cash outflow/(inflow) from change in liquid resources	2,737	(54,674)
Change in net funds from cash flows	<u>(7,206)</u>	<u>(28,062)</u>
Business disposals	(710)	-
Other non-cash items:		
New finance leases	465	(2,001)
Un-amortised warrants reserve	-	565
Translation difference	1,265	1,803
Movement in net funds in the period	<u>(6,186)</u>	<u>(27,695)</u>
Net funds at 1 January	22,384	31,029
<b>Net funds at 30 June</b>	<u><b>16,198</b></u>	<u><b>3,334</b></u>

**6. (d) Analysis of changes in net funds**

	<b>At 1 Jan 2003</b>		<b>Acquisitions and disposals</b>	<b>Other Non-cash changes</b>	<b>Exchange movement</b>	<b>At 30 June 2003</b>
	£'000	£'000	£'000	£'000	£'000	£'000
Cash at the bank and in hand	29,065	(12,230)	-	-	491	<b>17,326</b>
Overdrafts	(1,253)	(74)	-	-	(35)	<b>(1,362)</b>
	<b>27,812</b>	<b>(12,304)</b>	<b>-</b>	<b>-</b>	<b>456</b>	<b>15,964</b>
Debt due after 1 year	(6,266)	(2,350)	76	2	(60)	<b>(8,598)</b>
Debt due within 1 year	(3,526)	874	15	(2)	71	<b>(2,568)</b>
Finance leases due after 1 year	(13,393)	4,820	-	(793)	(63)	<b>(9,429)</b>
Finance leases due within 1 year	(11,788)	(983)	19	1,258	151	<b>(11,343)</b>
	<b>(34,973)</b>	<b>2,361</b>	<b>110</b>	<b>465</b>	<b>99</b>	<b>(31,938)</b>
Liquid resources	<b>29,545</b>	<b>2,737</b>	<b>(820)</b>	<b>-</b>	<b>710</b>	<b>32,172</b>
	<b>22,384</b>	<b>(7,206)</b>	<b>(710)</b>	<b>465</b>	<b>1,265</b>	<b>16,198</b>

Liquid Resources at 30 June 2003 includes cash held on deposit of which £2.1 million (December 2002: £2.6 million) relates to collateral against bank loans and £25.8 million (December 2002: £26.1 million) relates to deposits which are held by banks as security for the issuance of bank guarantees to support lease commitments by Regus operating companies. These amounts are blocked and are not available for use by the business.

Non-cash changes comprise new finance leases, reclassifications between categories and the balance of the warrants reserve after amortisation based on a constant rate of return on the outstanding balance.”

## **PART 6 - ADDITIONAL INFORMATION**

### **1. Introduction**

The Directors, whose names appear on page 7 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

### **2. Incorporation of Regus Group**

2.1 Regus Group was incorporated and registered in England and Wales on 18 August, 2003 under the Companies Act as a public company limited by shares with registered number 04868977.

2.2 The registered address of Regus Group is 3000 Hillswood Drive, Chertsey, Surrey KT16 0RS.

2.3 Regus Group has not traded since its incorporation.

2.4 KPMG Audit Plc, whose address is 8 Salisbury Square, London EC4Y 8BB have been the only auditors of Regus Group since its incorporation.

### **3. Share Capital of Regus Group**

3.1 On incorporation the authorised share capital of Regus Group was £100,000 divided into 100,000 ordinary shares of £1 each. On 10 September, 2003, the authorised share capital of Regus Group was increased from £100,000 divided into 100,000 ordinary shares of £1 each to £40,000,000 divided into 40,000,000 ordinary shares of £1 each by the creation of 39,900,000 ordinary shares of £1 each. Each share of £1 each was subsequently subdivided into 20 ordinary shares of 5 pence each so that the authorised share capital of Regus Group became £40,000,000 divided into 800,000,000 ordinary shares of 5 pence each.

3.2 On 26 September, 2003 the authorised share capital of Regus Group was increased from £40,000,000 divided into 800,000,000 ordinary shares of 5 pence each to £80,050,000 divided into 1,600,000,000 ordinary shares of 5 pence each and 50,000 redeemable preference shares of £1 each by the creation of 800,000,000 ordinary shares of 5 pence each and 50,000 redeemable preference shares of £1 each (having the rights set out in the new articles of association of Regus Group which were also adopted on that day).

3.3 The authorised and issued share capital of Regus Group at the date of this document is, and immediately prior to the Scheme becoming effective will be, as follows:



Class	Authorised		Issued and paid up	
	Number	Nominal Value	Number	Nominal Value
New Shares	1,600,000,000	£80,000,000	40	£2
redeemable preference shares <sup>1</sup>	50,000	£50,000	50,000	£12,500

3.4 By various special resolutions proposed and passed at an extraordinary general meeting of Regus Group on 26 September, 2003, it was resolved that conditional on the Scheme becoming effective:

- (i) the Directors be and are generally and unconditionally authorised (without prejudice to all subsisting authorities) in accordance with section 80 of the Companies Act to allot relevant securities (within the meaning of that section):
  - (a) up to an aggregate nominal amount of £30,607,081.50 as required for the purposes of the Scheme (taking into account the maximum number of New Shares which could be issued under the Warrants and the Regus Group Share Plans);
  - (b) up to an aggregate nominal amount of £4,427,500<sup>2</sup> as required for the purposes of New Shares and CULS to be used under the Plan of Reorganisation; and
  - (c) up to an aggregate nominal amount of £12,578,905.16<sup>3</sup> (representing approximately one third of the expected issued ordinary share capital of Regus Group immediately following the Scheme becoming effective and the Plan being implemented, assuming that Creditors under the Plan all elect to receive New Shares in full settlement of their claims, and taking into account the maximum number of New Shares which

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<sup>1</sup> The redeemable preference shares are partly paid (by way of an undertaking under section 738 of the Companies Act) to the extent of £12,500 only.

<sup>2</sup> This number has been calculated on the basis of the maximum number of New Shares that could be issued upon implementation of the Plan (assuming that all Creditors entitled to do so elect to receive New Shares in settlement of their claims, and allowing for a 15 per cent. fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6)).

<sup>3</sup> This number has been calculated by adding (i) one third of the sum of the issued share capital of Regus Group as it will be immediately upon the Scheme becoming effective (and on the assumption that that number will be equal to the existing issued share capital of Regus as at the date of this document) and the maximum number of New Shares that could be issued upon implementation of the Plan (assuming that all Creditors entitled to do so elect to receive New Shares in settlement of their claims, and allowing for a 15 per cent. fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6)), and (ii) the maximum number of Shares that could be issued under the Warrants and the Regus Share Plans.

could be issued under the Warrants and the Regus Share Plans) on such terms as the Directors think fit,

such authority to expire on the first annual general meeting of Regus Group, save that Regus Group pursuant to the authority granted by that resolution, may make an offer or agreement to allot relevant securities before such expiry, which would or might be completed wholly or partly after such expiry; and

- (ii) the Directors are generally empowered (pursuant to section 95 of the Companies Act) to allot equity securities (as defined in section 94(2) of the Companies Act) for cash as if section 89(1) of the Companies Act did not apply to such allotment at any time up to the first annual general meeting of Regus Group:
- (a) in connection with an offer to Regus Group Shareholders in proportion (as nearly as maybe) to their existing holdings of New Shares but subject to such exclusions or other arrangements in relation to fractional entitlements or any legal problems under the laws of any territory, or the requirements of a regulatory body;
  - (b) up to an aggregate nominal amount of £4,427,500<sup>4</sup> as required in relation to New Shares and CULS to be issued under the Plan of Reorganisation; and
  - (c) up to an aggregate nominal amount of £3,368,351.45<sup>5</sup> (representing approximately 10 per cent. of the expected issued ordinary share capital of Regus Group immediately following the Scheme becoming effective and the Plan being implemented, assuming that Creditors under the Plan all elect to receive New Shares in full settlement of their claims, but excluding all New Shares which could be issued under the Warrants and the Regus Share Plans),

but so that, pursuant to the power granted by that resolution, Regus Group may enter into a contract to allot equity securities which would or might be completed wholly or partly after the expiry of such power.

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<sup>4</sup> This number has been calculated on the basis of the maximum number of New Shares that could be issued upon implementation of the Plan (assuming that all Creditors entitled to do so elect to receive New Shares in settlement of their claims, and allowing for a 15 per cent. fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6)).

<sup>5</sup> This number has been calculated by multiplying (i) the sum of the issued share capital of Regus Group as it will be immediately upon the Scheme becoming effective (and on the assumption that that number will be equal to the existing issued share capital of Regus as at the date of this document) and the maximum number of New Shares that could be issued upon implementation of the Plan (assuming that all Creditors entitled to do so elect to receive New Shares in settlement of their claims, and allowing for a 15 per cent. fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6)), by (ii) 10 per cent.

- (iii) the Regus Group Articles (as summarised in paragraph 10 of this Part 6) be and are adopted.
  - (iv) Regus Group be authorised, for the period expiring on the first annual general meeting of Regus Group, to make market purchases of its existing ordinary share capital up to a maximum of 10 per cent. of the issued share capital of Regus Group, provided that (i) the maximum price which may be paid for each New Share is no more than 105 per cent. of the average of the middle market price of the New Shares of Regus Group according to the Daily Official List of the London Stock Exchange for the 5 Business Days immediately preceding the date on which Regus Group agrees to buy the New Shares concerned; and (ii) the minimum price which may be paid for each New Share shall be 5 pence per share; and
  - (v) the Directors be authorised to offer holders of New Shares the right to receive New Shares instead of cash in respect of any dividend declared or paid at any time up to the first annual general meeting of Regus Group.
- 3.5 Save as disclosed in this paragraph 3, and save in respect of Shares that could be issued under the outstanding Warrants and Regus Share Plans (which would be exchanged for New Shares upon the Scheme becoming effective), at the date of this document:
- (i) there has been no issue of New Shares, redeemable preference shares or loan capital of Regus Group since its incorporation; and
  - (ii) no New Share, redeemable preference share or loan capital of Regus Group is under option or agreed to be put under option.
- 3.6 As at 2 October, 2003 (being the last practicable date prior to publication of this document), Regus Group does not have any subsidiaries. However, upon the Scheme becoming effective, Regus and all of the subsidiaries of Regus as at the date of this document will become subsidiaries of Regus Group. There have been no material issues of shares or loan capital for cash or other consideration in respect of the three year period ending on 2 October, 2003 in relation to any of those companies except for Regus. The following table sets out a summary of the changes during the three year period ending on 2 October, 2003, in the amount of issued share capital of Regus:

Date of Issue of Shares:	Number of Shares Issued:	Class of Shares Issued:	Price per Share in £ (unless otherwise stated):	Discount to par (if any):
23/04/01	446,530	ordinary	\$18 per ADS	Nil
23/04/01	142,090	ordinary	\$18 per ADS	Nil
25/04/01	800,275	ordinary	\$18 per ADS	Nil

01/08/01	26,060	ordinary	0.455	Nil
01/10/01	3,180	ordinary	\$0.26	Nil
16/11/01	18,000	ordinary	0.47	Nil
17/01/02	994	ordinary	0.37	Nil
22/03/02	60,188	ordinary	0.46	Nil
09/04/02	13,000	ordinary	0.50	Nil
08/08/02	7,015	ordinary	0.093	Nil
07/01/03	30,067	ordinary	0.25	Nil
03/02/03	878	ordinary	0.178	Nil
17/02/03	81,549	ordinary	0.183	Nil
28/02/03	6,967	ordinary	0.165	Nil
28/02/03	1,125	ordinary	0.165	Nil
14/03/03	6,248	ordinary	0.17	Nil
25/04/03	1,863	ordinary	0.21	Nil
08/05/03	2,500,000	ordinary	0.05	Nil
09/05/03	900	ordinary	0.313	Nil
12/05/03	15,753	ordinary	0.315	Nil
23/05/03	88,637	ordinary	0.308	Nil
06/06/03	2,984	ordinary	0.40	Nil
20/06/03	3,669	ordinary	0.245	Nil
04/07/03	2,269	ordinary	0.345	Nil
18/07/03	142,793	ordinary	0.35	Nil
01/08/03	4,900	ordinary	0.355	Nil
15/08/03	2,480	ordinary	0.355	Nil
15/08/03	20,254	ordinary	0.35	Nil



Incorporations Limited. These ordinary shares were subsequently transferred to Timothy Sean James Regan and Mary Anne Kirkwood, two employees of Regus. In addition, 50,000 £1 redeemable preference shares have been issued to Maxon Investments in consideration for an undertaking under section 738 of the Companies Act. As at the date of this document the redeemable preference shares are partly paid by way of this undertaking to the extent of £12,500 only. The purpose behind the issue of redeemable preference shares was to ensure that Regus Group meets certain company law requirements for its minimum issued share capital prior to the Scheme becoming effective. It is currently the intention that the redeemable preference shares will be redeemed by Regus Group once Regus Group has sufficient distributable reserves to enable it to do so.

- 3.14 The proposed authorised, issued and fully paid share capital of Regus Group as it will be immediately following the Effective Date (but prior to implementation of the Plan) and assuming that all Warrants and options under the Regus Group Share Plans are not exercised will be as follows:

	Authorised		Issued and paid up	
	Number	Nominal Value	Number	Nominal Value
New Shares	1,600,000,000	£80,000,000	585,120,290	£29,256,014.50
redeemable preference shares	50,000	£50,000	50,000	£12,500 <sup>6</sup>

- 3.15 The proposed authorised, issued and fully paid share capital of Regus Group as it will be immediately following the Effective Date and implementation of the Plan (assuming that (i) all Warrants and options under the Regus Share Plans are not exercised, and (ii) upon implementation of the Plan all Creditors entitled to do so elect to receive New Shares under the Plan) will be as follows:

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<sup>6</sup> The redeemable preference shares are partly paid (by way of an undertaking under section 738 of the Companies Act) to the extent of £12,500 only.

	Authorised		Issued and paid up	
	Number	Nominal Value	Number	Nominal Value
New Shares	1,600,000,000	£80,000,000	662,120,290 <sup>7</sup>	£33,106,014.50 <sup>8</sup>
redeemable preference shares	50,000	£50,000	50,000	£12,500 <sup>9</sup>

3.16 Rights attaching to the New Shares and redeemable preference shares in Regus Group are summarised in paragraph 10 below.

3.17 Section 89 of the Companies Act confers on the holders of New Shares preferential rights in respect of equity securities (as defined in section 94(2) of the Companies Act) of Regus Group issued wholly for cash and applies to the balance of the authorised but unissued share capital of Regus Group to the extent not disappplied under the resolution referred to in paragraph 3.4(ii) above.

#### 4. Shares in public hands

Regus Group is in discussions with the UK Listing Authority with regard to its ongoing requirements under the Listing Rules.

One of these requirements is to ensure that a sufficient number of New Shares will be in the hands of the public following the Scheme becoming effective, such that the market may operate properly. For these purposes, 25 per cent. of New Shares in the hands of the public will be deemed to be a sufficient amount.

Upon the Scheme becoming effective, the shareholdings set out in the table which is set out under paragraph 11.6 of this Part 6 will not be regarded as being in public hands.

As such, upon the Scheme becoming effective, Regus Group will not have 25 per cent. of its shares in the hands of the public.

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<sup>7</sup> If the number of New Shares issued upon implementation of the Plan is 88,550,000 (based on a 15 per cent. fluctuation in the number of New Shares issued as a result of exchange rate fluctuation) the number of New Shares issued and paid up will be 673,670,290 for the purposes of this table.

<sup>8</sup> This number is based upon the assumption that 77,000,000 New Shares will be issued upon implementation of the Plan, though it may be the case that a greater or lesser number of New Shares are issued upon implementation of the Plan if there is a fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6).

<sup>9</sup> The redeemable preference shares are partly paid (by way of an undertaking under section 738 of the Companies Act) to the extent of £12,500 only.

The settlement of Creditors claims under the Plan referred to in paragraph 2 of Part 1 describes that in respect of the bulk of the Chapter 11 allowed claims against the Debtors in the amount of US\$47.5 million, Creditors will have the option of exchanging their claims for New Shares (see paragraph 2 of Part 1 "Option 1: Electing New Shares"). Creditors may also elect to receive CULS in settlement of their claims, and CULS are also convertible into New Shares (see paragraph 2 of Part 1 "Option 2: Electing CULS"). If implemented, the Plan of Reorganisation may therefore result in the interests of Regus Group Shareholders immediately after the Plan has become effective being diluted by up to approximately 12 per cent.

Combined with the shares already held in public hands upon the Scheme becoming effective, the issue of New Shares to Creditors upon implementation of the Plan or upon conversion of the CULS (to the extent that Creditors elect to receive CULS instead of New Shares in settlement of their claims) will help to restore the required percentage. To the extent that the Plan of Reorganisation is not approved, or the settlement of Creditors' claims does not result in sufficient claims being exchanged for New Shares, other measures will be considered with the aim of achieving compliance with the Listing Rules. If Regus Group does not succeed in achieving compliance with the Listing Rules within a reasonable period of time, the continuing breach of the 25 per cent. rule will lead to a requirement for Regus Group to delist the New Shares from the Official List.

## **5. ADS Programme**

In view of the relatively small number of ADSs outstanding at the time, and the low levels of trading volumes on the Nasdaq National Market in the United States, Regus decided to delist voluntarily its ADSs from Nasdaq as of 7 November, 2002.

As Regus' shareholding base has migrated away from the United States and to the United Kingdom since the initial public offering in October 2000, Regus decided, in an effort to save costs, to terminate the ADS programme in the United States administered by JPMorgan Chase Bank, as depository. Regus gave notice of termination of the ADS programme on 3 September, 2003, and it is expected that the ADS programme will be terminated on 3 November, 2003. Based on the current expected timetable of events (see page 5), it is expected that the ADS programme will be terminated after the date of the Court Meeting and the EGM, but before the Effective Date. Under the Scheme that means that Shares issued to ADS holders upon termination of the ADS programme will be bound by the Scheme.

Upon termination of the ADS programme, each holder of an ADS will receive 5 Shares in respect of each ADS held. The termination of the ADS programme will result in a greater number of Regus Shareholders but no dilution in respect of the interests of existing Regus Shareholders. The termination of the ADS programme could have an effect on the liquidity of New Shares.

## **6. Offer Period**

On 7 January, 2003 Indigo Capital LLC announced that it was interested in exploring a wide range of strategic, commercial and financing alternatives with the Regus Board, one of which may include a recommended take-over. As a result of this announcement an offer period began in relation to Regus for the purposes of the City Code on Takeovers and Mergers. The offer period is still continuing in relation to Regus as at the date of this document and will continue to



apply in relation to Regus Group following the Scheme becoming effective. No price or exchange terms have been announced in relation to any potential offer from Indigo Capital LLC.

## **7. Current Trading and Prospects**

On 29 August, 2003, Regus announced its interim results for the six month period ended 30 June, 2003. The interim report of the Group for the six month period ended 30 June, 2003 is set out in Part 5. On that date it was announced that:

- the Group continued to make steady progress during the six month period ended 30 June, 2003. In late December 2002, Regus successfully recapitalised its business through the sale of a majority interest in its UK operations. This placed Regus on a firm financial footing allowing management to focus its attention elsewhere during the first half of 2003;
- in mid-January (2003), Regus filed for Chapter 11 creditor protection under the Bankruptcy Code in order to reorganise the Group's principal loss-making operations which were in the US. Regus was the first listed British company to take this radical step and was pleased to announce the successful completion of that reorganisation process and its planned exit from Chapter 11. During the period, Regus also reorganised some of its smaller operations elsewhere around the world;
- as a result of the completion of the reorganisation process, the Group as a whole has moved to cash break-even at the operating level on a global basis;
- Regus has also seen other positive signs. Inquiry levels and the contracted forward order book remained strong and new orders for workstations in the second quarter were up 8 per cent. on the first quarter. During the half-year ended 30 June, 2003, major corporate outsourcing deals totalling approximately £30 million were transacted with leading companies such as IBM, Starbucks, Xerox, Kodak and Oracle. Regus' key indicator of revenue per available workstation at £2,213 was up 5 per cent. on the first half of last year. However, as a result of the reorganisation in the US, overall turnover at £129 million was down slightly (4 per cent.) on the first half of 2002;
- at 30 June 2003, cash at bank totalled £49.5 million of which £21.6 million was free cash.

On 3 October, 2003 Regus announced, in a trading update, that, at constant exchange rates, revenues for September 2003 showed an increase of £0.9 million over August 2003, the largest month to month increase since March 2001. Based on inquiry levels and the contracted order book of the Group, the Board believes the Group can make further progress in the fourth quarter of 2003. Other than as set out above, trading and prospects are in line with the Regus announcement on 29 August, 2003.

## **8. Group Undertakings: changes to the position since 31 December, 2002**

A table setting out the subsidiary undertakings of Regus as at 31 December, 2002 is set out at note 30 of Part 4. All of those subsidiary undertakings continue to be subsidiary undertakings of Regus as at 2 October, 2003. Further, the additional subsidiary undertakings set out in the table below are also, as at 2 October, 2003, subsidiary undertakings of Regus.

Immediately following the Scheme becoming effective, Regus Group will hold 100 per cent. of the issued share capital of Regus. Regus Group will, at that time, be the new holding company of the Group. All of the subsidiary undertakings set out in the table at note 30 of Part 4 and all of the subsidiary undertakings set out in the table below will accordingly become subsidiaries of Regus Group from the date on which the Scheme becomes effective.

Other than B.V. and Regus Business Centres (Holdings) Ltd, which are investment holding companies, and Regus Management Limited and Regus Services SA de CV, which are management companies employing staff, the principal activity of all other companies in the table set out at note 30 of Part 4 and all companies referred to in the table set out below is the provision of fully serviced business centres.

*Additional subsidiary undertakings (to the subsidiary undertakings set out in the table at note 30 in Part 4).*

Name of Group entity	Registered Office/ Address	Country of Incorporation	per cent. of equity and votes held
Regus Business Centre Norge AS	C.J. Hambros plass 2c 0164 Oslo	Norway	100
Regus Business Centre Ibsen AS	C.J. Hambros plass 2c 0164 Oslo	Norway	100
Regus Business Centre Skoyen AS	Karenslyst Alle 8B 0278 Oslo	Norway	100
Regus Business Centre Nydalen AS	Nydalesveien 33 Postbox 4814 Nydalen, 0422 Oslo	Norway	100
Regus Crescent Business Centres LLC	The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	USA	100*

In the opinion of the Board, the additional subsidiary undertakings of Regus set out above are not likely to have a significant effect on the assessment of Regus Group's own assets and liabilities, financial position or profits and losses.

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\* As at 31 December, 2003 this subsidiary was a joint venture with only 50 per cent. of equity and votes held by Regus (as shown in the table as set out at note 30 of Part 4).

## **9. Regus Group's Memorandum of Association**

Regus Group's principal objects are to carry on business as a general commercial company and to carry on any trade or business whatsoever. The objects are set out in full in clause 4 of the Memorandum of Association which is available for inspection at the addresses specified in paragraph 26 of this Part 6 below.

## **10. Regus Group Articles**

The new Regus Group Articles, which were adopted on 26 September, 2003 will become effective on Admission and contain provisions, among others, to the effect set out below. The Regus Group Articles will be in exactly the same form as the Regus Articles as at the date of this document save for the incorporation of an extra article (which will be article 5 under the new Regus Group Articles) which will set out the rights attaching to the redeemable preference shares (see paragraph 10.9 below).

### **10.1 Share rights**

Subject to applicable statutes (in this paragraph, the Companies Act) and other shareholders' rights, New Shares may be issued with such rights and restrictions as Regus Group may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board, or the directors present at a meeting of the directors at which a quorum is present, may decide. Redeemable shares may be issued. Subject to the Regus Group Articles, the Companies Act and other shareholders' rights, unissued shares are at the disposal of the Board.

### **10.2 Voting rights**

Subject to any rights or restrictions attaching to any class of shares, every Regus Group Shareholder present in person at a general meeting has, upon a show of hands, one vote, and every Regus Group Shareholder present in person or by proxy has, upon a poll, one vote for every share held by him. No Regus Group Shareholder is entitled to vote at any general meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a Regus Group Shareholder has been served with a restriction notice after failure to provide Regus Group with information concerning interests in those shares required to be provided under the Companies Act.

### **10.3 Dividends and Other Distributions**

Subject to the provisions of the Companies Act, Regus Group may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act, the Board may pay interim dividends, and also any fixed rate dividend, whenever Regus Group's financial position, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or *pari passu* rights for losses arising from the payment of interim or fixed dividends on other shares.

The Board may withhold payment of all or any part of any dividends or other moneys payable in respect of shares in Regus Group from a person who (i) holds, or is shown in any register kept by Regus Group under the Companies Acts as having an interest in shares in Regus Group which comprise in total at least 0.25 per cent. in number or nominal value of the shares of

Regus Group, or of any class of such shares in issue at the date of either a statutory notice served by Regus Group under the Companies Acts, or at the date of the service of notice from Regus Group to the shareholder or any other person appearing to be interested in those shares (the "Restriction Notice") and (ii) has been served with a Restriction Notice after failure to provide Regus Group with information concerning interests in those shares required to be provided under the Companies Act.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution, offer Regus Group Shareholders in respect of any dividend the right to elect to receive shares by way of scrip dividend instead of cash (an ordinary resolution, conditional on the Scheme becoming effective, was passed by Regus Group on 26 September, 2003 giving the Directors this right which may be exercised at any time up to the first annual general meeting of Regus Group) (see paragraph 3.4(v) of this Part 6).

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment will be forfeited and revert to Regus Group.

Regus Group may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable inquiries have failed to establish any new address or account of the registered holder. Regus Group may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

On a liquidation, the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Act, divide among the Regus Group Shareholders in kind all or part of the assets of Regus Group (whether they consist of property of the same kind or not).

#### **10.4 Variation of Rights**

Subject to the Companies Act, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting), the quorum will be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class.

#### **10.5 Lien and Forfeiture**

Regus Group will have a lien (enforceable by sale) on every partly-paid share for all amounts payable to Regus Group in respect of that share. Shares are subject to calls, which the Board

may from time to time make, on monies unpaid on shares. The Board may also forfeit shares on which calls or amounts payable under the terms of issue, are not duly paid.

#### **10.6 Form and Transfer of Shares**

- The New Shares are in registered form.
- Any shares in Regus Group may be held in uncertificated form and title to uncertificated shares may be transferred by means of a relevant system. Provisions of the Regus Group Articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form or with the transfer of shares by means of a relevant system.
- Any Regus Group Shareholder may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer must be executed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee and the transferor is deemed to remain the holder until the transferee's name is entered in the register.
- The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share, provided that the exercise of such discretion does not prevent dealings of shares which are admitted to the Official List of the UK Listing Authority or which are listed on any other recognised stock exchange from taking place on an open and proper basis. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:
  - is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require;
  - is in respect of only one class of share; and
  - if to joint transferees, is in favour of not more than four such transferees.

The Board may decline to register a transfer of an uncertificated share in the circumstances set out in the Uncertificated Securities Regulations 1995 as amended from time to time and any provisions of or under the Companies Acts which supplement or replace such Regulations (the "Uncertificated Securities Regulations") and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may (subject to the requirements of the Uncertificated Securities Regulations) decline to register a transfer of shares in Regus Group by a person with a 0.25 per cent. interest if such a person has been served with a Restriction Notice after failure to provide Regus Group with information concerning interests in those shares required to be provided under the Companies Act unless the transfer is shown to the Board to be pursuant to an arms' length sale. A sale is an "arm's length sale" if the board is satisfied that it is a bona fide sale of the whole of the beneficial ownership of the shares to a party unconnected with the holder or with any person appearing to be interested in such shares and includes a sale made by way of or in pursuance of acceptance of a takeover offer and a sale made through a recognised investment exchange or any other stock exchange outside the United Kingdom.

## **10.7 Alteration of Share Capital**

Regus Group may by ordinary resolution increase, consolidate, consolidate and then divide, or sub-divide its shares or any of them. Regus Group may, subject to the Companies Act, by special resolution reduce its share capital, share premium account, capital redemption reserve or any other undistributable reserve.

## **10.8 Purchase of Own Shares**

Regus Group may, subject to the Companies Act and other shareholders' rights, and to any requirements imposed by the UK Listing Authority in respect of securities admitted to listing, purchase its own shares.

## **10.9 Redeemable Preference Shares**

A brief summary of the rights attaching to the redeemable preference shares of Regus Group (created on 26 September, 2003) are set out below:

- the holders of redeemable preference shares will be entitled to receive an amount equal to the amount paid up on each of the redeemable preference shares they hold in the event of any return of capital to Regus Group Shareholders (otherwise than by a purchase or redemption by Regus Group of its own shares), and the holders of redeemable preference shares will not be entitled to any participation in the profits or assets of Regus Group, other than on such return of capital;
- the holders of redeemable preference shares will be entitled to receive notice of and to attend any general meeting of Regus Group, but will have no right to speak or vote in respect of their holding of redeemable preference shares unless any resolution is considered at such meeting (i) to approve the winding-up of Regus Group or any return of capital (otherwise than by a purchase or redemption by Regus Group of its own shares), or (ii) to directly affect the special rights and privileges attaching to the redeemable preference shares;
- one person entitled to vote on the business to be transacted will be a sufficient quorum for any meeting of the holders of redeemable preference shares;
- at any time, on at least 3 months' written notice, all (but not some only) of the redeemable preference shares may be redeemable at the option of Regus Group;
- in the event of a redemption, the amount to be paid on each redeemable preference share will be equal to the amount credited as paid up on it (calculated to the date of redemption); and
- in the event of a redemption, on delivery of the share certificates or indemnity in respect of any missing share certificates, payment will be made at the registered office of Regus Group, or such other place as specified by Regus Group.

## **10.10 Directors**

(A) *Appointment of Directors*

Directors may be appointed by Regus Group by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following annual general meeting and is then eligible for election by Regus Group Shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting.

(B) *Age of Directors*

No person is disqualified from being a Director or is required to vacate that office, by reason only of the fact that he has attained the age of 70 years or any other age, nor is it necessary to give special notice of a resolution appointing or electing such a Director. If the Board convenes any general meeting at which, to the knowledge of the Board, a Director who is 70 or over will be proposed for appointment or re-appointment, it must give notice of his age in the documents convening the meeting.

(C) *Retirement of Directors by Rotation*

At every annual general meeting, a minimum of one third of the Directors will retire by rotation. The Directors to retire will be those who held office at the time of the preceding annual general meetings and who did not retire at any of them. If the number so retiring is less than the minimum number of Directors required to retire, additional Directors up to that number will also retire. The additional Directors to retire will be those who have been longest in office or, in the case of those who were appointed or re-appointed on the same day, will be (unless they otherwise agree) determined by lot. Any Director who is 70 or over at the date of the meeting will also retire.

(D) *Remuneration of Directors*

Each of the non-executive Directors will be paid a fee at such rate as may from time to time be determined by the Board, but the aggregate of all such fees so paid to the non-executive Directors will not exceed £750,000 per annum or such higher amount as may from time to time be decided by ordinary resolution. Any Director who is appointed to any executive office will be entitled to receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any duly authorised committee of the Board may decide, either in addition to or in lieu of his remuneration as a Director. In addition, any Director who performs services which in the opinion of the Board or any duly authorised committee of the Board go beyond the ordinary duties of a Director, may be paid such extra remuneration as the Board or any duly authorised committee of the Board may determine. Each non-executive Director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board, or duly authorised committees of the Board or of Regus Group or any other meeting which as a Director he is entitled to attend, and will be paid all expenses properly and reasonably incurred by him in the conduct of Regus Group's business or in the discharge of his duties as a Director.

(E) *Pensions and Gratuities for Directors*

The Board or any duly authorised committee of the Board may exercise the powers of Regus Group to provide benefits either by the payment of gratuities or pensions or by insurance or in any other manner for any Director or former Director or his relations, connections or dependants, but no benefits (except those provided for by the Regus Group Articles) may be

granted to or in respect of a Director or former Director who has not been employed by or held an executive office or place of profit under Regus Group or any of its subsidiaries or their respective predecessors in business without the approval of an ordinary resolution.

(F) *Permitted Interests of Directors*

Subject to the provisions of the Companies Act, and provided he has declared the nature of his interest to the Board as required by the Companies Act, a Director is not disqualified by his office from contracting with Regus Group in any manner, nor is any contract in which he is interested liable to be avoided, and any Director who is so interested is not liable to account to Regus Group or the Regus Group Shareholders for any benefit realised by the contract by reason of the Director holding that office or of the fiduciary relationship thereby established.

A Director may hold any other office or place of profit with Regus Group (except that of auditor) in conjunction with his office of Director and may be paid such extra remuneration for so doing as the Board may decide, either in addition to, or in lieu of, any remuneration provided for by the Regus Group Articles. A Director may also be or become a Director or other officer of, or otherwise be interested in, any company promoted by Regus Group or in which Regus Group may be interested, and will not be liable to account to Regus Group or the Regus Group Shareholders for any benefit received by him.

(G) *Restrictions on Voting*

Except as mentioned below, no Director may vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he is to his knowledge materially interested and, if he does so, his vote will not be counted. These prohibitions do not apply to a Director in relation to:

- the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him for the benefit of Regus Group or any of its subsidiaries;
- the giving of any guarantee, indemnity or security to a third party in respect of a debt or obligation of Regus Group or any of its subsidiaries which he has himself guaranteed, indemnified or secured in whole or in part;
- the subscription or purchase by him of shares, debentures or other securities of Regus Group or of any of its subsidiaries pursuant to any offer or invitation in which the Director is, or may be entitled to participate as, a holder of securities;
- the underwriting by him of any shares, debentures or other securities of Regus Group or any of its subsidiaries;
- any contract in which he is interested by virtue of his interest in shares or debentures or other securities of Regus Group or by reason of any other interest in or through Regus Group;
- any contract concerning any other company (not being a company in which the Director owns 1 per cent. or more) in which he is interested directly or indirectly;



- any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to both the Directors and employees of Regus Group or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates;
- any contract for the benefit of employees of Regus Group or any of its subsidiaries under which he benefits in a similar manner to the employees and which does not accord to any Director as such any privilege or advantage not accorded to the relevant employees; and
- any contract for the purchase or maintenance for any Director of insurance against any liability.

Subject to the Companies Act, Regus Group may by ordinary resolution suspend or relax the above provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(H) *Borrowing and Other Powers*

Subject to the Memorandum of Association, the Regus Group Articles, the Companies Act and any directions given by Regus Group by special resolution, the business of Regus Group will be managed by the Board who may exercise all of the powers of Regus Group, whether relating to the management of the business of Regus Group or not. In particular, the Board may exercise all of the powers of Regus Group to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Regus Group or of any third party. The Board must restrict the borrowings of Regus Group and exercise all voting and other rights or powers of control exercisable by Regus Group in relation to Regus Group's subsidiaries so as to secure that the aggregate principal amount from time to time outstanding of all borrowings (see below), exclusive of intra-group borrowings, will not, without the previous sanction of an ordinary resolution of Regus Group, exceed an amount equal to three times the adjusted capital and reserves (see below).

For the purposes of the article relating to borrowing powers:

- “the adjusted capital and reserves” means the aggregate from time to time of:
  - (a) the amount paid up on the issued share capital of Regus Group;
  - (b) the amount standing to the credit of the reserves of Regus Group including any share premium account, capital redemption reserve and credit balance on profit and loss account;

all as shown by the then latest audited balance sheet but after:

- (c) deducting from the aggregate any debit balance on profit and loss account subsisting at the date of that audited balance sheet except to the extent that a deduction has already been made on that account; and

- (d) making such adjustments as may be appropriate to reflect any variation in the amount of the paid up share capital, share premium account, capital redemption reserve or other reserve since the date of the audited balance sheet; and
- “borrowings” include not only borrowings but also the following except in so far as otherwise taken into account:
  - (a) the nominal amount of any issued and paid up share capital (other than equity share capital) of any subsidiary undertaking beneficially owned otherwise than by a member of the Group;
  - (b) the nominal amount of any other issued and paid up share capital and the principal amount of any debentures or borrowed moneys which is not for the time being beneficially owned by a member of the Group, the redemption or repayment of which is the subject of a guarantee or indemnity by a member of the Group or which any member of the Group may be required to purchase;
  - (c) the outstanding amount raised by acceptances by any bank or accepting house under any acceptance credit opened on behalf of and in favour of any member of the Group;
  - (d) the principal amount of any debenture (whether secured or unsecured) of a member of the Group beneficially owned otherwise than by a member of the Group;
  - (e) any fixed or minimum premium payable by a member of the Group on final repayment of any borrowing or deemed borrowing; and
  - (f) the minority proportion of moneys borrowed by a member of the Group and owing to a partly-owned subsidiary undertaking;

but do not include:-

- (g) borrowings incurred by any member of the Group for the purpose of repaying within six months of the borrowing the whole or any part of any borrowings of that or any other member of the Group for the time being outstanding, pending their application for that purpose within that period;
- (h) borrowings incurred by any member of the Group for the purpose of financing any contract in respect of which any part of the price receivable under the contract by that or any other member of the Group is guaranteed or insured by the Export Credits Guarantee Department or by any other governmental department or agency fulfilling a similar function, up to an amount equal to that part of the price receivable under the contract which is so guaranteed or insured;
- (i) borrowings of, or amounts secured on assets of, an undertaking which became a subsidiary undertaking of Regus Group after the date as at which the latest audited balance sheet was prepared, to the extent their amount does not

exceed their amount immediately after it became such a subsidiary undertaking, or

- (j) the minority proportion of moneys borrowed by a partly-owned subsidiary undertaking and not owing to another member of the Group.

(l) *Removal of Directors by special resolution*

Regus Group may by special resolution remove any Director before the expiration of his period of office.

(J) *Members resident abroad*

Any member whose registered address is not within the United Kingdom can give Regus Group a postal address within the United Kingdom at which notices or documents may be served on or, delivered to, him. Alternatively, if the Board agrees, such member can have notices or documents sent to him by electronic communications to an address provided by such member. Otherwise, a member whose registered address is not within the United Kingdom is not entitled to receive any notice or document from Regus Group.

## 11. Directors' and other interests in Regus Group

11.1 In the event that the Scheme becomes effective, assuming that no further Shares have been purchased or issued (including under the Warrants and the Regus Share Plans), after 2 October, 2003 (the latest practicable date prior to the publication of this document) the Directors will have the following beneficial interests in New Shares by virtue of the effect of the Scheme on their Shares (under the Scheme, Shares will be exchanged for New Shares on the basis of one New Share for each Share held prior to the Scheme becoming effective):

### Beneficial Ownership

Name of Beneficial Owner	Number	Percentage
<i>Directors:</i>		
Mark Dixon <sup>(1)</sup>	365,329,286	62.44 per cent.
Rudolf Lobo	127,098	0.02 per cent.
John Matthews	359,724	0.06 per cent.
Roger Orf <sup>(2)</sup>	300,000	0.05 per cent.
Martin Robinson	-	-

<sup>(1)</sup> Mr Dixon's beneficial ownership of New Shares is calculated by attributing to him all New Shares that, upon the Scheme becoming effective, will be owned by Maxon Investments, an entity in which Mr Dixon holds a 100 per cent. beneficial ownership interest.

<sup>(2)</sup> Mr Orf's beneficial ownership of New Shares is calculated by attributing to him all New Shares that, upon the Scheme becoming effective, will be owned by Theatre Acquisitions LLC, an entity in which Mr Orf holds a 100 per cent. beneficial interest.

11.2 In the event that the Scheme and the Plan become effective, assuming (i) that no further Shares have been purchased or issued (including under the Warrants and Regus Group Share Plans) after 2 October, 2003 (the latest practicable date prior to the publication of this document) and (ii) all Creditors entitled to do so elect to receive New Shares under the Plan\* (see paragraph 2 of Part 1), the Directors will have the following beneficial interests in New Shares upon the Plan becoming effective by virtue of the effect of the Scheme and the Plan on their Shares:

### **Beneficial Ownership**

<b>Name of Beneficial Owner</b>	<b>Number</b>	<b>Percentage<sup>(3)</sup></b>
Mark Dixon <sup>(1)</sup>	365,329,286	55.18 per cent.
Rudolf Lobo	127,098	0.02 per cent.
John Matthews	359,724	0.05 per cent.
Roger Orf <sup>(2)</sup>	300,000	0.05 per cent.
Martin Robinson	-	-

<sup>(1)</sup> Mr Dixon's beneficial ownership of New Shares is calculated by attributing to him all New Shares that, upon the Scheme becoming effective, will be owned by Maxon Investments, an entity in which Mr Dixon holds a 100 per cent. beneficial ownership interest.

<sup>(2)</sup> Mr Orf's beneficial ownership of New Shares is calculated by attributing to him all New Shares that, upon the Scheme becoming effective, will be owned by Theatre Acquisitions LLC, an entity in which Mr Orf holds a 100 per cent. beneficial interest.

<sup>(3)</sup> These numbers are calculated on the assumption that 77,000,000 New Shares will be issued upon implementation of the Plan, though it may be the case that a greater or lesser number of New Shares are issued upon implementation of the Plan if there is a fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6).

11.3 In addition to the Directors' interests in 366,116,108 New Shares as detailed in paragraph 11.1 above, Rudolf Lobo also has options to acquire Shares as at the date referred to in paragraph 11.1 above as a result of his participation in the Global Plan. As

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\* The beneficial interests of Directors set out in paragraph 11.2 are based upon the assumption that 77,000,000 New Shares will be issued upon implementation of the Plan, though it may be the case that a greater or lesser number of New Shares are issued upon implementation of the Plan if there is a move in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6).

at 2 October, 2003 (the latest practicable date prior to the publication of this document) Rudolf Lobo's interests were as follows:

	Option Type	31 December, 2002	Granted during 2003	Lapsed during 2003	2 October 2003	Exercise price (pence)	Date from which exercisable	Expiry date
Rudolf Lobo	A	266,179	-	-	<b>127,098</b>	5.0	01/03	12/09
	A	283,503	-	-	<b>283,503</b>	145.5	01/03	12/09
	B	11,570,000	-	-	<b>11,570,000</b>	0.3	12/03	-
	C	4,003	-	4,003	-	242.0	01/04	04/04

A Awarded under the Team Plan for nil consideration.

B Awarded by Maxon Investments pursuant to an agreement dated September 17, 1999 recording the terms of an agreement entered into on 11 November, 1992 between Rudolf Lobo and Maxon Investments, as amended on 30 June, 2000. These Shares are currently held by HSBC Trustees (Jersey) Limited and will not be capable of exercise before 31 December, 2003 other than in defined circumstances (which include the discretion of Maxon Investments and the Scheme becoming effective). The Shares subject to the option are transferable to Rudolf Lobo upon payment to Maxon Investments of an exercise price of £45,000, which is equivalent to the market value of the relevant Shares at the time the parties entered into the option arrangements.

C Awarded under the Sharesave Plan, the maximum monthly contribution for which may not exceed the amount permitted by the Income and Corporation Taxes Act 1988.

All grants are subject to performance targets.

11.4 The options referred to in paragraph 11.3 above will become exercisable upon the Scheme becoming effective. If the options are not exercised on the date on which the Scheme becomes effective, they will lapse. If Mr. Lobo exercises his options then his interest in New Shares upon the Scheme becoming effective will increase.

11.5 The interests referred to in paragraphs 11.1 and 11.3 are all of the interests of the Directors as at 2 October, 2003 (the latest practicable date prior to the publication of this document) which (a) have been notified by each Director to Regus pursuant to section 324 or section 328 of the Companies Act before 2 October, 2003 ; or (b) are required pursuant to section 325 of the Companies Act to be entered into the register of Directors' interests maintained under that section; or (c) are interests of a connected person (within the meaning of section 346 of the Companies Act) of a Director which would, if the connected person were a Director, be required to be disclosed under such sections of the Companies Act, and the existence of which is known to or could with reasonable diligence be ascertained by that Director. Upon the Scheme becoming effective, all interests of Directors in Shares will be exchanged for interests in New Shares. Accordingly, the Directors' disclosure under paragraphs 11.1 and 11.3 will apply equally to those Directors' interests in Regus immediately prior to the Scheme becoming

effective, and to those Directors' interests in Regus Group upon the Scheme becoming effective (but prior to any Directors exercising any options which they may be entitled to exercise as a result of the Scheme becoming effective). On the assumption that (i) the Scheme becomes effective, (ii) the Plan is implemented, (iii) none of the Directors referred to in the table set out in paragraph 11.1 buys or sell any Shares or any New Shares (as the case may be), and (iv) Mr Lobo does not exercise any of his options (in which event they will all lapse upon the Scheme becoming effective - see paragraph 11.4), the interests of the Directors referred to under paragraph 11.2 would, upon implementation of the Plan, be all of the interests of the Directors as at that date which (a) would be required to be notified by each Director to Regus Group pursuant to section 324 or section 328 of the Companies Act before that date; or (b) would be required pursuant to section 325 of the Companies Act to be entered into the register of Directors' interests maintained under that section; or (c) would be interests of a connected person (within the meaning of section 346 of the Companies Act) of a Director which would, if the connected person were a Director, be required to be disclosed under such sections of the Companies Act, and the existence of which would be known to or could with reasonable diligence be ascertained by that Director.

- 11.6 Insofar as is known to Regus Group, on 2 October, 2003 (the latest practicable date prior to the publication of this document), the following persons will, immediately upon the Scheme becoming effective (assuming that all Warrants and options under the Regus Share Plans are not exercised), be directly or indirectly, interested (within the meaning of Part VI of the Companies Act) in three per cent. or more of the issued share capital of Regus Group (on the basis of their disclosed existing holdings of Shares as at 2 October, 2003 (being the latest practicable date prior to the publication of this document)).

Shareholder	No. of issued Shares held on the date hereof	per cent. of issued share capital
Paramount Nominees Limited <sup>(1)</sup>	365,329,286	62.4 per cent.
HSBC Trustee (Jersey) Limited <sup>(2)</sup>	18,140,000	3.1 per cent.
Cantor Fitzgerald Europe <sup>(3)</sup>	113,600,000	19.4 per cent.
GNI Limited	28,871,556	4.9 per cent.

(1) *The beneficiary is Maxon Investments. Mark Dixon owns 100 per cent. interest in Maxon Investments.*

(2) *All these Shares were transferred from Maxon Investments to HSBC Trustee (Jersey) Limited in respect of the option over 11,570,000 Shares granted to Rudolf Lobo and the option over 11,570,000 Shares (of which 5,000,000 have been exercised) granted to Robert Gaudreau. These options are also disclosed in the beneficial ownership of Shares of Rudolf Lobo and the beneficial ownership of Shares of all Directors and executive officers as a group.*

(3) *It is understood that some of these Shares are subject to a contract for difference with Indigo Capital, LLC.*

In each case, save as disclosed above, the Directors are not aware of any person who is or will be immediately following the Scheme becoming effective, directly or indirectly, interested in three per cent. or more of the issued share capital of Regus Group. The Directors are not aware of any person other than Maxon Investments or Mark Dixon who can, will or could, directly or indirectly, jointly or severally, exercise control over Regus Group.

- 11.7 Upon implementation of the Plan, assuming (i) the Scheme becomes effective, (ii) all existing shareholdings as at 2 October, 2003 remain unchanged, (iii) all Creditors entitled to do so elect to receive New Shares under the Plan, and (iv) the assumptions made under paragraph 11.6 apply, the following persons will, upon implementation of the Plan, be directly or indirectly interested (within the meaning of Part VI of the Companies Act) in three per cent. or more of the issued share capital of Regus Group (on the basis of their disclosed existing holdings of Shares (which will be exchanged for New Shares under the Scheme) as at 2 October, 2003 (being the last practicable date prior to the publication of this document)).

Shareholder	No. of issued Shares held on the date hereof	per cent. of issued share capital <sup>(3)</sup>
Paramount Nominees Limited <sup>(1)</sup>	365,329,286	55.2 per cent.
Cantor Fitzgerald Europe <sup>(2)</sup>	113,600,000	17.2 per cent.
GNI Limited	28,871,556	4.4 per cent.
(1)	<i>The beneficiary is Maxon Investments. Mark Dixon owns 100 per cent. interest in Maxon Investments.</i>	
(2)	<i>It is understood that some of these Shares are subject to a contract for difference with Indigo Capital, LLC.</i>	
(3)	<i>All of these numbers are calculated upon the assumption that 77,000,000 New Shares will be issued upon implementation of the Plan, though it may be the case that a greater or lesser number of New Shares are issued upon implementation of the Plan if there is a fluctuation in the assumed US\$/GBP exchange rate as at the date on which the Plan is implemented (see paragraph 25 of Part 6).</i>	

In each case, save as disclosed above, the Directors are not aware of any person who is or will be, immediately following the Plan being implemented (on the assumption that the Scheme has already become effective), directly or indirectly interested in three per cent. or more of the issued share capital of Regus Group. The Directors are also not aware of any person other than Maxon Investments or Mark Dixon who can, will or could, directly or indirectly, jointly or severally, exercise control over Regus Group at that time.

- 11.8 There is no promoter, and there never has been, a promoter in respect of Regus Group, Regus or any other member of the Group. No payments or other benefits have been made or paid or given to a promoter of Regus Group since the date of its incorporation. No payments or other benefits have been made or paid or given to a promoter of Regus in the past 2 years.
- 11.9 No loans or guarantees have been granted or provided to, or for the benefit of, any of the Directors by any member of the Group.

## 12. Warrants

On 14 February, 2002 Regus issued 5,000,000 warrants to subscribe for Shares at 5 pence per Share (the “**Warrants**”). As at 2 October, 2003 (being the latest practicable date prior to the publication of this document), 2,500,000 of the Warrants remain unexercised. All of the outstanding Warrants are registered in the name of Leonardo LP. The price at which the Warrants are exercisable is 5 pence per share. The options can be exercised at any time until (and including) 13 February, 2005. The Warrants were created under a deed poll dated 14 February, 2002.

Under the instrument under which the Warrants were created (the “**Warrant Instrument**”), Regus will be under an obligation, upon the Scheme becoming effective, to secure a written agreement from Regus Group to deliver to the holders of Warrants (“**Warrant Holders**”) in exchange for their Warrants, a written instrument substantially in similar form and substance to the Warrants which provides equivalent economic benefits to those available to Warrant Holders under the Warrants. In the event that the Warrants are not exercised prior to the date upon which the Scheme becomes effective, Regus Group will provide the Warrant Holders with new warrants to acquire shares in Regus Group on the terms and conditions applicable to the Warrants under the Warrant Instrument.

## 13. Directors' Service Agreements and Emoluments

The following Directors have entered into service agreements with the Group, the main terms of which are described below.

- 13.1 Mark Dixon and Rudolf Lobo entered into full-time, rolling service agreements with Regus Management Limited as of 1 July, 2000. These agreements are terminable by either party by giving 12 months' notice, or automatically when the relevant Director reaches the age of 65.
- 13.2 All executive Directors are employed on full-time contracts. Mark Dixon's contract provides for a salary of £395,000 and Rudolf Lobo's contract provides for a salary of £165,000. In addition, each contract provides for a bonus of up to 40 per cent. of basic salary, which is payable provided the budget targets for the relevant financial year are achieved. These Directors are also each entitled to the payment of a sum equal to 7 per cent. of salary per annum into a personal pension scheme, a company car or equivalent allowance, annual leave of 25 days, private medical insurance for the Director and his immediate family and life insurance. The executive Directors participate in Regus's Money Purchase (Personal Pension) Scheme.
- 13.3 All executive Directors are subject to post-termination restrictions providing for non-competition, non-solicitation of customers and non-solicitation of senior employees for 12 months after the termination of their employment.
- 13.4 Save as set out above, there are no service agreements existing between any of the executive Directors and Regus Group, Regus or any of its subsidiaries.
- 13.5 If the Scheme becomes effective, the executive Directors referred to above, will continue to be employed by Regus Management Limited on the terms as described above and no new service contract will be entered into with Regus Group.



- 13.6 The total aggregate of the remuneration paid and benefits in kind granted to the Directors (at the time when they were directors of Regus, including Stephen Stamp, a former director of Regus) by members of the Group during the year ended 31 December, 2002 was £464,700 in salaries, £0 in bonuses, £49,100 for benefits in kind and £52,200 in pension contributions. Benefits in kind include car allowance, reimbursement of petrol costs and private medical insurance. The aggregate estimated amount payable to the executive Directors (including Stephen Stamp, a former director of Regus) by the members of the Group for the current financial year under arrangements in force at the date of this document is £701,000. This figure includes pension contributions but excludes any bonus which may be payable. The total aggregate bonus which could be paid under arrangements in force at the date of this document will not exceed £250,000. In addition, the executive Directors have entitlements to restricted shares which are accounted for as emoluments.
- 13.7 John Matthews, Roger Orf and Martin Robinson are non-executive Directors and were appointed as directors of Regus pursuant to letters of appointment dated 1 July, 2002, 29 August, 2000 and 7 August, 2002 respectively (as amended by letters dated 28 November, 2002). If the Scheme becomes effective, letters of appointment in the same terms as the letters of appointment issued by Regus (and currently in place) will be issued by Regus Group to the non-executive directors referred to in this paragraph 12.7. As at 2 October, 2003 John Matthews, Roger Orf and Martin Robinson have been appointed as directors of Regus for a period of three years terminable on six months' notice by Regus or the directors. John Matthews' existing letter of appointment provides for an annual fee of £90,000, Roger Orf's £25,000 and Martin Robinson's £25,000. The fees payable by the Group (exclusive of VAT) for the services of these non-executive directors for the year ended 31 December, 2002 were £44,770 and the aggregate estimated fees payable to these non-executive directors by the Group (exclusive of VAT) for the current financial year under arrangements in force at the date of this document are £140,000.
- 13.8 There is no arrangement in place under which any Director has agreed to waive future emoluments. During the financial year immediately preceding the date of this document, the following contractual emoluments were irrevocably waived by the directors of Regus:

<b>Directors</b>	<b>Amount Waived (£)</b>
Mark Dixon	270,000
Stephen Stamp*	35,000
Rudolf Lobo	20,000
John Matthews	29,375
Roger Orf	5,937
Martin Robinson	2,490
George Gray*	40,000

\* *Former director of Regus*

## **14. Employee Share Plans**

### **14.1 Effect of the Scheme on the Regus Share Plans**

#### **The Regus Team Member Share Plan**

Options under this plan are eligible to be granted to full time directors and full time employees of Regus and its subsidiaries as part of their remuneration.

Outstanding options which are not currently exercisable will become exercisable on the date on which the Scheme is approved by the Court. On the Scheme becoming effective, all unexercised options will lapse.

As at 2 October, 2003, the latest practicable date prior to the publication of this document, options were outstanding over 20,061,424 Shares of which 2,314,769 Shares have an exercise price less than the market price of Shares on that date.

#### **The Regus Global Share Plan**

Options under this plan are eligible to be granted to full time directors and full time employees of Regus and its subsidiaries as part of their remuneration.

Outstanding options which are not currently exercisable will become exercisable on the date on which the Scheme is approved by the Court. On the Scheme becoming effective, all unexercised options will lapse.

Where options were granted subject to a performance target, those options will only be exercisable if the performance target has been achieved over the period ending on the date on which the Scheme is sanctioned by the Court. It is not currently anticipated that the relevant performance targets will be achieved.

Similar provisions apply in relation to share appreciation rights granted under the plan.

As at 2 October, 2003, the latest practicable date prior to the publication of this document, options were outstanding over 4,320,425 Shares of which 3,015,000 Shares have an exercise price less than the market price of Shares on that date.

#### **The Regus International Sharesave Plan**

Options under this plan are eligible to be granted to full time directors and full time employees of Regus and its subsidiaries as part of their remuneration.

Outstanding options which are not currently exercisable will become exercisable on the date on which the Scheme is approved by the Court but may only be exercised to the extent of the amounts repayable at the date of exercise under the savings contract linked to the option. On the Scheme becoming effective, all unexercised options, except those granted under the Irish part of the Plan, will lapse. Options granted under the Irish part will lapse six months after the Scheme is approved by the Court.

Share Appreciation Rights granted under the Sharesave Plan will be automatically exercised on the tenth dealing day following Court approval of the Scheme.

As at 2 October, 2003, the latest practicable date prior to the publication of this document, options were outstanding over 139,491 Shares, all of which have an exercise price less than the market price of Shares on that date.

***French Part of the Regus International Sharesave Plan***

There are no options currently outstanding under the French part of the Regus International Sharesave Plan.

***Irish Part of the Regus International Sharesave Plan***

No grants were ever made under this part of the Regus International Sharesave Plan and accordingly no options are outstanding (or ever have been outstanding) under the Irish part of the Regus International Sharesave Plan.

**The Regus US Stock Purchase Plan**

Options under this plan are eligible to be granted to full time directors and full time employees of Regus and its subsidiaries as part of their remuneration.

There are no options currently outstanding under this plan.

**The Regus All-Employee Share Ownership Plan and Regus International All-Employee Share Ownership Plan**

Options under this plan are eligible to be granted to full time directors and full time employees of Regus and its subsidiaries as part of their remuneration.

No grant has been made under either of these plans.

**14.2 Regus Group Share Plans**

Regus Group will prior to Admission adopt new employee share plans on the basis summarised below. It is intended that at an appropriate time following Admission (which may be at the first annual general meeting of Regus Group), approval will be sought from Regus Group Shareholders in relation to these new employee share plans. Until such time as that approval has been given, no grants will be made under the new employee share plans. In addition, the Directors may establish further plans, based on the plans described below but modified to take account of local tax, exchange control or securities laws. Any New Shares made available under such further plans will be treated as counting towards any limits on overall participation in the plans described below.

**The Regus Group Share Option Plan (the "Option Plan")**

Overall responsibility for the administration of the Option Plan will be vested in the Remuneration Committee. The Remuneration Committee will also be responsible for the day to day administration of the Option Plan insofar as it relates to any director of Regus Group. The

Committee will thus determine the terms of the options granted to such persons and exercise any discretions in relation to such persons. For other participants, these functions may be carried out by the Board or a committee of the Board. In this paragraph, the term "Committee" means, in relation to a director, the Remuneration Committee and, in relation to any other person, the Board or a committee of the Board.

The Option Plan is divided into a number of sub-plans designed to allow employees and directors to be granted tax efficient options wherever possible. There is also a sub-plan allowing participants to be granted awards that entitle them to a cash payment calculated by reference to the increase in the market value of New Shares between grant and exercise. The Committee may create further sub-plans.

Options may be granted to employees and directors of any company in the Group at the discretion of the Committee. Options may also be granted to (or transferred to) certain relatives (spouse and minor children) and family trusts of an employee or director.

Options will entitle the holder to acquire New Shares. Options may either be options to subscribe for newly issued shares or options to purchase existing shares from an employee trust. Options will be personal to the option holder and may not be transferred except, with the consent of the Committee, to a family member (spouse and minor children) or family trust of an employee or director.

The exercise price of each option may not be less than the market value (as determined in accordance with the Taxation of Chargeable Gains Act 1992) of a New Share for the dealing day immediately preceding the date of grant or, where options are granted pursuant to an invitation, the date of the invitation.

The maximum number of unissued New Shares over which options may be granted on any date may not, when added to the number of New Shares issued and remaining issuable in respect of options or awards granted under the Option Plan and the Regus Group Restricted Award Plan in the previous 10 years, exceed 10 per cent. of the equity share capital of Regus Group. In addition, Options may not be granted over more than 10,000,000 New Shares under that part of the Plan which allows for the grant of tax-favoured options to participants in the USA. No option may be granted after the tenth anniversary of the date on which the Option Plan is approved by the Board.

Options may be granted subject to a performance target and, if so, the achievement of that performance target will normally be a condition precedent to the right of exercise. The Committee has the discretion to change the performance target from time to time if events happen which make it fair and reasonable to do so but not so as to make the performance target materially easier or more difficult to satisfy.

Options are exercisable normally only during such period as the Committee may decide at the time of grant; the period may not end later than the tenth anniversary of grant.

If a participant ceases to be employed within the Regus Group for cause, his option will lapse unless the Committee decides otherwise. If a participant ceases to be employed for any other reason, he may exercise any options which are already exercisable and, at the discretion of the Committee, any other options in the six months following the date on which his employment ends or during such longer period, not exceeding 42 months, as the Committee may decide.

Options may be exercised in the event of a change in control, a reorganisation, an amalgamation or a voluntary winding-up of Regus Group. In the event of any other company acquiring control of Regus Group, options may, with the agreement of that company, be exchanged for options over shares in the acquiring company.

Application will be made for admission to the Official List of New Shares issued under the Option Plan and for permission to trade in those shares. New Shares issued on the exercise of options will rank equally in all respects with existing New Shares except for rights which attach to New Shares by reference to a record date prior to the date of allotment.

In the event of a variation of Regus Group's share capital, or in such other circumstances as the Committee considers appropriate, it may adjust options in such manner as it determines to be reasonable.

Benefits under the Option Plan will not be pensionable.

The Committee may make such amendments to the Option Plan either as are necessary or desirable to obtain or retain the approval, where applicable, of the relevant tax authorities or to take account of changes to applicable legislation. The Committee may also make such amendments to the Plan and to any option as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Regus Group.

Except as described above or for amendments designed to ease the administration of the Option Plan, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, plan limits, the terms of options or the adjustment of options without the prior approval of Regus Group shareholders at a general meeting.

#### **The Regus Group Restricted Award Plan (the "Award Plan")**

Overall responsibility for the administration of the Award Plan will be vested in the remuneration committee of the Board. The remuneration committee will also be responsible for the day to day administration of the Award Plan insofar as it relates to any director of Regus Group. The Committee will thus determine the terms of the awards granted to such persons and exercise any discretions in relation to such persons. For other participants, these functions may be carried out by the Board or a committee of the Board. In this paragraph, the term "Committee" means, in relation to a director, the remuneration committee and, in relation to any other person, the Board or a committee of the Board.

The Award Plan is divided into two sub-plans under one of which awards will be granted over New Shares and under the other participants will be granted awards that entitle them to a cash payment calculated by reference to the value of New Shares. The Committee may create further sub-plans.

Awards may be granted to employees and executive directors of any company in the Group at the discretion of the Committee. Options may also be granted to (or transferred to) certain relatives (spouse and minor children) and family trusts of an employee or executive director.

Awards may take one of three forms. An award may be a deferred right to receive New Shares or a right to acquire, for no cost, New Shares in either case subject, normally, to continued employment. Alternatively, an award may take the form of a transfer to the participant of New Shares but on terms that those New Shares will be forfeited if conditions relating to, for example, continued employment are not met. Awards may be satisfied either by the issue of New Shares or by the transfer of New Shares from an employee trust. Awards will be personal to the participant and may not be transferred except, with the consent of the Committee, to a family member (spouse and minor children) or family trust of an employee or director.

The maximum number of unissued New Shares over which awards may be granted on any date may not, when added to the number of New Shares issued and remaining issuable in respect of options or awards granted under the Award Plan and the Option Plan in the previous 10 years, exceed 10 per cent. of the equity share capital of Regus Group. No award may be granted after the tenth anniversary of the date on which the Award Plan is approved by the Board.

Awards may be granted subject to a performance target and, if so, the achievement of that performance target will normally be a condition precedent to an award vesting. The Committee has the discretion to change the performance target from time to time if events happen which make it fair and reasonable to do so but not so as to make the performance target materially easier or more difficult to satisfy.

Where the award takes the form of an option, vesting will entitle the participant to exercise the award during such period as the Committee may have specified at the time of grant. In any other case, the vesting of an award will result in the New Shares being transferred to the participant or, as the case may be, the New Shares ceasing to be subject to forfeiture.

If a participant ceases to be employed within the Regus Group for cause, his award will lapse (and the New Shares will be forfeited) unless the Committee decides otherwise. If a participant ceases to be employed for any other reason, he may exercise any awards which have vested (where the awards take the form of options) during such period as the Committee may decide. Where the award has not vested, it will lapse (and the New Shares will be forfeited) unless the Committee decides otherwise.

Awards will vest in the event of a change in control, a reorganisation, an amalgamation or a voluntary winding-up of Regus Group. In the event of any other company acquiring control of Regus Group, awards may, with the agreement of that company, be exchanged for awards over shares in the acquiring company.

Application will be made for admission to the Official List of New Shares issued under the Award Plan and for permission to trade in those shares. New Shares issued under the Plan will rank equally in all respects with existing New Shares except for rights which attach to New Shares by reference to a record date prior to the date of allotment.

In the event of a variation of Regus Group's share capital, or in such other circumstances as the Committee considers appropriate, it may adjust awards in such manner as it determines to be reasonable.

Benefits under the Award Plan will not be pensionable.

The Committee may make such amendments to the Award Plan either as are necessary or desirable to obtain or retain the approval, where applicable, of the relevant tax authorities or to take account of changes to applicable legislation. The Committee may also make such amendments to the Award Plan and to any award as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Regus Group.

Except as described above or for amendments designed to ease the administration of the Award Plan, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, plan limits, the terms of awards or the adjustment of awards without the prior approval of Regus Group shareholders at a general meeting.

### **14.3 Employee Trusts**

Regus operates an employee benefit trust, the Regus Employee Trust. This is a general discretionary trust whose beneficiaries will include employees and their dependants.

The principal purpose of that trust is to encourage and facilitate the holding of Shares by or for the benefit of employees. This is achieved by the employee trust acquiring Shares or, upon the Scheme becoming effective, New Shares and distributing them in accordance with the Regus Share Plans and the Regus Group Share Plans.

As at 2 October, 2003 the Regus Employee Trust held 6,120,317 Shares. Upon the Scheme becoming effective, the Shares held by the Regus Employee Trust will be exchanged for New Shares (on the basis set out in paragraph 4 of Part 1).

## **15. Key US Employee Retention and Severance Plans**

In an effort to retain its key US employees ("Key Employees") while subject to Chapter 11 protection, Regus Business Centers Corporation has sought and received the approval of the Bankruptcy Court (i) to implement a retention plan (the "Retention Plan") and severance plan ("Severance Plan") for the Key Employees and (ii) to establish a general bonus pool of \$100,000 for discretionary bonuses to be paid to individual employees during the period when the Chapter 11 Cases are pending.

The Retention Plan and Severance Plan are designed to minimise employee turnover by providing incentives for Key Employees to remain in the Debtors' employment and to work towards a successful reorganisation. The Key Employees are individuals who each possess unique knowledge, skills and experience as well as customer relationships which are vital to the Debtors' businesses. Increased responsibilities, general uncertainty and other burdens caused by the Debtors' status as debtors-in-possession may lead such employees to resign in the near future and pursue alternative employment, despite the Debtors' need for their continued services. Therefore, in order to retain the Key Employees, the Debtors determined to provide a financial incentive for continued employment and assure the employees that they will be rewarded for their service, and, in the event that the reorganisation is not successful, that they will receive commercially reasonable compensation for their efforts.

The retention plans authorised by the Bankruptcy Court provide for three categories of Key Employees:

- (1) Corporate Executives;
- (2) Sales Executives; and
- (3) Centre Management Employees.

The Corporate Executives consist of Regus Business Centers Corporation's four most senior US executives: John Mylnski, Brian Horn, John Arenas and Robert Gaudreau (the "Tier One Executives"), as well as five Area Operations Directors, the Information Technology Director for the United States, the Controller for the United States, the Director of Human Resources, the Director of Marketing, the Director of Systems and the United States' Chief Financial Analyst (the "Tier Two Employees"). The Sales Executives consist of seven regional sales directors and the Centre Management Employees are those employees occupying management positions in various business centres.

Pursuant to the Severance Plan, Regus Business Centre Corporation divided the Centre Management Employees into two basic groups: those employees managing core business centres whose leases will be assumed (the "Assumed Employees"), and those employees working in business centres whose leases will be rejected (the "Rejected Employees"). The Assumed Employees will be paid their existing salary and one-half of their bonus compensation under the Debtors' current compensation scheme. Upon the closure of a centre, those Rejected Employees whose employment is terminated will be paid actual base salary and a payment of two months of severance compensation for the first year of service and one month per year thereafter, with a minimum of three months of payments and a maximum of six months of payments.

Pursuant to the Retention Plan, Regus Business Centers Corporation will pay guaranteed bonuses to each of the Corporate Executives and the Sales Executives. In addition, the Corporate Executives and the Sales Executives are eligible to receive performance-based bonuses subject to the achievement of certain performance targets.

As part of the Severance Plan, if their employment is terminated other than for just cause, Regus Business Centers Corporation will pay to the Tier One Executives an amount equal to one year base salary, plus all deferred and/or unpaid benefits under the Retention Plan. The Severance Plan for the Tier Two Employees and the Sales Executives consists of six months of base salary with mitigation.

Any payments made pursuant to the Retention Plan will be made in lieu of, and as a replacement for, any other payment of bonus compensation for the year 2003 with respect to any Debtor's obligations under any employment contracts.

## **16. Pension Arrangements**

The Group provides pension benefits to some of its employees through contributions to personal pension schemes. The minimum contribution is 1 per cent. of basic salary and employees can contribute the maximum specified by the Inland Revenue.

The Group matches contributions up to set limits that are based on an employee's length of service. The maximum contribution by Regus Group is 7 per cent. of basic salary for employees with more than 5 years' service.



## 17. Material Contracts

The contracts referred to below (not being contracts entered into in the ordinary course of business) are all of the contracts which have been entered into by the Group within the two years immediately preceding the date of this document that are, or may be, material. There are no other contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the Group at any time and which contain provisions under which any member of the Group has an obligation or entitlement which is material to the Group at the date of this document.

On 20 December, 2002, the Group entered into an agreement for the sale of 58 per cent. of its UK business to Rex 2002 Limited, a company which is beneficially owned by Alchemy Partners. Rex 2002 Limited agreed to subscribe £16.3 million for new shares in the capital of Regus Holdings (UK) Limited and paid immediate cash consideration of £25.6 million for existing shares in the UK business. Regus simultaneously repaid a £10.5 million loan from the UK business, leaving the Group with net cash from the transaction of £15.1 million. In addition, deferred consideration is receivable by Regus in two tranches in respect of the sale of existing shares in the UK business: the first tranche of up to £10 million (\$16.1 million) is dependent on the EBITDA for the year ended 31 December, 2002 and net liabilities and net cash at 31 December, 2002 of the UK business meeting certain parameters; and a second tranche equivalent to 70 per cent. of the amount by which EBITDA for the year ended 31 December, 2003 exceeds £29 million. So far £10 million has been received in connection with the first tranche of deferred consideration.

A brief summary of all of the principal terms (including those relating to warranties and indemnities) of the material contracts relating to this transaction are as follows:

### 17.1 Share Purchase and Subscription Agreement

On 20 December, 2002, Rex 2002 Limited entered into a share purchase and subscription agreement pursuant to which it agreed to subscribe for 59,777 new shares in Regus Holdings (UK) Limited and acquire 148,893 existing shares in Regus Holdings (UK) Limited from Regus Management Limited, representing in aggregate a 58 per cent. interest in the share capital of Regus Holdings (UK) Limited. The other parties to the agreement were Regus Holdings (UK) Limited, Regus Management Limited and Regus plc.

Under the agreement Regus Management Limited gave certain warranties to Rex 2002 Limited which are customary in contracts of this nature. Regus Management Limited's liability under the warranties is subject to certain limitations, notably that (i) the warranties (other than in relation to tax which expire on 31 December, 2009) expire on 31 December, 2004, (ii) Regus Management Limited's maximum liability under the warranties is capped at an amount equal to the total consideration payable by Rex 2002 Limited under the agreement, and (iii) no claims may be brought against Regus Management Limited unless all claims under the warranties exceed £750,000 in aggregate (but in which case Rex 2002 Limited will be entitled to recover all of its damages).

Regus is the guarantor in respect of the obligations of the UK business under a number of leases. Regus retained its full liability under these guarantees despite the fact that under this transaction, Regus effectively disposed of 58 per cent. of the UK business to Rex 2002 Limited. However, at the same time as this transaction was concluded, Rex 2002 Limited provided

Regus with a counter-indemnity under which it has agreed to indemnify Regus in respect of 58 per cent. of any liability that Regus may incur under these guarantees (insofar as they relate to the UK business).

Regus agreed to guarantee the obligations of Regus Management Limited under the agreement.

Regus Management Limited also provided Rex 2002 Limited with a tax indemnity which is customary in transactions of this type.

## **17.2 Shareholders Agreement for Regus Holdings (UK) Limited**

This agreement was entered into on 30 December, 2002 by the shareholders of Regus (UK) Holdings Limited (Rex 2002 Limited, Regus Management Limited and Regus Business Centre BV) and by Regus plc.

The agreement provides that the business of Regus Holdings (UK) Limited will be to conduct for itself, or by means of investment in other entities, a serviced commercial offices business in the United Kingdom under the Regus brand.

## **17.3 Brand Agreement**

Under this agreement, the UK business receives an exclusive licence from the remaining Group of the Regus trade marks and a licence to use the distinctive business format and methods developed and implemented by the Group in connection with their world-wide serviced commercial offices business for the purpose of owning and operating serviced commercial offices in the United Kingdom under the Regus brand.

The agreement sets out various conditions and restrictions relating to the use by the UK business of the Regus trade marks and the Regus business format and methods. It also contains non-compete provisions to protect such intellectual property rights.

## **17.4 Services Agreement**

Under this agreement, the remaining Group and the UK business agreed to provide each other with those services which were provided by each to the other as at completion of the share purchase and subscription agreement (i.e., 30 December, 2002). Most of the services are to be provided for a minimum period of 2 years. Some IT services provided by the remaining Group to the UK business are terminable thereafter on six months' notice. All other services are terminable thereafter on three months' notice. There is a procedure which the parties must follow if they wish to change the content of the services provided.

## **18. Dividend Policy**

Regus has not paid or declared any dividends on the Shares since the initial public offering in respect of the Shares in October, 2000. Regus Group currently expects to retain future earnings, if any, to finance the growth and development of its business. Therefore, Regus Group does not anticipate paying cash or other dividends on New Shares in the foreseeable future. Any decision by the Directors to recommend the payment of a dividend in the future will reflect cash flow and desired capital structure as well as future growth opportunities.

Any payment of dividends will be subject to the Companies Act, which requires that all dividends are approved or recommended by the Directors and, in some cases, Regus Group Shareholders. Regus Group may pay dividends on New Shares only out of cumulative profits available for distribution determined in accordance with the Companies Act and UK GAAP. At 31 December, 2002, Regus had an accumulated deficit of cumulative profits of £309,414,000 million.

## **19. Taxation**

### **19.1 United Kingdom Tax Considerations**

The following discussion describes certain UK taxation consequences of the acquisition under the Scheme and the ownership and disposition (whether acquired under the Scheme or otherwise) of New Shares by UK holders. The discussion is intended as a general guide only and is based on current UK legislation and UK Inland Revenue practice as at the date of this document. Except where the position of non-UK resident Regus Group Shareholders is expressly referred to, these comments deal only with the position of Regus Group Shareholders who are resident in the UK for tax purposes, who are the beneficial owners of their New Shares and who hold their New Shares as an investment. They do not deal with the position of certain classes of shareholder who are subject to special rules, such as dealers in securities.

#### **(A) United Kingdom Taxation of Dividends**

Under current UK legislation, Regus Group is not required to withhold any amounts in respect of tax from dividend payments it makes.

#### ***UK Resident Shareholders***

##### **(a) Individuals**

An individual Regus Group Shareholder who is resident in the UK for UK tax purposes will be entitled to a tax credit in respect of any dividend received from Regus Group and will be taxable on the gross dividend, which is the aggregate of the dividend received and related tax credit. The value of the tax credit will be equal to one-ninth of the dividend received (and therefore 10 per cent. of the gross dividend). The gross dividend will be treated as the top slice of an individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax. A UK resident individual Regus Group Shareholder who is liable to income tax at the higher rate will be subject to tax at the rate applicable to dividends for such Regus Group Shareholders (currently 32.5 per cent.) on the gross dividend. The tax credit will be set against but will not fully discharge such Regus Group Shareholder's tax liability on the gross dividend and he will have to pay additional tax equal to 22.5 per cent. of the gross dividend, to the extent such sum, when treated as the top slice of income, falls above the threshold for the higher rate of income tax.

So, for example a dividend of £80 will carry a tax credit of £8.89, which is one-ninth of £80. To the extent that the dividend and the related tax credit fall above the threshold for the higher rate of income tax, the additional income tax payable on the dividend by an individual liable to income tax at the higher rate will be a net tax charge of £20 at current rates of tax, being 32.5 per cent. of £88.89 (i.e. the dividend of £80 plus tax credit of £8.89) namely £28.89 less the tax credit of £8.89. There

will be no payment of the tax credit or any part of it to an individual whose liability to income tax on the dividend and the related tax credit is less than the tax credit, except where the individual holds the relevant New Shares through a personal equity plan or individual savings account and the dividend is received into such account or plan on or before 5 April, 2004.

(b) Companies

A corporate Regus Group Shareholder resident in the UK for tax purposes will not normally be subject to corporation tax on any dividend received from Regus Group. Such corporate Regus Group Shareholders will not be able to claim repayment of the tax credit attaching to any dividend.

(c) Pension Funds and Charities

UK resident Regus Group Shareholders which are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to reclaim the tax credits in respect of dividends, although charities will be entitled to a payment by the Inland Revenue of a specified proportion of any dividend paid by Regus Group to the charities on or before 5 April, 2004, that proportion declining on a year by year basis.

***Non-UK Resident Shareholders***

A Regus Group Shareholder who is not resident in the UK for tax purposes will not generally be entitled to claim any part of the tax credit. A Regus Group Shareholder who is not resident in the UK for UK tax purposes should consult his own tax adviser concerning his tax liabilities on dividends received.

**(B) United Kingdom Taxation on Chargeable Gains**

***UK Resident Shareholders***

A disposal (or deemed disposal) of New Shares by a Regus Group Shareholder resident or (in the case of an individual) ordinarily resident for tax purposes in the UK or who carries on a trade, profession or vocation in the UK through a branch, agency or permanent establishment to which the New Shares are attributable may, depending on the Regus Group Shareholder's particular circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation on chargeable gains.

For a Regus Group Shareholder not within the charge to corporation tax, such as an individual, taper relief (which reduces a chargeable gain depending on the length of time for which the relevant asset has been held) may be available to reduce the amount of chargeable gain realised on a disposal. For a Regus Group Shareholder within the charge to corporation tax, indexation allowance may be available to reduce the amount of chargeable gain on a subsequent disposal (but not to create or increase any allowable loss).

***Shareholders Temporarily Non-Resident in the UK***

A Regus Group Shareholder who has, on or after 17 March, 1998, left the UK for a period of temporary residence outside the UK may on his return be liable to UK taxation on chargeable gains arising during the period of absence, if the period of absence is for less than five years. Any

Regus Group Shareholder who has any doubt about his tax position should contact a professional adviser before his return to the UK.

***Non-UK Resident Shareholders***

Subject to the provisions set out above in relation to temporary non-residents, Regus Group Shareholders who are neither resident nor ordinarily resident for tax purposes in the UK should not be liable to UK tax on chargeable gains realised on the disposal of their New Shares unless the Regus Group Shareholder carries on a trade, profession or vocation in the UK through a branch, agency or permanent establishment and has used, held or acquired the New Shares for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment. Any non-UK resident Regus Group Shareholder who is in doubt over the tax treatment of his disposal of New Shares should seek professional tax advice.

**(C) Stamp Duty and Stamp Duty Reserve Tax**

No stamp duty or stamp duty reserve tax will generally arise on the issue by Regus Group of the New Shares.

A subsequent conveyance or transfer on sale of New Shares, other than to a depository or clearance service (or their nominees or agents) will usually attract ad valorem UK stamp duty on the instrument of transfer at the rate of 0.5 per cent. of the amount or value of the consideration for the transfer, rounded up if necessary to the nearest multiple of £5. An unconditional agreement to transfer New Shares other than to a depository or clearance service (or their nominees or agents) will generally give rise to stamp duty reserve tax at the rate of 0.5 per cent. of the amount or value of the consideration for the transfer. However, if within six years of the date of the agreement, or, if the agreement was conditional, the date the agreement became unconditional, an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, then the charge to stamp duty reserve tax will be cancelled or, where the stamp duty reserve tax charge has been paid, the stamp duty reserve tax will, provided that a claim for repayment is made, be repaid.

A charge to stamp duty or stamp duty reserve tax may arise on the issue or subsequent transfer of New Shares to an issuer of depository receipts or to persons providing a clearance service (or their nominees or agents). The rate of stamp duty or stamp duty reserve tax will generally be 1.5 per cent. of (a) in the case of an issue of New Shares, the issue price of the New Shares concerned, or (b) in the case of a transfer of New Shares, the value of the consideration or, in some circumstances, the open market value of the New Shares concerned, in the case of stamp duty rounded up if necessary to the nearest multiple of £5. However, in the case of an issue of New Shares to an issuer of depository receipts or to persons providing a clearance service (or their nominees or agents) a share exchange relief may be available if certain conditions have been met. Clearance services may opt, under certain conditions, for the normal rates of stamp duty reserve tax to apply to a transfer of shares into, and to transactions within, the service instead of the higher rate applying to the issue or transfer of shares into the clearance service.

Paperless transfers of New Shares within CREST are generally liable to stamp duty reserve tax, as described above, rather than stamp duty. CREST is obliged to collect stamp duty reserve tax on relevant transactions settled within the system. Deposits of New Shares into CREST generally will not be subject to stamp duty or, unless the transfer into CREST itself is for consideration, to stamp duty reserve tax.

Stamp duty reserve tax will generally be the liability of the purchaser of New Shares and stamp duty will normally be paid by the purchaser.

Special rules apply to market intermediaries and to some sale and repurchase and stock borrowing arrangements.

The above comments are intended as a general guide to the current stamp duty and stamp duty reserve tax position. Certain categories of person are not liable to stamp duty and stamp duty reserve tax and others may be liable at a higher rate as mentioned above or may, although not primarily liable for the tax, be required to notify and account for it. If you are in any doubt as to your tax position or if you require more detailed information than that outlined above you should consult an appropriate professional adviser immediately.

#### **(D) Scheme of Arrangement**

Subject to the following paragraph, Regus Shareholders at the time the Scheme is implemented should be able to claim rollover relief in respect of the cancellation of the Shares and issue to them the New Shares. Accordingly, Regus Shareholders should not be treated as making a disposal of the Shares for the purposes of UK taxation of chargeable gains as a result of the cancellation, and the New Shares issued to them should be treated as the same asset (and as having been acquired at the same time) as the cancelled Shares.

If any Regus Shareholders, alone or together with persons connected with them, hold more than 5 per cent. of, or of any class of, the shares or debentures of Regus, they will be eligible for the above treatment only if the Scheme is affected for bona fide commercial reasons and does not form part of a scheme or arrangement of which the main purpose, or one of the main purposes, is the avoidance of liability to capital gains tax or corporation tax. Regus Shareholders should be aware that an application for clearance under section 138 Taxation of Chargeable Gains Act 1992 has not been made to confirm that this is the case.

#### **19.2 United States Federal Income Tax Considerations**

The following discussion describes certain US federal income tax consequences of the acquisition, ownership and disposition of New Shares. This discussion of US federal income tax consequences applies to you only if you are a US holder. For purposes of this discussion, you are a "US holder" if you are a beneficial owner of Shares and you are, for US federal income tax purposes:

- an individual citizen or resident of the US;
- a corporation, or an entity treated as a corporation, organised under the laws of the US or any state thereof or the District of Columbia; or
- otherwise subject to US federal income tax on a net income basis.

This discussion applies only to holders who hold Shares, and will hold New Shares, as capital assets. This discussion is based upon current US law, US Internal Revenue Service practice, US judicial decisions, administrative pronouncements and US Treasury Regulations, changes to any of which after the date hereof could apply on a retroactive basis and affect the tax consequences described herein.

The following discussion does not address all of the tax consequences that may be relevant to the particular situation of certain US holders, nor does it address any tax consequences to holders subject to special tax rules. For example, this discussion does not address the treatment of insurance companies, regulated investment companies, tax-exempt organisations, financial institutions, holders subject to the alternative minimum tax, securities broker-dealers, holders who hold Shares, or will hold New Shares, as part of hedging or conversion transactions or holders who own, directly, indirectly or by attribution, 10 per cent. or more of the voting power of Regus Group and holders whose functional currency for US tax purposes is not the US dollar.

You should consult your own tax advisers as to the particular tax consequences to you under US federal, state and local and other laws, of the acquisition, ownership and disposition of New Shares.

**(A) Receipt of New Shares Under the Scheme**

The cancellation of Shares and issue of New Shares is intended to qualify as part of a series of transfers described in Section 351 of the US Internal Revenue Code. However, no assurance can be given that the US Internal Revenue Service or courts will agree with this treatment. The remainder of this discussion assumes that this treatment is correct.

The US federal income tax consequences to a US holder will depend, in part, on what percentage of outstanding New Shares the holder will own immediately upon the Scheme becoming effective. A US holder that owns or is treated as owning less than 5 per cent. of both the total voting power and the total value of the issued share capital of Regus Group immediately upon the Scheme becoming effective should not recognise gain or loss upon the receipt of New Shares. A US holder that owns or is treated as owning 5 per cent. or more of either the total voting power or the total value of the issued share capital of Regus Group immediately upon the Scheme becoming effective should recognise gain, but not loss, upon the receipt of New Shares, unless the holder enters into a “five-year gain recognition agreement” with the US Internal Revenue Service, as described in applicable US Treasury Regulations.

A US holder’s aggregate tax basis in the New Shares generally will equal the US holder’s tax basis in the Shares, decreased by the amount of any cash received, and increased by the amount of any gain recognised, by the US holder in connection with the cancellation and issue. The holding period for the New Shares generally will include the holding period for the Shares cancelled.

**(B) Taxation of Sales or other Dispositions**

Subject to the “passive foreign investment company” rules discussed below, if you sell or otherwise dispose of your New Shares, you will recognise capital gain or loss for US federal income tax purposes equal to the difference, if any, between the amount realised and your adjusted tax basis in the New Shares. This capital gain or loss will be long-term capital gain or loss if your holding period for the New Shares exceeds one year, and otherwise will be short-term capital gain or loss. Long-term capital gains of individuals are eligible for preferential rates of taxation, which have been reduced for long-term capital gains recognised on or after 6 May, 2003, and before 1 January, 2009. Short-term capital gains are taxed at the rates applicable to ordinary income, which, for gains recognised on or after 6 May, 2003, and before 1 January, 2009, will be higher than the rates applicable to dividends. The deductibility of capital losses is subject to limitations. Any gain or loss will generally be US source.

### **(C) Taxation of Dividends**

Subject to the “passive foreign investment company” rules discussed below, the gross amount of any distributions (other than certain pro rata distributions of Shares or rights to acquire Shares) to US holders in respect of New Shares will constitute foreign source dividend income for US federal income tax purposes to the extent such distributions are made from the current or accumulated earnings and profits of Regus Group, as determined in accordance with US federal income tax principles. Such dividends will not be eligible for the dividends received deduction otherwise allowed to corporations. The amount of any cash distribution paid in pounds sterling will be equal to the US dollar value of the pounds sterling on the date of receipt by you regardless of whether the payment is in fact converted into US dollars. Gain or loss, if any, recognised on the sale or other disposition of pounds sterling will generally be US source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

For taxable years beginning after 31 December, 2002, and before 1 January, 2009, dividends received by an individual from a “qualified foreign corporation” generally are eligible for preferential rates of taxation except to the extent that the individual (i) holds a New Share for 60 days or less during the 120 day period beginning 60 days before the ex-dividend date as measured under section 246(c) of the US Internal Revenue Code, (ii) is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property or (iii) elects to treat the dividend as investment income for purposes of determining the amount of deductible investment income under section 163(d)(4)(B) of the US Internal Revenue Code. Further, if an individual receives, with respect to any New Shares, an extraordinary dividend (within the meaning of section 1059(c) of the US Internal Revenue Code) eligible for the preferential tax rates, any loss on a subsequent sale of the New Shares is treated as a long-term capital loss to the extent of the extraordinary dividend. A “qualified foreign corporation” includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that the US Treasury Department has determined to be satisfactory and that includes an exchange of information programme. Until the US Treasury Department issues guidance regarding whether a particular treaty has been determined to be satisfactory for this purpose, a foreign corporation will be considered to be a qualified foreign corporation if it is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information programme. Notwithstanding the foregoing, dividends received from a foreign corporation that is a “passive foreign investment company” in either the taxable year of the distribution or the preceding taxable year are not qualified dividends.

The current double taxation treaty between the United States and the United Kingdom (the “New Treaty”) entered into force on 31 March, 2003, and applies to dividends paid on or after 1 May, 2003. A US holder may elect, however, to continue to be governed by the previous double taxation treaty (the “Old Treaty”) for 12 months from the date on which the relevant provisions of the New Treaty came into effect.

Under the Old Treaty, a US holder that is eligible for the benefits thereof with respect to income derived in connection with New Shares may be entitled to a foreign tax credit for any UK tax deemed withheld from a dividend. If a US holder is so entitled, the foreign tax credit would equal one ninth of any dividend and would give rise to additional dividend income in the same amount. Under the New Treaty, there will be no UK tax deemed withheld. Thus, a US holder is no longer entitled to claim a foreign tax credit in respect of any dividends paid on or after 1 May,



2003 (or 1 May, 2004, in the case of a US holder who effectively elects to extend the applicability of the Old Treaty). US holders are urged to consult their own tax advisors concerning whether the US holder is eligible for the benefits of the Old Treaty and the New Treaty, and whether and to what extent a foreign tax credit may be available with respect to dividends paid by Regus Group.

**(D) Passive Foreign Investment Company Considerations**

The US Internal Revenue Code provides special anti-deferral rules regarding certain distributions received by US persons with respect to, and sales and other dispositions (including pledges) of stock of, a “passive foreign investment company” (“PFIC”). A foreign corporation, such as Regus Group will be treated as a PFIC if 75 per cent. or more of its gross income is passive income for a taxable year or if the average percentage of its assets (by value) that produce, or are held for the production of, passive income is at least 50 per cent. for a taxable year.

Regus Group does not believe that it will be a PFIC. If Regus Group were, or were to become, a PFIC, US holders could be subject to adverse US federal income tax consequences. US holders should consult their tax advisors regarding the consequences and possible ameliorative actions.

**(E) Information Reporting and Backup Withholding**

Dividends on the New Shares and proceeds from the sale of New Shares generally will be reported to the US Internal Revenue Service unless the US holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the US holder fails to provide an accurate tax payer identification number or otherwise establish an exemption. The holder generally can claim a credit against its US federal income tax liability for the amount of any backup withholding tax and a refund of any excess amount.

**20. Litigation**

Save for the Chapter 11 Cases (details of which are set out in more detail in paragraph 2 of Part 1), and the disputes relating to the leases which have been rejected during the course of the Chapter 11 Cases (details of which are set out in paragraph 2 of Part 1 “Background: The Chapter 11 process and the current state of affairs”) no member of the Group is, or has been, involved in any legal or arbitration proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened by or against any member of the Group which may have, or have had within the 12 months prior to the date of this document, a significant effect on the Group's financial position.

**21. Working Capital**

*Background*

On 14 January, 2003, each of Regus, B.V. and RBCC (the Debtors) sought protection from their Creditors under Chapter 11 of the Bankruptcy Code.

Under Chapter 11, each of the Debtors is provided with legal protection from its Creditors which has enabled each Debtor to continue to operate its business whilst working with their Creditors towards restructuring the Regus group's US business.

As part of their emergence from the Chapter 11 process, the Debtors filed their Disclosure Statement and Plan of Reorganisation with the Bankruptcy Court on 28 August, 2003. The Creditors' Committee has recommended that Creditors vote in favour of the Plan of Reorganisation and the Bankruptcy Court has determined that the Disclosure Statement contains adequate information relating to the Plan. However, the Plan of Reorganisation is not expected to be approved/confirmed by the Bankruptcy Court until 12 November 2003.

In the meantime, RBCC has continued to pay its rent obligations in accordance with the revised terms of its leases which have been renegotiated under the Chapter 11 process. These renegotiations have yielded total aggregate cash savings of approximately £10 million per quarter. Immediately upon approval/confirmation of the Plan of Reorganisation, however, the Group will be obliged to pay in cash certain so-called "administrative claims", including pre-petition rents and advisers fees totalling approximately £6 million.

#### *Working capital statement*

In the opinion of the Directors, the Group does not have sufficient working capital for its present requirements, that is for the next twelve months from the date of these listing particulars.

The nature of the Group's business is such that a high proportion of its cost base is fixed and does not vary materially with revenues. These costs include rent, service charges and property taxes which alone currently amount to approximately £34.3 million per quarter. Accordingly the Group's ability to generate cash is dependent upon the achievement of minimum revenue thresholds. For the past several months, Group revenues have been tracking at £259 million annualised.

The Directors are able to confirm that, provided monthly revenues remain at or around current run rates and assuming that either the Plan of Reorganisation is approved/confirmed by the Bankruptcy Court (substantially in its current form), or the current Chapter 11 conditions continue to prevail (as discussed below) the Group will have sufficient working capital for its present requirements, that is at least for the next twelve months from the date of these listing particulars.

#### *Circumstances in which the Plan is not approved/confirmed*

The Directors believe that it is unlikely that the Plan will not be approved/confirmed. However, if the Plan is not approved/confirmed, then there are a number of options available to the Directors. The applicability of each option is dependent upon the reasons that the Plan is not approved/confirmed. For example, any procedural or technical deficiencies in the Plan could be remedied in a rescheduled Court Hearing. Alternatively, objections by particular Creditors may require Regus to revise its Plan to accommodate those objections and, if such revisions are significant, a revised Disclosure Statement and further Bankruptcy Court hearing may be necessary.

In circumstances where the Plan is not approved/confirmed, and it is unlikely to be renegotiated, the Court could terminate Regus' exclusive right to file a plan and permit a third party to propose an alternative plan of reorganisation to Creditors.

It is possible, although in the Directors' opinion this possibility is remote, that if the Plan is not approved/confirmed, and the Group was unable to renegotiate an alternative plan of reorganisation to its satisfaction, the Chapter 11 Cases could be converted to cases under Chapter 7 of the Bankruptcy Code which would mean that a trustee would be appointed to liquidate the assets of the Debtors. The Directors believe that such an event is unlikely to occur.

As noted in previous public statements, liquidity remains the Board's top priority. Accordingly, the Directors continue to explore ways of bringing new capital into the Group including equity issues, asset sales and debt finance.

## 22. Illustrative Projections

US Bankruptcy practice dictates that illustrative projections are included in the Plan. These illustrative projections were announced by Regus on 29 August, 2003 and are set out in the Disclosure Statement. The projections were prepared solely for the specific purposes of the Chapter 11 process and were not prepared to comply with guidelines from the SEC or the American Institute of Certified Public Accountants. The projections were not prepared as representing, and are not intended to represent, profit forecasts within the meaning of paragraph 12.23 of the Listing Rules of the UK Listing Authority and should not be relied upon as such. The projections are intended to show a possible outcome based on stated assumptions. Due to the nature of the reorganisation process and the length of the period covered by the projections, the assumptions are necessarily more subjective than would be appropriate as a profit forecast. Events and circumstances frequently do not occur as expected and the Group's actual results may therefore differ materially from the projections. Regus' independent auditors have not examined or compiled the projections.

## 23. Directors and Senior Management

23.1 The following table shows in respect of each of the Directors the names of all companies and partnerships outside the Group of which he has, at any time in the five years prior to the date of this document, been a director or partner, as appropriate (excluding subsidiaries of any such companies). Neither John Mylnski nor Robert Gaudreau, the senior managers of Regus Group, are directors or partners of any companies or partnerships outside the Group and neither of them have been directors or partners of any companies or partnerships outside the Regus group within the past 5 years. Each directorship or partnership is currently held unless stated otherwise.

Director	Company or partnership name	
Mark Dixon	Dixon Property Services SA	Resigned
	Executive Apartments SA	Resigned
	Maxon Investments BV	Resigned
	Executive Business Centres Limited (Dissolved)	Resigned
	Omni Offices Limited (Dissolved)	Resigned

Director	Company or partnership name	
	Park Business Centres Limited	
	Fore Business Centres Limited	
	K-Capital Limited	
Rudolf Lobo	Dixon Property Services SA	Resigned
	Executive Apartments SA	Resigned
	Omni Offices Limited (Dissolved)	Resigned
	Executive Business Centres Limited (Dissolved)	Resigned
John Matthews	Crest Nicholson plc	
	Granville Markets Limited	
	Media Systems Limited	
	Media Systems Group Limited (Dissolved)	Resigned
	Media Systems Software Limited (Dissolved)	Resigned
	Immediate Marketing Limited (Dissolved)	Resigned
	Goodmigrations Limited	
	SDL plc	
	Perry Group plc	
	Rotork plc	
	P.Matthews Limited	
	Robert W.Baird Limited	Resigned
	Nationwide Accident Repair Services plc	Resigned
	Forest School Essex* (*Governor, a company limited by guarantee)	
	Regus plc and Regus Business Centre B.V.	
Roger Orf	Pelham Partners Limited	
	Chinley Limited	Resigned
	Roger Orf Limited	
	Wigham Limited	Resigned
	Portfolio Holdings Limited	Resigned
	Pelford Limited	Resigned
	Pelford Nominees Limited	Resigned
	Apreit IV Limited	Resigned
	Apreit IV Nominees Limited	Resigned
	Apreit IV Nominees (Two) Limited (Dissolved)	Resigned
	European Land (Four Surplus Sites) Limited	Resigned
	Pelrock Limited (Dissolved)	Resigned

<b>Director</b>	<b>Company or partnership name</b>	
	Pelrock Nominees Limited (Dissolved)	Resigned
	Apreit Homes Limited	Resigned
	Apreit Homes Nominees Limited	Resigned
	GCP Limited	Resigned
	GCP Nominees Limited	Resigned
	Ingolstadt (Orf) Corp.	
	AP Portico GP LDC	Resigned
	AP Pelham Partners LLC	Resigned
	Dapper LLC	Resigned
	AP Pelham Partners II LLC	Resigned
	APPGP LLC	Resigned
	AP Pelham Partners III LLC	Resigned
	Pelmore GP LLC	Resigned
	AP Pelham Partners IV LLC	Resigned
	APP (II) GP LLC	Resigned
	APP Pelham Partners V LLC	Resigned
	APP (III) GP LLC	Resigned
	AP Pelham Partners VI LLC	Resigned
	Wigham GP LLC	Resigned
	AP Pelham Partners VIII LLC	Resigned
	Pelford GP LLC	Resigned
	AP Pelham Partners IX LLC	Resigned
	Apreit IV GP LLC	Resigned
	AP Pelham Partners X LLC	Resigned
	AP Pelham Partners XI LLC	Resigned
	AP Pelham Partners XII LLC	Resigned
	Apreit V GP LLC	Resigned
	AP Pelham Partners XIII LLC AP	Resigned
	Pelham Partners XIV LLC AP	Resigned
	Pelham Partners XV LLC AP	Resigned
	Pelham Partners XVI LL.C AP	Resigned
	Pelham Partners XVII LLC AP	Resigned
	Pelham Partners Spain LLC AP	Resigned
	Pelham Partners Spain II LLC AP	Resigned
	Pelham Partners Spain 111 LLC AP	Resigned
	Pelham Partners Spain IV LLC AP	Resigned
	Pelham Estonia LLC	Resigned
	AP Pelham Germany LLC	Resigned
	FIH (Orf) Corp (Dissolved)	

<b>Director</b>	<b>Company or partnership name</b>	
	AP Pelham Germany II LLC	Resigned
	Pelham Central European Property Limited	Resigned
	AS Ober-Haus	Resigned
	AP Pelham Netherlands LLC	Resigned
	AP Pelham Poland LLC	Resigned
	AP Pelham Moscow LLC	Resigned
	AP Pelham (Briedgeworks) LLC	
	AP Portland GP LLC	Resigned
	AP Sundance GP LLC	Resigned
	Spruce Enterprise GP LLC	Resigned
	E/Shelter GP LLC	
	Theatre Acquisitions LLC	
	HM Gran Turia Holding BV (member of the Supervisory Council	Resigned
	The Ambassador Theatre Group Limited	
	Dunwych GP L.L.C.	Resigned
	Lone Star Management Europe Limited	
	Manresa Road Limited	Resigned
	Campden Hill (Campus) Limited	Resigned
	Campden Hill (Atkins) Limited	Resigned
	552 Kings Road Limited	Resigned
	Lionsgate Management Limited	Resigned
	Nordown Developments Limited	Resigned
	Pitcroft Properties Limited	Resigned
	Property Holdings (Windsor) Limited	Resigned
	Turnshire Limited	Resigned
	Lionsgate Group Limited	Resigned
	Chaselands Limited	Resigned
	Orchid Lodge (U.K.) Limited	Resigned
	Soundmen Limited	Resigned
	Regus plc	
Martin Robinson	Center Parcs Limited	
	Center Parcs Elveden Limited	
	3D Education and Adventure Limited	
	Center Parcs (Operating Company) Limited	
	Slamba Limited	Resigned
	Ex C.P. plc	Resigned
	Nationwide Accident Repair Services plc	Resigned

<b>Director</b>	<b>Company or partnership name</b>	
	Carp (L) Limited	Resigned
	Carp (S) Limited	Resigned
	Carp (NW) Limited	Resigned
	Carp (H) Limited	Resigned
	Carp (UK) 1 Limited	Resigned
	Carp (UK) 3 Limited	Resigned
	Regus plc	

23.2 The Directors and Senior Management:

- (A) have no unspent convictions relating to indictable offences (except as disclosed in paragraph 23.3 below);
- (B) have had no bankruptcies or individual voluntary arrangements;
- (C) have not been directors with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company
- (D) have not been partners of any partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangements of such partnership;
- (E) have not been partners of any partnership at the time of or within 12 months preceding a receivership of any assets of such partnership;
- (F) have not had any of their assets subject to any receivership; and
- (G) have not received any public criticisms by statutory or regulatory authorities (including designated professional bodies), and have not been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

23.3 In December 1998, Mr Dixon was convicted by a Magistrates Court of causing actual bodily harm. This related to an incident in 1998 when Mr Dixon was involved in a fracas which led to an individual sustaining some minor injuries. Mr Dixon pleaded guilty and was sentenced to 50 hours community service, which was served in full, and ordered to pay £815 in compensation. The Board has considered this matter and has noted that Mr Dixon has no other convictions and that the offence did not involve dishonesty or business impropriety. The Board is therefore of the view that the conviction has no material bearing on Mr Dixon's fitness to be a Director and the Chief Executive of Regus Group.

## **24. Auditors and financial information**

- 24.1 For the years ended 31 December, 2000, 2001 and 2002, and the six month periods ended 30 June, 2002 and 2003 the auditors of Regus plc were KPMG Audit plc, 8 Salisbury Square, London, EC4Y 8BB, registered auditors and chartered accountants.
- 24.2 The financial information covering Regus contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act. KPMG Audit Plc, have reported under section 235 of the Companies Act in respect of the statutory accounts for the three years ended 31 December, 2002

## **25. Exchange Rate**

For the purposes of calculating the maximum number of New Shares that will be issued upon implementation of the Plan, it has been assumed that the applicable US\$/GBP exchange rate upon implementation of the Plan will be US\$1.5688 to £1.

Because this exchange rate may fluctuate, the maximum number of New Shares which will be issued upon implementation of the Plan to which this document relates has been set at 88,550,000 allowing for a 15 per cent. fluctuation in the assumed exchange rate as at the date of implementation of the Plan.

The Board is of the opinion that this should provide sufficient headroom for exchange rate fluctuation.

## **26. General**

- 26.1 No person has been authorised to give any information or to make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised. This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in any circumstances in which such offer or solicitation is unlawful. The delivery of this document shall not under any circumstances imply that the information contained herein is correct as at any time subsequent to the date hereof or that there has not been any change in the affairs of the Group since the date hereof.
- 26.2 Other than as referred to in the last unnumbered paragraph of paragraph 7 of Part 6, there has been no significant change in the financial or trading position of Regus and its group since 30 June, 2003, the date to which the last consolidated interim financial statements of Regus were made up. There have been no significant changes in the financial or trading position of Regus Group since 3 October, 2003, the date at which the accountant's report in Part 3 of this document was dated.
- 26.3 KPMG Audit Plc has given and not withdrawn its written consent to the inclusion of its reports and the references to their name in the form and context in which they appear and has authorised the contents of those parts of the listing particulars for the purposes of Regulation 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.



N M Rothschilds & Sons has given and not withdrawn its written consent to the issue of this document with the inclusion herein of the references to its name in the form and context in which it appears and has authorised those parts of the listing particulars for the purposes of Regulation 6(1)(e) of The Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

- 26.4 The New Shares will be in registered form and will be capable of being held only in uncertificated form. It is expected that CREST Stock Accounts will be credited on 17 November, 2003. No temporary documents of title will be issued.
- 26.5 No Director has or has had an interest in any transactions which are or were unusual in their nature and conditions or significant to the business of the Group, and which were effected by Regus or Regus Group (i) during the period from 1 January, 2003 to the date of this document and during the year ended 31 December, 2002; (ii) during an earlier financial year and remain in any respect outstanding or unperformed.
- 26.6 The total costs (exclusive of any amounts in respect of value added tax) payable by Regus and/or Regus Group in connection with the Scheme and the listing of Regus Group are estimated to amount to approximately £1.5 million. Given the inter-relationship between the Scheme and the listing of Regus Group, it is not practicable to separate costs attributable solely to the Scheme and the listing of Regus Group. There are no amounts payable to financial intermediaries. The total costs (exclusive of any amounts in respect of value added tax) payable by Regus and/or Regus Group in connection with the Plan are estimated to amount to approximately \$7 million.
- 26.7 The Directors are not aware of any arrangement under which future dividends are waived or agreed to be waived.

## **27. Documents Available for Inspection**

Copies of the following documents will be available for inspection at the registered office of Regus Group and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY during normal business hours on any weekday (public holidays excepted) from the date of this document up to and including 17 November, 2003:

- (A) the Memorandum and Articles of Association of Regus (as currently in force, and as they will be following the proposed amendment at the Extraordinary General Meeting);
- (B) the current Memorandum and Articles of Association of Regus Group;
- (C) the unaudited interim accounts of Regus for the six months ended 30 June 2002 and 30 June, 2003;
- (D) the Accountants' Report set out in Part 3;
- (E) the material contracts referred to in paragraph 17 of this Part 6 above;
- (F) the written consents referred to in paragraph 10.3 of this Part 6 above;

- (G) the service contracts and letters of appointment referred to in paragraph 13 of this Part 6 above; and
- (H) the audited consolidated financial statements of Regus for the three financial years ended 31 December, 2000, 31 December 2001 and 31 December, 2002;
- (I) the Scheme Circular;
- (J) the Rules of the Regus Share Plans;
- (K) draft rules (subject to finalisation and adoption of the Regus Group Employee Share Plans);
- (O) the CULS instrument;
- (P) the Disclosure Statement;
- (Q) the Plan of Reorganisation; and
- (R) letters from Maxon Investments and Mark Dixon referred to on page 52 of this document.

**DEFINITIONS AND GLOSSARY****Definitions used:**

“Admission”	the admission of New Shares to the Official List in accordance with the Listing Rules and to trading on the London Stock Exchange’s market for listed securities in accordance with the Admission and Disclosure Standards issued by London Stock Exchange, which is expected to occur upon the Effective Date
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated April, 2002 (as amended from time to time) containing, amongst other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s market for listed securities
“ADSs”	American Depository Shares
“Audit Committee”	the audit committee of Regus Group as constituted from time to time
“Bankruptcy Code”	Title 11 of the United States Code
“Bankruptcy Court”	the United States Bankruptcy Court for the Southern District of New York
“Board”	the board of Directors of Regus Group as constituted from time to time
“Business Day”	any day on which banks are generally open in England and Wales for the transaction of normal banking business other than a Saturday or Sunday or public holiday
“B.V.”	Regus Business Centre B.V.
“certificated” or “in certificated form”	where any share or other security is not in uncertificated form
“Chapter 11 Cases”	the voluntary petitions for relief under Chapter 11 filed by the Debtors in the Bankruptcy Court under case numbers 03-20026 through 03-20029
“Chapter 11”	Chapter 11 of the Bankruptcy Code
“Chapter 7”	Chapter 7 of the Bankruptcy Code
“Combined Code”	“The Principles of Good Governance and Code of Best Practice” issued by the London Stock Exchange in 1998, as set out in the appendix to the Listing Rules published by the UK Listing Authority
“Companies Act”	the Companies Act, 1985, as amended
“Companies Acts”	every statute (including any orders, regulations or other subordinate legislation made under it) from time to time in force concerning

	companies in so far as it applies to Regus Group;
“Confirmation Order”	the order of the Bankruptcy Court confirming the Plan of Reorganisation pursuant to section 1129 of the Bankruptcy Code;
“Court Hearing”	the hearing by the Court of the petition to sanction the Scheme
“Court”	the High Court of Justice in England and Wales
“Court Meeting”	the meeting of Regus Shareholders to be held on 27 October, 2003 and convened by order of the Court pursuant to section 425 of the Companies Act to consider and, if thought fit, approve the Scheme, including any adjournment thereof, notice of which is set out in the Scheme Circular
“Creditors Committee”	the statutory committee of unsecured creditors appointed in the Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code
“Creditors”	any persons having a claim (as defined in section 101(5) of the Bankruptcy Code) against any of the Debtors which claim will be settled under the Plan of Reorganisation
“CREST”	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form, operated by CRESTCo in accordance with the CRESTCo regulations
“CRESTCo regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time
“CRESTCo”	CRESTCo Limited
“CULS Instrument”	the deed poll which will be entered into between each of the Debtors and Regus Group immediately prior to implementation of the Plan setting out, amongst other things, the terms and conditions of the CULS
“CULS”	the variable rate redeemable convertible unsecured loan stock to be offered to certain Creditors under the Plan or Reorganisation by Regus, B.V., or RBCC, which will be guaranteed by Regus Group and which will allow for conversion of such debt into New Shares
“Debtors”	Regus, RBCC and B.V.
“Director”	an executive or non-executive director of Regus Group
“Disclosure Statement”	the applicable disclosure statement relating to the Plan of Reorganisation which requires approval by the Bankruptcy Court
“Effective Date”	the date on which the Scheme becomes effective (which is expected to be 17 November, 2003)

“EGM”	the extraordinary general meeting of Regus convened by the notice set out in the Scheme Circular which will be held on 27 October, 2003, including any adjournment thereof
“Equity Office Properties”	(i) EOP Operating Limited Partnership, (ii) EOP-Bayhill 4-7 L.L.C., (iii) One Ninety One Peachtree Associates, (iv) IL-One Lincoln Centre, L.L.C., (v) CA-Gateway Office Limited Partnership, (vi) EOP-Columbia Center, L.L.C., (vii) Three Bellevue Center LLC, (viii) Pasadena Towers, L.L.C. f/k/a EOP-Pasadena Towers, L.L.C.; (ix) EOP-One Market L.L.C., (x) TX-Austin One Congress Plaza Limited Partnership, (xi) San Felipe Plaza, Ltd., (xii) CT-Stamford Atlantic Forum, L.L.C., (xiii) MA-Riverside Project, L.L.C., (xiv) MA-225 Franklin Street, L.L.C., (xv) 10 & 30 South Wacker, L.L.C., (xvi) TX-Dallas Lakeside Square Limited Partnership, and (xvii) Equity Business Centers Corp.
“Exchange Act”	the United States Securities Exchange Act of 1934, as amended
“Form of Proxy”	the BLUE form of proxy for use at the Court Meeting or the GREEN form of proxy for use at the EGM, attached to the Scheme Circular, and “Forms of Proxy” shall mean both of them
“FSMA”	Financial Services and Markets Act 2000, as amended
“Global Plan”	Means the Regus Global Share Plan;
“Group”	Regus Group and its subsidiary undertakings following the Scheme becoming effective;
“Hearing Date”	the date on which the Court makes an order sanctioning the Scheme under section 425 of the Companies Act and confirming the reduction of share capital of Regus pursuant to the Scheme under section 137 of the Companies Act
“HQ”	HQ Global Workplaces, Inc.
“Listing Rules”	the Listing Rules of the UK Listing Authority as amended from time to time
“London Stock Exchange”	London Stock Exchange plc
“Maxon Investments”	Maxon Investments B.V.
“New Shares”	ordinary shares of 5 pence each in the capital of Regus Group
“Nomination Committee”	the nomination committee of Regus Group as constituted from time to time
“Notice of EGM”	the notice of EGM set out in the Scheme Circular

“Official List”	the Official List of the UK Listing Authority
“Ownership Plans”	Means the Regus All-Employee Share Ownership Plan and the Regus International All-Employee Share Ownership Plan
“pence” or “£” or “sterling” or “GBP”	the lawful currency of the United Kingdom
“Plan of Reorganisation” or “Plan”	the Chapter 11 plan of reorganisation proposed by the Debtors and recommended by the Creditors Committee, together with all supplements, appendices and schedules thereto, either in its present form or as it may be amended, altered or modified from time to time
“RBCC”	Regus Business Centre Corporation
“Registrar of Companies”	the Registrar of Companies of England and Wales
“Registrars”	Capita IRG PLC of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
“Regus”	Regus plc
“Regus Articles”	the articles of association of Regus
“Regus Directors”	the directors of Regus from time to time
“Regus Group”	Regus Group plc
“Regus Group Articles”	the articles of association of Regus Group
“Regus Group Shareholders”	the holders of New Shares as appearing in the register of members of Regus Group from time to time
“Regus Group Share Plans”	the option plan and restricted stock plan to be established by Regus Group and described in Section 13.2 of Part 6 of this document
“Regus Share Plans”	the Sharesave Plan, the Global Share Plan, the Team Plan, the US Stock Purchase Plan and the Ownership Plans
“Regus Group Stock Custodial Account”	the stock custodial account to be established and monitored by an independent bank or other financial institution in the United States in relation to New Shares issued upon implementation of the Plan of Reorganisation in accordance with the provisions of the Plan of Reorganisation
“Regus Shareholders”	the holders of Shares as appearing in the register of members of Regus from time to time
“Remuneration Committee”	the remuneration committee of Regus Group as constituted from time

	to time
“Scheme Circular”	the circular sent to Regus Shareholders dated 3 October, 2003 containing, amongst other things, the Scheme, the Notice of EGM and a notice of the Court Meeting
“Scheme Record Time”	6.00 p.m. on the last Business Day before the Effective Date
“Scheme” or “Scheme of Arrangement”	the proposed scheme of arrangement under section 425 of the Companies Act between Regus and the Regus Shareholders set out in the Scheme Circular with or subject to any modification thereof or any addition thereof or any condition approved or imposed by the Court and agreed by Regus and Regus Group
“SEC”	the US Securities Exchange Commission
“Securities Act”	the United States Securities Act of 1933, as amended
“Shares”	ordinary shares of 5 pence each in the capital of Regus
“Sharesave Plan”	means the Regus International Sharesave Plan (including the UK, French and Irish parts of that plan)
“Team Plan”	means the Regus Team Member Share Plan
“UK GAAP”	generally accepted accounting principles in the United Kingdom
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“uncertificated” or “in uncertificated form”	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST regulations, may be transferred by means of CREST
“US GAAP”	generally accepted accounting principles in the United States
“US Stock Purchase Plan”	means the Regus US Stock Purchase Plan
“US\$” or “Dollars”	United States Dollars, the lawful currency of the United States
“US” or “USA” or “United States”	the United States of America, its territories and possessions, any state in the United States of America and the District of Columbia
“Voting Record Time”	in relation to both the Court Meeting and the EGM, 6.00 p.m. on 25 October, 2003 or, if either the Court Meeting or the EGM is adjourned, 48

	hours before the time set for the adjourned meeting
“Warrants”	has the meaning ascribed to it in paragraph 12 of Part 6;
“Warrant Holders”	has the meaning ascribed to it in paragraph 12 of Part 6;
“Warrant Instrument”	has the meaning ascribed to it in paragraph 12 of Part 6;
“workstation”	a collection of assets necessary to meet a customers needs which typically includes office furniture and access to telephone and data ports, as more fully described in paragraph 4 of Part 2

For the purposes of this document, “subsidiary”, “subsidiary undertaking”, “undertaking” and “associated undertaking” have the meanings given by the Companies Act (but for this purpose ignoring paragraph 20(1)(b) of Schedule 4A of the Companies Act).